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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-4174

THE WILLIAMS COMPANIES, INC.
(Exact name of Registrant as Specified in Its Charter)

DELAWARE	73-0569878
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
ONE WILLIAMS CENTER, TULSA, OKLAHOMA	74172
(Address of Principal Executive Offices)	(Zip Code)

918-573-2000
(Registrant's Telephone Number, Including Area Code)

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	New York Stock Exchange and Pacific Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange and Pacific Stock Exchange
Income PACS	New York 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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second quarter was approximately $3,099,735,940.

The number of shares outstanding of the registrant's common stock held by non-affiliates outstanding at February 28, 2003 was 517,538,177.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement being prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the registrant for 2003 are incorporated by reference in Part III of this Form 10-K.

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THE WILLIAMS COMPANIES, INC.
FORM 10-K

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PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

In this report, Williams (which includes The Williams Companies, Inc. and unless the context otherwise requires, all of our subsidiaries) is at times referred to in the first person as "we," "us" or "our". We also sometimes refer to Williams as the "Company."

WEBSITE ACCESS TO REPORTS

Our Internet address is www.williams.com. As required, as of November 15, 2002, we make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

GENERAL

We are an energy company originally incorporated under the laws of the state of Nevada in 1949 and reincorporated under the laws of the state of Delaware in 1987. We were founded in 1908 when two Williams brothers began a construction company in Fort Smith, Arkansas. Today, we primarily find, produce, gather, process and transport natural gas. Our operations serve the Northwest, California, Rocky Mountains, Gulf Coast and Eastern Seaboard markets.

In 2002, we faced many challenges including credit issues following the deterioration of our energy industry sector in the wake of the Enron bankruptcy and the assumption of payment obligations and performance on guarantees associated with our former telecommunications subsidiary, Williams Communications Group, Inc. (WCG). With the deterioration of the energy industry, the credit rating agencies' requirements for investment grade companies became more stringent. In response to those requirements, we announced plans on December 19, 2001, to strengthen our balance sheet in an effort to maintain our investment grade ratings. Those plans including revisions throughout the year due to changing market conditions included reducing capital expenditures, eliminating certain credit ratings triggers from our loan agreements, cost reductions including a reduction of quarterly dividends paid on our common stock, and asset sales to generate proceeds to be used to reduce outstanding debt. Despite our balance sheet strengthening efforts, we lost our investment grade ratings in July 2002. With the loss of our investment grade ratings our business changed significantly, especially our Energy Marketing & Trading business. Some counterparties were unwilling to extend credit and required cash, letters of credit, or other collateral. By mid-year we faced a liquidity crisis. Concurrently, our credit facility banks were unwilling to extend our $2.2 billion 364 day unsecured credit facility. We quickly worked with our banks and other parties to obtain secured credit facilities. In 2002, we also sold a significant amount of assets to meet our liquidity gap. Following this liquidity crisis, we continued to pursue cost reducing measures including a downsizing of our work force. We also settled substantially all issues between us and WCG through WCG's chapter 11 reorganization.

To meet future debt obligations and liquidity needs and focus on creating future shareholder value, on February 20, 2003, we reiterated our strategy to become a smaller integrated natural gas company focusing on key growth markets within our Gas Pipeline, Exploration & Production, and Midstream Gas & Liquids segments. In conjunction with the strategy announcement and to help meet future debt obligations and future liquidity needs, we also announced plans to sell more assets including Texas Gas Transmission Corporation, our general and limited partner interest in Williams Energy Partners L.P., and certain assets within our Midstream Gas & Liquids and Exploration & Production business segments, and explained that we are attempting to further limit our exposure to losses in the Energy Marketing & Trading segment. We also expect further work force reductions in 2003.

We will need to complete further cost reductions and asset sales and the realization of our strategy in order to meet our liquidity needs and to satisfy our loan covenants regarding minimum levels of liquidity. See

Managements' Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition and Liquidity for further details on liquidity issues we are facing. See also the Risk Factors page 34 for a discussion of factors that could adversely affect our business, operating results, and financial condition as well as adversely affect the value of an investment in our securities.

Our ongoing business segments include Gas Pipeline, Exploration & Production, Midstream Gas & Liquids, and Energy Marketing & Trading. At year-end 2002, our business segments also included Williams Energy Partners L.P. and Petroleum Services. Subject to completion of asset sales, those business segments will likely be eliminated in the future. See Part I -- Item 1. Business -- Business Segments for a detailed description of assets owned and services provided by each business segment.

GAS PIPELINE

- We own one of the nation's largest interstate natural gas pipeline systems with 20,200 miles of interstate natural gas pipelines for transportation of natural gas across the country to utilities and industrial customers.

- Our pipelines include Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation and Northwest Pipeline Corporation. We have announced our intention to sell Texas Gas Transmission Corporation. If this pipeline is sold, our network will cover 14,400 miles of natural gas pipelines.

- We also own a 50 percent interest in the Gulfstream Pipeline.

EXPLORATION & PRODUCTION

- We had 2.8 trillion cubic feet of proved natural gas reserves as of December 31, 2002.

- We produce, develop, explore for and manage natural gas reserves primarily located in the Rocky Mountain and Mid-Continent regions of the United States.

- We produce natural gas predominately from tight-sand formations and coal bed methane reserves.

MIDSTREAM GAS & LIQUIDS

- We own and operate gas gathering and processing facilities within the western states of Wyoming, Colorado, and New Mexico and the onshore and offshore shelf and deepwater areas in and around the Gulf Coast states of Texas, Alabama, Mississippi, and Louisiana.

- We own interests in and/or operate natural gas liquids fractionation and storage assets within central region of Kansas and southern Louisiana, and natural gas liquid transportation pipelines in the Gulf Coast.

- We own and operate an ethylene production, storage and transportation complex (partially owned) and olefin extraction assets within Louisiana.

- We own and/or operate natural gas processing, liquid extraction, fractionation and olefin extraction assets within Canada.

- We provide natural gas liquid and petrochemical marketing and risk management services to customers from products produced from our processing and extraction facilities as well as from outside sources.

- We have ownership interests in various Venezuelan energy assets.

ENERGY MARKETING & TRADING

- Our Energy Marketing & Trading segment is a national energy services provider that buys, sells and transports a full suite of energy and energy-related commodities, including power, natural gas, refined products, crude oil and emissions credits, primarily on a wholesale level.

- We have announced our intention to sell certain portions of the Energy Marketing & Trading portfolio, to liquidate of certain positions and negotiations with parties for a joint venture or sale of all or a portion of the trading portfolio.

INVESTMENT IN WILLIAMS ENERGY PARTNERS L.P.

- We have a 53 percent limited partnership interest and own 100 percent of the general partnership interest in Williams Energy Partners L.P. (Williams Energy Partners). In February 2003, we announced our intention to sell our ownership interests in Williams Energy Partners.

- Williams Energy Partners owns a 6,700 mile refined petroleum products pipeline system (the Williams Pipe Line system acquired from Petroleum Services in 2002) that serves the mid-continent region of the United States with 39 system terminals and 26 million barrels of storage.

- Williams Energy Partners has five petroleum products terminal facilities located along the Gulf Coast and near the New York harbor (marine terminals) with an aggregate storage capacity of approximately 18 million barrels.

- Williams Energy Partners has 23 petroleum products terminals located principally in the southeastern United States (inland terminals) with an aggregate storage capacity of five million barrels.

- Williams Energy Partners also has an 1,100-mile ammonia pipeline system that serves the mid-continent region of the United States.

OTHER

Our ongoing business segments are accounted for as continuing operations in the accompanying financial statements and notes to financial statements included in Part II. Assets announced to be sold are also included in continuing operations until such time that they qualify for treatment as "discontinued operations" under generally accepted accounting principles (GAAP).

At year-end 2002, we also had a Petroleum Services business segment. Many of the assets within the Petroleum Services business segment have been sold or are being offered for sale and have been reclassified to "Discontinued Operations" in the accompanying financial statements and notes to financials in Part II. We intend to sell substantially all assets held in the Petroleum Services segment with the exception of our interest in Longhorn Partners Pipeline. The assets in the Petroleum Services segment are considered non-core and no longer fit into our overall strategy to focus our competencies in the natural gas market. Assets within the Petroleum Services segment currently include:

- a petroleum products refinery and 29 convenience stores in Alaska;

- a 3.0845 percent interest in the Trans-Alaska Pipeline System (TAPS) pipeline and the Valdez crude terminal in Alaska; and

- a 32.1 percent interest in the Longhorn Partners pipeline in south and west Texas.

Other assets sold in 2002 and early 2003 or subject to an approved sale have also been reclassified, in accordance with GAAP, from their traditional business segment to "Discontinued Operations" in the accompanying financial statements and notes to financial statements included in Part II.

Our principal executive offices are located at One Williams Center, Tulsa, Oklahoma 74172. Our telephone number is 918-573-2000.

RECENT DEVELOPMENTS

ASSET SALES AND COST REDUCTIONS

Since December 2001, we have continued to work on strengthening our balance sheet through a number of efforts including asset sales and cost reductions. We have completed the sale or announced our intention to sell the following:

GAS PIPELINE

- March 27, 2002 -- We sold our Kern River interstate natural gas pipeline business to a unit of Mid-American Energy Holdings Company for $450 million in cash and the assumption of $510 million in debt. In conjunction with the sale, MEHC Investment, Inc., a wholly-owned subsidiary of Mid-American Energy Holdings Company, and a member of the Berkshire Hathaway family of companies, agreed to acquire 1,466,667 shares of our 9 7/8 percent cumulative convertible preferred stock at $187.50 per share for a total of $275 million. Each share of convertible preferred stock is convertible into ten shares of our common stock.

- August 16, 2002 -- We completed the sale of our general partner interest in Northern Border Partners, L.P. for $12 million to a unit of Calgary-based TransCanada.

- September 5, 2002 -- We sold our Cove Point liquefied natural gas facility and 87 mile pipeline for $217 million in cash before certain adjustments to a subsidiary of Dominion Resources.

- October 29, 2002 -- We sold our ownership interest in the Canadian and United States segments of the Alliance pipeline to Enbridge Inc. and Fort Chicago Energy Partners L.P. for approximately $173 million cash.

- November 15, 2002 -- We sold our Central interstate natural gas pipeline to Southern Star Central Corp for $380 million in cash and the assumption of $175 million in debt.

- February 20, 2003 -- We announced our intention to sell Texas Gas Transmission Corporation.

EXPLORATION & PRODUCTION

- March 29, 2002 -- We completed a $73 million sale of selected exploration and production properties in the Wind River basin.

- July 31, 2002 -- We sold our Jonah Field natural gas production properties in Wyoming for $350 million to EnCana Oil & Gas (USA) Inc. In addition, we completed the sale of the vast majority of our natural gas production properties in the Anadarko Basin to Chesapeake Exploration Limited Partnership for approximately $37.5 million. These sales of exploration and production properties generated $326 million in net cash proceeds.

- February 20, 2003 -- We announced our intention to sell selected assets within the Exploration & Production segment.

MIDSTREAM GAS & LIQUIDS

- July 22, 2002 -- We announced our intention to sell our natural gas processing and liquids extraction operations in western Canada.

- July 29, 2002 -- We sold our Kansas Hugoton natural gas gathering system to FrontStreet Hugoton LLC, an affiliate of FrontStreet Partners, LLC and GE Structured Finance Group for $77 million in cash.

- August 1, 2002 -- We announced a series of transactions including the sale for approximately $1.2 billion of 98 percent of Mapletree LLC and 98 percent of E-Oaktree, LLC to Enterprise Products Partners, L.P. Mapletree owns the Mid-America Pipeline, a 7,226-mile natural gas liquids pipeline

system. E-Oaktree owns 80 percent of the Seminole Pipeline, a 1,281-mile natural gas liquids pipeline system. The sale generated $1.15 billion in net cash proceeds.

- August 20, 2002 -- We announced our intention to sell our ownership interest in an olefins plant in Geismar, Louisiana and an associated ethylene pipeline system in Louisiana.

- February 20, 2003 -- We announced our intention to sell selected assets within the Midstream Gas & Liquids segment.

ENERGY MARKETING & TRADING

- February 4, 2003 -- We announced the sale of our 170-megawatt power facility in Worthington, Indiana, to Hoosier Energy and terminated our power load serving full-requirements contract with Hoosier Energy for cash totaling $67 million.

PETROLEUM SERVICES

- April 11, 2002 -- We transferred the Williams Pipe Line System to Williams Energy Partners in exchange for $674 million cash and 7,830,924 Class B units of limited partnership interests in Williams Energy Partners.

- June 18, 2002 -- We announced plans to sell our Memphis and Alaska refineries and related petroleum assets. On March 4, 2003, we sold our Memphis, Tennessee refinery and other related operations to Premcor Inc. for approximately $455 million in cash.

- February 27, 2003 -- We sold our retail travel center operations for approximately $190 million in cash before debt repayments to Pilot Travel Centers LLC.

- February 20, 2003 -- We announced a definitive agreement to sell our equity interest in Williams Bio-Energy L.L.C. for approximately $75 million to a new company formed by Morgan Stanley Capital Partners. Williams Bio-Energy owns and operates an ethanol production plant in Pekin, Illinois, holds 78.4 percent interest in another ethanol plant in Aurora, Nebraska, and has various agreements to market ethanol from third-party plants.

WILLIAMS ENERGY PARTNERS

- February 20, 2003 -- We announced our intention to sell our general partner and limited partner interest in Williams Energy Partners.

OTHER

- March 22, 2002 -- We announced our intention to sell our interest in a soda ash and sodium bicarbonate mining operation.

- September 19, 2002 -- We sold our 26.85 percent equity interest in AB Mazeikiu Nafta, the Lithuania oil refining and transportation complex, to YUKOS Oil Company for $85 million.

In an effort to further reduce costs, we have reduced the total number of employees from approximately 12,400 at the end of 2001 to approximately 9,800 at the end of 2002 and approximately 7,300 as of March 14, 2003. The reduction in work force was carried out in part through an enhanced-benefit early retirement program that concluded during the second quarter of 2002 and reductions associated with asset sales.

Going forward, we intend to focus on our natural gas businesses including natural gas transportation through our interstate natural gas pipelines, natural gas exploration and production, and natural gas gathering and processing in key growth markets.

IMPROVING OUR FINANCIAL POSITION

In addition to asset sales, we have taken other steps to improve our financial position. On January 14, 2002, we completed the sale of $1.1 billion of publicly traded units, known as FELINE PACS initially consisting of Income PACS, which include a senior debt security and an equity purchase contract. These units trade on the New York Stock Exchange under the ticker symbol WMB PrI. The net proceeds of the offering were used to fund our capital program, repay commercial paper and other short-term debt and for general corporate purposes. On March 19, 2002, we closed a two-part debt transaction totaling $1.5 billion that included $850 million of 30-year notes with an interest rate of 8.75 percent and $650 million of 10-year notes with an interest rate of 8.125 percent. Proceeds were used to repay outstanding short-term debt, provide working capital and for general corporate purposes.

On August 1, 2002, we announced a series of transactions that resolved then-current liquidity issues and strengthened our finances. We entered into agreements for $1.1 billion of credit through an amended $700 million secured revolving credit facility and a new $400 million secured letter of credit facility. We also entered into a $900 million senior secured credit agreement with a group of investors led by Lehman Brothers Inc. and a Berkshire Hathaway affiliate. The execution of these new credit facilities in conjunction with the asset sales announced on August 1, 2002, addressed our mid-year liquidity crisis. See Note 11 to our Notes to Consolidated Financial Statements for more information on the credit facilities.

On March 4, 2003, Northwest Pipeline Corporation completed a $175 million debt offering of senior notes due 2010. Northwest Pipeline Corporation intends to use the proceeds for general corporate purposes, including the funding of capital expenditures.

ADDRESSING ENERGY MARKETING AND TRADING ISSUES

We have also spent considerable effort addressing concerns of the Federal Energy Regulatory Commission (FERC), the Commodity Futures Trading Commission (CFTC), the Securities and Exchange Commission (SEC), the Department of Justice (DOJ), and state regulatory bodies and attorneys general regarding energy trading practices. On July 26, 2002, we announced an agreement in principle with the state of California and other parties, including the states of Washington and Oregon, on a settlement regarding certain outstanding litigation and claims against us, including the state's claims for refunds at issue before the FERC. On November 11, 2002, we announced that we had agreed to restructure our long-term energy contracts with the state of California as part of the settlement. All necessary approvals were obtained, and the settlement was closed on December 31, 2002, although court approvals are still pending with respect to certain private plaintiffs. The settlement resolved most of the outstanding litigation and civil claims filed against us related to our participation in the natural gas and power markets during 2000 and 2001.

Due to continuing market declines and the overall energy marketing and trading environment in the post-Enron world, we announced on June 10, 2002, that we were reducing our financial commitment to that part of our business as a realistic response to industry upheavals. Consistent with the effort in 2002, Energy Marketing & Trading reduced its number of employees from approximately 1,000 at December 31, 2001 to approximately 410 at December 31, 2002. As of February 25, 2003, the number of Energy Marketing & Trading employees was approximately 330.

RESOLUTION OF WILLIAMS COMMUNICATIONS GROUP ISSUES

In 2002, we settled substantially all claims and disputes between us and our former telecommunications subsidiary, WCG as part of WCG's chapter 11 reorganization. Prior to the commencement of WCG's chapter 11 on April 22, 2002, we held various claims against WCG and its subsidiaries in an aggregate amount of approximately $2.3 billion as a consequence of certain guarantees, services provided, and other financial accommodations, including the following:

- Prior to the 2001 spinoff of WCG, we had provided various administrative services to WCG for which we were owed approximately $106 million.

- Prior to the 2001 spinoff of WCG, we also provided indirect credit support for $1.4 billion of WCG's structured notes through a commitment to make available proceeds of an equity issuance in the event any one of the following were to occur: (1) a WCG default; (2) downgrading of our senior unsecured debt by any of our credit rating agencies to below investment grade if our common stock closing price remained below $30.22 for ten consecutive trading days while such downgrade is in effect; or (3) proceeds from WCG's refinancing or remarketing of the structured notes prior to March 2004 produced proceeds of less than $1.4 billion. On March 5, 2002, we received the requisite approvals on our consent solicitation to amend the terms of the WCG structured notes. The amendment, among other things, eliminated acceleration of the notes due to a WCG bankruptcy or our credit rating downgrade. The amendment also affirmed our obligations for all payments related to the WCG structured notes, which are due March 2004, and allows us to fund such payments from any available sources. With the exception of the March and September 2002 interest payments, totaling $115 million, WCG remained indirectly obligated to reimburse us for any payments we are required to make in connection with the WCG structured notes.

- In September 2001, we provided additional financing to WCG through a sale/leaseback transaction pursuant to which WCG sold to us the Williams Technology Center (Technology Center), related real estate and certain ancillary assets including corporate aircraft for $276 million in cash and WCG leased the foregoing property back from us for periods ranging from three to ten years. The Technology Center is a 15-story office building located in Tulsa, Oklahoma that WCG utilizes as its headquarters.

- On March 8, 2002, we received a lease obligation notice letter from WCG relating to the asset defeasance program (ADP) that was entered into while WCG was still one of our subsidiaries. Under the ADP, we were obligated to pay $754 million related to WCG's purchase of certain telecommunications facilities that WCG had been leasing. We paid the $754 million on March 29, 2002, and in return received an unsecured claim against WCG for the amount paid.

On April 22, 2002, WCG filed for chapter 11 bankruptcy protection. Through a negotiated settlement, we sold our claims against WCG including the $754 million claim associated with the ADP, the $1.4 billion claim associated with the WCG structured notes and a $106 million administrative services claim to Leucadia National Corporation (Leucadia) for $180 million in cash and received releases from WCG and its affiliates and insiders. In addition, the order confirming WCG's chapter 11 plan permanently enjoins all of WCG's creditors from asserting direct or derivative claims against us. As part of the settlement, we also sold the Technology Center to WCG in exchange for two promissory notes with face amounts totaling $174.4 million secured by a mortgage on the Technology Center. We no longer own any interest in WCG or its post-bankruptcy successor, WilTel Communications Group, Inc. (WilTel) and all prior WCG obligations to us have been extinguished as a result of the chapter 11 bankruptcy. We remain committed on certain pre-spinoff parental guarantees with a carrying value at December 31, 2002 of $48 million. Further, the September 2001 sale leaseback transaction involving the Technology Center was terminated as part of the bankruptcy process. The sale leaseback transaction involving WilTel's two corporate aircraft continues in effect until WilTel refinances that transaction. At that time, the proceeds of the refinancing are to be paid to us in partial satisfaction of one of the notes mentioned above. The settlement was closed into escrow on October 15, 2002, and finalized on December 2, 2002, and we received $180 million. See Note 2 of our Notes to Consolidated Financial Statements for more information on our settlement with WCG.

FINANCIAL INFORMATION ABOUT SEGMENTS

See Note 19 of our Notes to Consolidated Financial Statements for information with respect to each segment's revenues, profits or losses and total assets.

BUSINESS SEGMENTS

GENERAL

Substantially all of our operations are conducted through our subsidiaries. To achieve organizational and operating efficiencies, our interstate natural gas pipelines and pipeline joint venture investments are organized under our wholly-owned subsidiary, Williams Gas Pipeline Company, LLC; our Exploration & Production business is operated through several wholly-owned subsidiaries including Williams Production Company LLC and Williams Production RMT Company; our Midstream Gas & Liquids business is operated primarily through wholly-owned subsidiaries including Williams Field Services Group, Inc. and Williams Natural Gas Liquids, Inc.; our energy marketing and trading activities are primarily operated through our wholly-owned subsidiary, Williams Energy Marketing & Trading Company; our investment in a master limited partnership that focuses on the storage, transportation and distribution of refined petroleum products and ammonia is reported under Williams Energy Partners; and our Petroleum Services business is operated through various wholly-owned subsidiaries. Item 1 of this report is organized to reflect this structure.

For organizational and reporting purposes, we classify our businesses into the following segments:

GAS PIPELINE

- Transportation and storage of natural gas and related activities through the operation and ownership of three wholly-owned interstate natural gas pipelines, one of which we have announced our intention to sell, and several pipeline joint ventures.

EXPLORATION & PRODUCTION

- Exploration, production and management of natural gas and oil through ownership of 2.8 trillion cubic feet equivalent of proved natural gas reserves primarily located in the Rocky Mountain and Mid-Continent regions of the United States, a portion of which we have announced our intention to sell.

MIDSTREAM GAS & LIQUIDS

- Natural gas gathering, treating and processing activities through ownership and operation of approximately 9,000 miles of gathering lines, eleven natural gas processing plants (two of which are partially owned), and nine natural gas treating plants within the United States.

- Natural gas liquids fractionation, storage, and transportation activities through ownership interests in fractionation facilities, storage caverns and facilities within central Kansas and southern Louisiana, and liquids pipelines in the Gulf Coast.

- Ethylene production and olefin extraction activities in Louisiana through an ownership interest in an ethylene production, storage and transportation complex (partially owned) and refinery off gas processing, and olefin extraction and fractionation facilities.

- Natural gas processing, liquid extraction, fractionation, storage and olefin extraction activities within Alberta and British Columbia, Canada, through a natural gas field processing plant, five natural gas liquid extraction plants (two of which are partially-owned), a natural gas liquids gathering system and liquid storage facilities, a liquids fractionation facility and an olefins fractionation facility.

- Natural gas liquid and petrochemical product marketing and risk management services within the United States and Canada.

- Venezuelan gas compression, liquids extraction, fractionation and terminaling activities through various investments and contractual arrangements.

- We have announced our intention to sell certain domestic and Canadian assets within the Midstream Gas & Liquids segment.

ENERGY MARKETING & TRADING

- A national energy services provider that buys, sells and transports a full suite of energy and energy-related commodities, including power, natural gas refined products, crude oil and emissions credits primarily on a wholesale level, which we have announced our intention to sell in whole or in part.

INVESTMENT IN WILLIAMS ENERGY PARTNERS

- Transportation of petroleum products and related terminal services and ammonia transportation and terminal services. On February 20, 2003, we announced our intention to sell our interests in Williams Energy Partners.

PETROLEUM SERVICES

- Petroleum products refinery and 29 convenience stores in Alaska.

- A 3.0845 percent interest in the TAPS pipeline and the Valdez crude terminal in Alaska.

- A 32.1 percent interest in the Longhorn Partners pipeline in south and west Texas.

We have announced our intention to sell substantially all assets within the Petroleum Services segment with the exception of our interest in Longhorn Partners Pipeline.

We perform certain management, legal, financial, tax, consultative, administrative and other services for our subsidiaries and at March 14, 2003, employed approximately 1,925 employees at the corporate level to provide these services. Our principal sources of cash are from external financings, dividends and advances from our subsidiaries, investments, payments by subsidiaries for services rendered, interest payments from subsidiaries on cash advances and net proceeds from asset sales. The amount of dividends available to us from subsidiaries largely depends upon each subsidiary's earnings and operating capital requirements. The terms of many of our subsidiaries' borrowing arrangements limit the transfer of funds to us. The Federal Energy Regulatory Commission (FERC) has also proposed restrictions on various cash management programs employed by companies in the energy industry, including us. See Note 16 to our Notes to Consolidated Financial Statements for further information on the proposed cash management restrictions.

We believe that we have adequate sources and availability of raw materials and commodities for existing and anticipated business needs. With the deterioration of our credit ratings, we now must pre-pay for crude supply for our Alaska refining operations and for gas supplies for our domestic and Canadian Midstream Gas & Liquids operations. Our 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 agencies. Each of the pipeline systems has ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

GAS PIPELINE

GENERAL

We own and operate, through Williams Gas Pipeline Company, LLC and its subsidiaries (Gas Pipeline), a combined total of approximately 20,200 miles of pipelines with a total annual throughput of approximately 3,200 trillion British Thermal Units of natural gas and peak-day delivery capacity of approximately 13 billion cubic feet of gas. Gas Pipeline consists of Transcontinental Gas Pipe Line Corporation (Transco), Northwest Pipeline Corporation (Northwest Pipeline), and Texas Gas Transmission Corporation (Texas Gas). Gas Pipeline also holds interests in joint venture interstate and intrastate natural gas pipeline systems including a 50 percent interest in the Gulfstream Natural Gas System, L.L.C. At December 31, 2002, Gas Pipeline employed approximately 2,300 employees. On February 20, 2003, we announced our intention to sell Texas Gas.

In February 2001, subsidiaries of Duke Energy and the Company completed their joint acquisition of The Coastal Corporation's 100 percent ownership interest in Gulfstream Natural Gas System, L.L.C., and

announced that they were proceeding with the development of the Gulfstream gas pipeline project. In June, 2001 construction commenced on the project, which consists of a new natural gas pipeline system extending from the Mobile Bay area in Alabama to markets in Florida. On December 28, 2001, Gulfstream filed an application with the FERC to allow Gulfstream to phase the construction of its approved facilities. On May 28, 2002, the first phase of the project was placed into service at a cost of approximately $1.5 billion. The construction of the second phase of the project will be timed to match the anticipated in-service dates of the markets Gulfstream will serve. The total estimated capital cost of the project is approximately $1.7 billion, of which our portion is estimated to be approximately $850 million. At December 31, 2002, our investment in Gulfstream was $734 million.

On April 24, 2001 the respective U.S. and Canadian general partners of the Georgia Strait Crossing Pipeline Project (GSX), a joint venture of the Company and BC Hydro, filed separate applications with the FERC and Canada's National Energy Board (NEB) to construct and operate a new pipeline that will provide 95,700 dekatherms ("Dth") per day of firm transportation capacity from Sumas, Washington to Vancouver Island, British Columbia. The installation of GSX will include approximately 85 miles of pipeline, a 10,302 horsepower compressor station and two meter stations. On September 20, 2002, the FERC issued an order approving the construction and operation of the U.S. portion of the project. GSX anticipates the NEB will issue a certificate approving the project by October 2003. Construction is expected to begin in the summer of 2004. The estimated cost of GSX is approximately $210 million, with Gas Pipeline's share being 50 percent of such amount. The targeted in-service date is October 2005.

REGULATORY MATTERS

Gas Pipeline's interstate transmission and storage activities are subject to regulation by the FERC under the Natural Gas Act of 1938 and under the Natural Gas Policy Act of 1978, and, as such, its rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities and accounting, among other things, are subject to regulation. Each gas pipeline company holds certificates of public convenience and necessity issued by the FERC authorizing ownership and operation of all pipelines, facilities and properties considered jurisdictional for which certificates are required under the Natural Gas Act of 1938. Each gas pipeline company is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation and maintenance of interstate natural gas transmission facilities. Cardinal Pipeline Company, LLC, a North Carolina natural gas pipeline company that is operated and 45 percent owned by Gas Pipeline, is subject to the jurisdiction of the North Carolina Utilities Commission.

Each of our interstate natural gas pipeline companies establishes its rates primarily through the FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation expense, (2) allowed rate of return, including the equity component of the capital structure and related income taxes and (3) volume throughput assumptions. The FERC determines the allowed rate of return in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. As a result of these proceedings, certain revenues previously collected may be subject to refund. See Note 16 of our Notes to Consolidated Financial Statements for the amounts accrued for potential refund at December 31, 2002.

On March 13, 2003, we entered into a settlement with FERC regarding its investigation of the relationship between Transco and Energy Marketing & Trading whereby Transco will pay a civil penalty in the amount of $20 million payable over a five year period. In addition, we agreed to certain operational restrictions and agreed to implement a compliance program to ensure future compliance with the settlement agreement and FERC's marketing affiliate rules. See Note 16 of our Notes to Consolidated Financial Statements for further information on the settlement.

COMPETITION

The FERC has taken various actions to strengthen market forces in the natural gas pipeline industry which has led to increased competition throughout the industry. In a number of key markets, interstate

pipelines are now facing competitive pressures from other major pipeline systems, enabling local distribution companies and end users to choose a supplier or switch suppliers based on the short-term price of gas and the cost of transportation. We expect competition for natural gas transportation to continue to intensify in future years due to increased customer access to other pipelines, rate competitiveness among pipelines, customers' desire to have more than one transporter and regulatory developments. Future utilization of pipeline capacity will depend on competition from other pipelines, use of alternative fuels, the general level of natural gas demand and weather conditions. Electricity and distillate fuel oil are the primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric generation markets. Nuclear and hydroelectric power and power purchased from electric transmission grid arrangements among electric utilities also compete with gas-fired electric generation in certain markets.

Suppliers of natural gas are able to compete for any gas markets capable of being served by pipelines using nondiscriminatory transportation services provided by the pipeline companies. As the regulated environment has matured, many pipeline companies have faced reduced levels of subscribed capacity as contractual terms expire and customers opt to reduce firm capacity under contract in favor of alternative sources of transmission and related services. This situation, known in the industry as "capacity turnback," is forcing the pipeline companies to evaluate the consequences of major demand reductions in traditional long-term contracts. It could also result in significant shifts in system utilization, and possible realignment of cost structure for remaining customers since all interstate natural gas pipeline companies continue to be authorized to charge maximum rates approved by the FERC on a cost of service basis. Gas Pipeline does not anticipate any significant financial impact from "capacity turnback." We anticipate that we will be able to remarket most future capacity subject to capacity turnback, although competition may cause some of the remarketed capacity to be sold at lower rates or for shorter terms.

Several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level. The District of Columbia and states, including New York, New Jersey, Pennsylvania, Maryland, Georgia, Delaware, Virginia, California, Wyoming, Kentucky, Ohio, and Indiana, are currently at various points in the process of unbundling services at local distribution companies. Management expects the implementation of these changes to encourage greater competition in the natural gas marketplace.

OWNERSHIP OF PROPERTY

Each of our interstate natural gas pipeline companies generally owns its facilities, with certain portions, including some offshore facilities, being held jointly with third parties. However, a substantial portion of each pipeline company's facilities is constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. Compressor stations, with appurtenant facilities, are located in whole or in part either on lands owned or on sites held under leases or permits issued or approved by public authorities. The storage facilities are either owned or held 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. We believe that, with respect to any capital expenditures and operation and maintenance expenses required to meet applicable environmental standards and regulations, the FERC would grant the requisite rate relief so that the pipeline companies could recover most of the cost of these expenditures in their rates. For this reason, we believe that compliance with applicable environmental requirements by the interstate pipeline companies is not likely to have a material adverse upon our 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 16 of Notes to Consolidated Financial Statements.

PRINCIPAL COMPANIES IN THE GAS PIPELINE SEGMENT

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

Transcontinental Gas Pipe Line Corporation (Transco)

Transco is an interstate natural gas transportation company that owns and operates a 10,400-mile natural gas pipeline system extending from Texas, Louisiana, Mississippi and the offshore Gulf of Mexico through Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania, and New Jersey to the New York City metropolitan area. The system serves customers in Texas and eleven southeast and Atlantic seaboard states, including major metropolitan areas in Georgia, North Carolina, New York, New Jersey, and Pennsylvania. Effective May 1, 1995, Transco transferred the operation of certain production area facilities to Williams Field Services Group, Inc. (Williams Field Services), an affiliated company and part of the Midstream Gas & Liquids business.

PIPELINE SYSTEM AND CUSTOMERS

At December 31, 2002, Transco's system had a mainline delivery capacity of approximately 4.2 billion cubic feet of natural gas per day from its production areas to its primary markets. Using its Leidy Line and market-area storage capacity, Transco can deliver an additional 3.3 billion cubic feet of natural gas per day for a system-wide delivery capacity total of approximately 7.5 billion cubic feet of natural gas per day. Excluding the production area facilities operated by Williams Field Services, Transco's system is composed of approximately 7,600 miles of mainline and branch transmission pipelines, 44 transmission compressor stations and six storage locations. Transmission compression facilities at a sea level-rated capacity total approximately 1.4 million horsepower.

Transco's major natural gas transportation customers are public utilities and municipalities that provide service to residential, commercial, industrial and electric generation end users. Shippers on Transco's system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers and producers. No customer accounted for more than ten percent of Transco's total revenues in 2002. 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 storage services and interruptible transportation services under short-term agreements.

Transco has natural gas storage capacity in five underground storage fields located on or near its pipeline system or market areas and operates three of these storage fields. Transco also has storage capacity in a liquefied natural gas (LNG) storage facility and operates the facility. The total top gas storage capacity available to Transco and its customers in such storage fields and LNG facility and through storage service contracts is approximately 216 billion cubic feet of gas. In addition, wholly-owned subsidiaries of Transco operate and hold a 35 percent ownership interest in Pine Needle LNG Company, an LNG storage facility with 4 billion cubic feet of storage capacity. 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 2002, Transco completed construction of, and placed into service, three major projects, the Sundance Expansion Project, Phase 2 of the MarketLink Expansion Project, and the Leidy East Project.

The Sundance Expansion Project was placed in service on May 1, 2002, adding approximately 228 million cubic feet per day (MMcf/d) of firm transportation capacity from Transco's Station 65 in Louisiana to delivery points in Georgia, South Carolina and North Carolina. Approximately 38 miles of new pipeline loop along the existing mainline system were installed along with approximately 41,225 horsepower of new compression and modifications to existing compressor stations in Georgia, South Carolina and North Carolina. The capital cost of the project was approximately $117 million.

Phase 1 of the Market Link Expansion Project, which was placed in service on December 19, 2001, added approximately 160 MMcf/d of firm transportation capacity. Phase 2 of the MarketLink Expansion Project was

placed in service on November 1, 2002, adding approximately 126 MMcf/d of firm transportation capacity. Both phases of the MarketLink Project provide firm natural gas transportation service from Leidy, Pennsylvania to markets in the northeastern United States. The total capital cost of Phases 1 and 2 is estimated to be $243 million.

The Leidy East Project was placed in service on November 1, 2002, adding approximately 126 MMcf/d of firm natural gas transportation service from Leidy, Pennsylvania to the northeastern United States. The project facilities included approximately 31 miles of pipeline looping and 3,400 horsepower of uprated compression. The capital cost of the project is estimated to be $98 million.

On February 14, 2002, the FERC issued an order granting a certificate of public convenience and necessity to Transco to construct and operate the Momentum Expansion Project, an expansion of Transco's pipeline system from Station 65 in Louisiana to Station 165 in Virginia. On February 4, 2003, Transco filed an application with the FERC to amend the certificate to reduce the overall size of the expansion from approximately 347 MMcf/d to approximately 312 MMcf/d and to place the Momentum facilities into service in two phases, with the first phase, consisting of approximately 260 MMcf/d, to be placed into service on May 1, 2003 and the second phase, consisting of approximately 52 MMcf/d, to be placed into service on May 1, 2004. The reduction in the size of the expansion reflects the withdrawal of two shippers under the project and the partial replacement of those shippers with the two shippers who had subscribed to service under Transco's previously proposed Cornerstone Expansion Project. The revised project facilities include approximately 50 miles of pipeline looping and 45,000 horsepower of compression. The revised capital cost of the project is estimated to be approximately $189 million.

On May 6, 2002, Transco filed an application for FERC approval of an expansion of Transco's Trenton-Woodbury Line, which runs from Transco's mainline at Station 200 in eastern Pennsylvania, around the metropolitan Philadelphia area and southern New Jersey area, to Transco's mainline near Station 205. Binding precedent agreements have been executed with two shippers for a total of 49 MMcf/d of incremental firm transportation capacity to the shippers' respective delivery points on the Trenton-Woodbury Line. On December 24, 2002, the FERC issued a final order authorizing Transco to construct and operate the project. The target in-service date for the project is November 1, 2003. The project will require approximately seven miles of pipeline looping at a capital cost of approximately $20 million.

Pursuant to Transco's open season for the Cornerstone Expansion Project, Transco executed precedent agreements with two shippers for a total firm transportation quantity of approximately 52 MMcf/d. However, Transco and the shippers have agreed that Transco will provide such firm transportation service under the Momentum Expansion Project instead of under Cornerstone as noted in the above project description for the Momentum Expansion Project.

Transco completed an open season on September 7, 2001, for the South Virginia Line Expansion project, a proposed expansion on Transco's pipeline system from Station 165 in Virginia to Hertford County, North Carolina. The proposed in-service date of May 1, 2005, has been postponed pending further development of the project.

In March 1997, as amended in December 1997, Independence Pipeline Company, a general partnership owned equally by wholly-owned subsidiaries of Transco, ANR Pipeline Company and National Fuel Gas Company, filed an application with FERC for approval to construct and operate a new pipeline consisting of approximately 400 miles of 36-inch pipe from ANR Pipeline Company's existing compressor station at Defiance, Ohio to Transco's facilities at Leidy, Pennsylvania. On December 17, 1999, the FERC gave conditional approval for the Independence Pipeline project, subject to Independence filing long-term, executed contracts with nonaffiliated shippers for at least 35 percent of the capacity of the project. Independence filed for rehearing of the interim order. On April 26, 2000, the FERC issued an order denying rehearing and requiring that Independence submit by June 26, 2000, agreements with nonaffiliated shippers for at least 35 percent of the capacity of the project. Independence met this requirement, and on July 12, 2000, the FERC issued an order granting the necessary certificate authorizations for the Independence Pipeline project. Independence accepted the certificate authorization on August 11, 2000. On September 28, 2000, the FERC issued an order denying all requests for rehearing and requests for reconsideration of the Independence

certificate order filed by various parties. On November 1, 2001, Independence filed a letter with the FERC requesting an extension of the in service date for the project from November 2002 to November 2004. On June 24, 2002, Independence filed a request with the FERC to vacate its certificate because it has been unable to obtain sufficient contracts to proceed with the project to meet the November 2004 in service date. On July 19, 2002, FERC issued an order vacating Independence's certificate. As a result, Transco recorded a $12.3 million pre-tax charge to income in 2002 associated with the impairment of Transco's investment in Independence.

OPERATING STATISTICS

The following table summarizes transportation data for the Transco system for the periods indicated:

2002	2001	2000				
(IN TRILLION BRITISH THERMAL UNITS)						
Market-area deliveries:						
Long-haul transportation	824	766	787			
Market-area transportation	777	645	710			
Total market-area deliveries	1,601	1,411	1,497			
Production-area transportation	179	202	262			
Total system deliveries	1,780	1,613	1,759			
Average Daily Transportation Volumes	4.9	4.4	4.8			
Average Daily Firm Reserved Capacity	6.4	6.2	6.3			

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

Northwest Pipeline Corporation (Northwest Pipeline)

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

PIPELINE SYSTEM AND CUSTOMERS

At December 31, 2002, Northwest Pipeline's system, having a mainline delivery capacity of approximately 2.9 billion cubic feet of natural gas per day, was composed of approximately 4,000 miles of mainline and lateral transmission pipelines and 43 compressor stations having sea level-rated capacity of approximately 348,000 horsepower.

In 2002, Northwest Pipeline transported natural gas for a total of 166 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and direct industrial users. The two largest customers of Northwest Pipeline in 2002 accounted for approximately 14.2 percent and 12.7 percent, respectively, of its total operating revenues. No other customer accounted for more than 10 percent of Northwest Pipeline's total operating revenues in 2002. 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 and short-term firm transportation service.

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 its system. These storage facilities have an aggregate firm delivery capacity of approximately 600 million cubic feet of gas per day.

EXPANSION PROJECTS

On August 29, 2001, Northwest Pipeline filed an application with the FERC to construct and operate an expansion of its pipeline system designed to provide an additional 175,000 Dth per day of capacity to its transmission system in Wyoming and Idaho in order to reduce reliance on displacement capacity. The Rockies Expansion Project includes the installation of 91 miles of pipeline loop and the upgrading or modification to six compressor stations for a total increase of 26,057 horsepower. Northwest Pipeline reached a settlement agreement with the majority of its firm shippers to support roll-in of the expansion costs into its existing rates. The FERC issued a certificate in September 2002 approving the project. Northwest Pipeline filed an application with the FERC in February 2003 to amend the certificate to reflect minor facility scope changes. Construction is scheduled to start by May 2003, with a targeted in-service date of November 1, 2003. The current estimated cost of the expansion project is approximately $140 million, of which approximately $16 million may be offset by settlement funds anticipated to be received from a former customer in connection with a contract restructuring.

On October 31, 2001, Northwest Pipeline filed an application with the FERC to construct and operate an expansion of its pipeline system designed to provide 276,625 Dth per day of firm transportation service from Sumas, Washington to Chehalis, Washington to serve new power generation demand in western Washington. The Evergreen Expansion Project includes installing 28 miles of pipeline loop, upgrading, replacing or modifying five compressor stations and adding a net total of 64,160 horsepower of compression. The FERC issued a certificate on June 27, 2002, approving the expansion and the incremental rates to be charged to Northwest Pipeline's expansion customers. Northwest Pipeline started construction in October 2002 with completion targeted for October 1, 2003. Northwest Pipeline filed an application with the FERC in January 2003 to amend the certificate to reflect minor facility scope and schedule changes. The estimated cost of the expansion project is approximately $198 million. The Evergreen Expansion customers have agreed to pay for the cost of service of this expansion on an incremental basis. This expansion is based on 15 and 25-year contracts and is expected to provide approximately $42 million of operating revenues in its first 12 months of operation.

Northwest Pipeline's October 3, 2001, application with respect to the Evergreen Expansion Project, which was approved by the FERC on June 27, 2002, also requested approvals to construct and operate an expansion of its pipeline system designed to replace 56,000 Dth per day of northflow design displacement capacity from Stanfield, Oregon to Washougal, Washington. The Columbia Gorge Project includes upgrading, replacing or modifying five existing compressor stations and adding a net total of 24,030 horsepower of compression. Northwest Pipeline reached a settlement with the majority of its firm shippers to support roll-in of 84 percent of the expansion costs into the existing rates with the remainder to be allocated to the incremental Evergreen Expansion customers. Northwest Pipeline's January 2003 application to amend the certificate also reflected minor facility scope changes for the Columbia Gorge Project. Northwest Pipeline plans to start construction of this expansion project by May 2003, with a targeted in-service date of November 1, 2003. The estimated cost of the expansion project is approximately $43 million.

On November 1, 2002, Northwest Pipeline placed in service the Grays Harbor Lateral project. This lateral pipeline provides 161,500 Dth per day of firm transportation capacity to serve a new power generation plant in the state of Washington. The Grays Harbor Lateral project was requested by one of Northwest Pipeline's customers and included installation of 49 miles of 20-inch pipeline, the addition of 4,700 horsepower at an existing compressor station, and a new meter station. The cost of the lateral project is estimated to be approximately $92 million. The customer has suspended construction of the contemplated new power generation plant, but remains obligated to pay for the cost of service of the lateral pipeline on an incremental rate basis over the 30-year term of the contract.

OPERATING STATISTICS

The following table summarizes transportation data for the Northwest Pipeline System for the periods indicated:

2002	2001	2000	-----	-----	-----	(IN TRILLION BRITISH THERMAL UNITS)
						Transportation Volumes.....
729	734	752				Average Daily Transportation Volumes.....
2.0	2.0	2.1				Average Daily Firm Reserved Capacity.....
2.9	2.7	2.7				

Texas Gas Transmission Corporation

On February 20, 2003, we announced our intention to sell Texas Gas.

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

PIPELINE SYSTEM AND CUSTOMERS

At December 31, 2002, Texas Gas' system, with a peak-day delivery capacity of approximately 2.8 billion cubic feet of natural gas per day, was composed of approximately 5,800 miles of mainline, storage and branch transmission pipelines and 31 compressor stations having a sea level-rated capacity totaling approximately 556,000 horsepower.

In 2002, Texas Gas transported natural gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois and Ohio, and indirectly to customers in the northeast. At December 31, 2002, Texas Gas had transportation contracts with approximately 550 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers and producers. Two customers accounted for approximately 18 percent and 12 percent, respectively, of Texas Gas' 2002 operating revenues. Texas Gas transported gas for 100 distribution companies and municipalities for resale to residential, commercial and industrial end users. Texas Gas provided transportation services to approximately 15 industrial customers located along its system. No other customer accounted for more than ten percent of total operating revenues in 2002. Texas Gas' firm transportation and storage agreements are generally long-term agreements with various expiration dates and account for the major portion of Texas Gas' business. Additionally, Texas Gas offers interruptible transportation, short-term firm transportation and storage services under agreements that are generally shorter term.

Texas Gas owns and operates gas storage reservoirs in nine underground storage fields located in Indiana and Kentucky. The storage capacity of Texas Gas' certificated storage fields is approximately 178 billion cubic feet of natural gas, of which approximately 55 billion cubic feet is working gas. Texas Gas' storage gas is used in part to meet operational balancing needs on its system, in part to meet the requirements of Texas Gas' firm and interruptible storage customers, and in part to meet the requirements of Texas Gas' No-Notice transportation service, which allows Texas Gas' customers to temporarily draw from Texas Gas' storage gas to be repaid in-kind during the following summer season. A small amount of storage gas is also used to provide Summer No-Notice (SNS) transportation service, designed primarily to meet the needs of summer-season electrical power generation facilities. SNS customers may temporarily draw from Texas Gas' storage gas in the summer, to be repaid during the same summer season. A large portion of the natural gas delivered by Texas Gas to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

OPERATING STATISTICS

The following table summarizes transportation data for the Texas Gas system for the periods indicated

2002 2001 2000 ----- ----- ----- (IN TRILLION BRITISH THERMAL UNITS) Transportation Volumes..... 670 710 738 Average Daily Transportation Volumes..... 1.8 1.9 2.0 Average Daily Firm Reserved Capacity..... 2.2 2.1 2.1

EXPLORATION & PRODUCTION

GENERAL

Our Exploration & Production segment, which is comprised of several wholly-owned subsidiaries including Williams Production Company LLC and Williams Production RMT Company, produces, develops, explores for and manages natural gas reserves primarily located in the Rocky Mountain and Mid-Continent regions of the United States. Exploration & Production specializes in natural gas production from tight-sands formations and coal bed methane reserves in the Piceance, San Juan, Powder River, Arkoma and Raton basins. Approximately 98.6 percent of Exploration & Production's domestic reserves are natural gas.

Exploration & Production's primary strategy is to utilize existing expertise in the development of tight-sands and coalbed methane reserves. Exploration & Production's current multi-year drilling plan and probable reserves, provides us with a strong opportunity. Exploration & Production's goal is to drill existing proved undeveloped reserves, which comprise nearly 52 percent of proved reserves and to drill in areas of probable reserves. In addition, Exploration & Production provides a significant amount of equity production that is gathered and/or processed by our Midstream Gas & Liquids facilities.

Substantially all of the assets of Williams Production RMT Company (formerly Barrett Resources Corporation) are pledged under the 360-day $900 million secured credit facility with Lehman Commercial Paper, Inc. and an affiliate of Berkshire Hathaway. See Note 11 of our Consolidated Financial Statements for further details on the secured credit facilities.

In February 2003, we announced our intention to sell additional selected assets within the Exploration & Production segment.

OIL AND GAS PROPERTIES

Exploration & Production's properties are located primarily in the Rocky Mountain and Mid-Continent regions of the United States. Rocky Mountain properties are located in New Mexico, Wyoming, Colorado and Utah. Mid-Continent properties are located in Oklahoma and Kansas.

Rocky Mountain Properties

PICEANCE BASIN

The Piceance Basin is located in northwestern Colorado, where Exploration & Production primarily targets the tight sands contained within the Williams Fork coalbed formation. The Piceance Basin is our largest area of concentrated development comprising approximately 48 percent of our proved reserves. With over 1.3 trillion cubic feet equivalent of proved reserves at year-end 2002, this area has approximately 900 undrilled proved locations in inventory. Probable reserves in this basin provide additional potential beyond our existing proved reserves. Within this basin, Exploration & Production has the ability to gather, process and deliver to four interstate and one intrastate pipelines. Exploration & Production is currently drilling wells in this basin on 20 acre well density. Exploration & Production successfully completed a 16 well pilot project on ten acre spacing in the Piceance Basin during 2002. This ten acre downspacing, currently pending Colorado Oil and Gas Conservation Commission approval, may enable us to increase our reserves by drilling at greater densities. In 2002, Exploration & Production drilled 129 gross wells and produced a net of approximately

60 billion cubic feet equivalent (Bcfe) of natural gas from the Piceance Basin. Exploration & Production's estimated proved reserves in the Piceance Basin at year-end 2002 were 1,372 Bcfe.

SAN JUAN BASIN

The San Juan Basin is a large gas producing area, located in northwest New Mexico and southwest Colorado. Exploration & Production produces natural gas primarily from the Fruitland Coal, Mesaverde and Dakota formations. Recently approved 80-acre spacing for Mesaverde development and 160-acre spacing for parts of the Fruitland Coal have resulted in the addition of new reserves. In 2002, Exploration & Production successfully introduced horizontal drilling to its Fruitland Coal development. In 2002, Exploration & Production participated in 119 gross wells (33 operated) and produced a net of approximately 52 Bcfe from the San Juan Basin. Exploration & Production's estimated proved reserves in the San Juan Basin at year-end 2002 were 710 Bcfe.

POWDER RIVER BASIN

Located in northeast Wyoming, the Powder River Basin includes large areas with multiple coal seam potential providing drilling opportunities, targeting thick coals at shallow depths. Exploration & Production is one of the largest natural gas producers in the Powder River Basin and operates the largest leasehold position in the basin. In 2002, Exploration & Production drilled 939 gross wells (576 operated) from this basin and produced a net of approximately 48 Bcfe of natural gas. Exploration & Production's estimated proved reserves in the Powder River Basin at year-end 2002 were 306 Bcfe.

RATON BASIN

Located in south central Colorado, the Raton Basin is known for quality coal bed methane production. Coal bed methane production is predominantly from two groups of coals in the Vermejo and Raton formations. In 2002, Exploration & Production drilled 38 gross wells in the Raton Basin and produced a net of approximately six Bcfe. Exploration & Production's estimated proved reserves in the Raton Basin at year-end 2002 were 134 Bcfe.

UINTA BASIN

The Brundage Canyon field, located in northeastern Utah, is Exploration & Production's principal property in the Uinta Basin. Production from this field is predominately oil, produced from the Lower Green River Formation. In 2002, Exploration & Production drilled 26 gross wells in the Uinta Basin and produced a net of approximately 462 thousand barrels of oil equivalent. Exploration & Production's estimated proved reserves at year-end 2002 were 9 million barrels of oil equivalent.

Mid-Continent Properties

ARKOMA BASIN

Exploration & Production's Arkoma Basin properties are located in southeastern Oklahoma. Exploration & Production's production from the Arkoma Basin is primarily from the Hartshorne coal bed methane formation. Exploration & Production is utilizing horizontal drilling technology to develop the coal seams. In 2002, Exploration & Production drilled 51 gross wells (44 operated) in the Arkoma Basin and produced a net of approximately three Bcfe. Exploration & Production's estimated proved reserves in the Arkoma Basin at year-end 2002 were 83 Bcfe.

HUGOTON AREA

The Hugoton Embayment properties are located in southwest Kansas. Exploration & Production produced a net of approximately 10 Bcfe of natural gas from the Hugoton Area in 2002. Exploration & Production's estimated proved reserves in the Hugoton area at year-end 2002 were 102 Bcfe.

Other Properties

Exploration & Production has operations in other areas, including the Green River Basin, located in southwest Wyoming, the Gulf Coast region and northeast Colorado. These properties contain approximately 2.5 percent of Exploration & Production's estimated proved reserves.

GAS RESERVES AND WELLS

At December 31, 2002, 2001 and 2000, Exploration & Production had proved developed natural gas reserves of 1,368 Bcfe, 1,599 Bcfe and 603 Bcfe, respectively, and proved undeveloped reserves of 1,466 Bcfe, 1,579 Bcfe and 599 Bcfe, respectively. At December 31, 2002, 48 percent of Exploration & Production's total proved reserves are located in the Piceance Basin in Colorado, 25 percent are located in the San Juan Basin of Colorado and New Mexico and 11 percent are located in the Powder River Basin in Wyoming. The remaining 16 percent of proved reserves are primarily in the Raton, Arkoma, Hugoton, and Green River basins, the Gulf Coast regions and northeast Colorado. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year-end 2002. Exploration & Production has not filed on a recurring basis estimates of its total proved net oil and gas reserves with any U.S. regulatory authority or agency other than the Department of Energy (DOE) and the Securities and Exchange Commission (SEC). The estimates furnished to the DOE have been consistent with those furnished to the SEC, although Exploration & Production has not yet filed any information with respect to its estimated total reserves at December 31, 2002, with the DOE. Certain estimates filed with the DOE may not necessarily be directly comparable due to special DOE reporting requirements, such as requirements to report in some instances on a gross, net or total operator basis, and requirements to report in terms of smaller units. The underlying estimated reserves for the DOE did not differ by more than five percent from the underlying estimated reserves utilized in preparing the estimated reserves reported to the SEC.

Approximately 95 percent of Exploration & Production's proved reserves estimates are either audited or prepared by Netherland, Sewell & Associates, Inc., Ryder Scott Company or Miller and Lents, LTD., depending on the basin. Approximately three percent of the 95 percent of Exploration & Production's proved reserves estimates that are audited or prepared externally are prepared by Miller and Lents, LTD. under an agreement with the Williams Coal Seam Gas Royalty Trust.

At December 31, 2002, the gross and net developed acres leased by Exploration & Production totaled 1,129,044 and 605,450 respectively, and the gross and net undeveloped acres leased were 1,463,629 and 663,459, respectively. At December 31, 2002, Exploration & Production owned interests in 10,528 gross producing wells (4,697 net) on its leasehold lands.

OPERATING STATISTICS

Exploration & Production focuses on low-risk development drilling. The following tables summarize drilling activity by number and type of well for the periods indicated:

NUMBER OF WELLS	GROSS WELLS	NET WELLS
2002		
Development:		
Drilled	1,347	723
Completed	1,332	713
Exploration:		
Drilled	6	3
Completed	2	1

NUMBER OF WELLS	GROSS WELLS	NET WELLS
COMPLETED DURING		
2002	1,334	714
2001	776	352
2000	246	62

The majority of Exploration & Production's natural gas production is currently being sold to Energy Marketing & Trading at prevailing market prices. Because Exploration & Production currently has a low-risk drilling program in proven basins, the main component of risk that it manages is price risk. Exploration & Production manages price risk as needed by hedging when market conditions warrant. Exploration & Production has entered into derivative contracts with Energy Marketing & Trading that hedge approximately 83 percent of projected 2003 domestic natural gas production before consideration of any potential property sales in 2003. Energy Marketing & Trading then enters into offsetting derivative contracts with unrelated third parties. Approximately 81 percent of Exploration and Production's natural gas production in 2002 was hedged.

Exploration & Production's 2002 net production increased by nearly 62 percent over the previous year. The total net production sold during 2002, 2001 and 2000 was 211.5 Bcfe, 130.7 Bcfe and 65.6 Bcfe, respectively. The average production costs including production taxes per thousand cubic feet of gas equivalent (Mcfe) produced were $.58, $.61 and $.57, in 2002, 2001 and 2000, respectively. The average sales price per Mcfe was $2.11, $2.67 and $2.96, respectively, for the same periods. Additionally, Exploration & Production realized the impact of hedging contracts, which was a gain of $1.19 and $.46 per Mcfe for 2002 and 2001, respectively, and a loss of $.74 for 2000.

Divestitures

Effective July 1, 2002, Williams Production Company divested of its interest in the Jonah field located in the Green River Basin in southwest Wyoming. This divestiture comprised 365 Bcfe in year-end 2001 reserves and approximately 112 million cubic feet equivalent (MMcfe) per day in production. Effective March 1, 2002, Williams Production RMT Company divested of its non-core Wind River properties located in southwest Wyoming, which represented 60.2 Bcfe in year-end 2001 reserves and approximately 29 MMcfe per day in production. Effective July 1, 2002, Williams Production RMT Company divested of its non-core Anadarko properties located in western Oklahoma, which comprised 23 Bcfe in year-end 2001 reserves and approximately 10 MMcfe per day in production. Other smaller divestitures of non-core properties during the year consisted of 22 Bcfe in year-end 2001 reserves and approximately 15 MMcfe per day in production.

ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Our Exploration and Production business is subject to various federal, state and local laws and regulations on taxation, the exploration for and development, production and marketing of oil and gas, and environmental and safety matters. Many laws and regulations require drilling permits and governs the spacing of wells, rates or production, prevention of waste and other matters. Such laws and regulations have increased the costs of planning, designing, drilling, installing, operating and abandoning our oil and gas wells and other facilities. In addition, these laws and regulations, and any others that are passed by the jurisdictions where we have production, could limit the total number of wells drilled or the allowable production from successful wells which could limit our reserves.

Our operations are subject to complex environmental laws and regulations adopted by the various jurisdictions in which we operate. We could incur liability to governments or third parties for any unlawful discharge of oil, gas or other pollutants into the air, soil, or water, including responsibility for remedial costs. We could potentially discharge such materials into the environment in many ways including:

- from a well or drilling equipment at a drill site;

- leakage from gathering systems, pipelines, transportation facilities and storage tanks;

- damage to oil and gas wells resulting from accidents during normal operations; and

- blowouts, cratering and explosions.

Because the requirements imposed by such laws and regulations are frequently changed, we cannot assure you that laws and regulations enacted in the future, including changes to existing laws and regulations, will not adversely affect our business. In addition, because we acquire properties that have been operated in the past by others, we may be liable for environmental damage caused by such former operators.

COMPETITION

The natural gas industry is highly competitive. We compete in the areas of property acquisitions and the development, production and marketing of, and exploration for, natural gas with major oil companies, other independent oil and natural gas concerns and individual producers and operators. We also compete with major and independent oil and gas concerns in recruiting and retaining qualified employees. Many of these competitors have substantially greater financial and other resources than us.

OWNERSHIP OF PROPERTY

The majority of Exploration & Production's ownership interest in exploration and production properties are held as working interests in oil and gas leaseholds.

OTHER INFORMATION

In 1993, Exploration & Production conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Substantially all of the production attributable to the properties conveyed to the trust was from the Fruitland coal formation and constituted coal seam gas. Williams subsequently sold trust units to the public in an underwritten public offering and retained 3,568,791 trust units representing 36.8 percent of outstanding trust units. During 2000, Williams sold all of its trust units as part of a Section 29 tax credit transaction, in which Williams retained an option to repurchase the units. Williams registered the units with the Securities and Exchange Commission (SEC)and has been repurchasing the units and reselling the units on the open market from time to time. As of March 1, 2003, our option to repurchase trust units covered 2,608,791 trust units.

INTERNATIONAL EXPLORATION AND PRODUCTION INTERESTS

Exploration & Production also has investments in international oil and gas interests. Exploration & Production owns approximately a 69 percent interest in Apco Argentina Inc., an oil and gas exploration and production company with operations in Argentina, whose securities are traded on the NASDAQ stock market. Apco Argentina's principal business is its 51.7 percent interest in the Entre Lomas concession in southwest Argentina. It also owns a 45 percent interest in the Canadon Ramirez concession and a 1.5 percent interest in the Acambuco concession. In Venezuela, we own a 10 percent interest in the La Concepcion Area, a third round field development located in Western Venezuela, near Lake Maracaibo. Combined these interests make up 5.2 percent of Exploration & Production's total proved reserves.

MIDSTREAM GAS & LIQUIDS

GENERAL

Our Midstream Gas & Liquids segment subsidiaries provide a suite of natural gas gathering, processing, treating and natural gas liquid and olefin fractionation, transportation, storage, risk management and marketing services throughout the United States, western Canada, and Venezuela.

On February 20, 2003, we announced our intention to sell additional selected assets within the Midstream Gas & Liquids segment. Midstream Gas and Liquids' current suite of assets include the following operations:

Substantially all of our assets within the Midstream Gas & Liquids segment are pledged as collateral under our existing secured revolving credit facility and secured letter of credit facility. See Note 11 to our Notes to Consolidated Financial Statements for more information on the credit facilities.

Domestic Gathering and Processing; Natural Gas Liquid Fractionation, Storage and Transportation

Midstream Gas & Liquids owns and/or operates domestic gas gathering and processing assets primarily within the western states of Wyoming, Colorado, and New Mexico; and the onshore and offshore shelf and deepwater areas in and around the Gulf Coast states of Texas, Louisiana, Mississippi, and Alabama. These assets consist of approximately 9,000 miles of gathering pipelines with capacity in excess of eight billion cubic feet per day (including certain gathering lines owned by Transco but operated by Midstream Gas & Liquids), eleven processing plants (two partially owned) and nine natural gas treating plants with a combined daily inlet capacity in excess of 5.5 billion cubic feet per day.

Midstream Gas & Liquids also owns interests in and/or operates natural gas liquid fractionation, storage and transportation assets that supplement the gathering and processing operations listed above. These assets include three partially owned natural gas liquid fractionation facilities (two of which are operated by Midstream Gas & Liquids) within central Kansas and southern Louisiana that have a combined production capacity in excess of 200,000 barrels per day. These assets also include ownership interests in approximately 25 million barrels of natural gas liquid storage capacity (wholly-owned) within central Kansas and approximately 3,500 miles of domestic natural gas liquids pipelines (partially owned) primarily located in the onshore and offshore Gulf Coast areas.

Included in the assets listed above are the assets of Discovery Producer Services LLC and its subsidiary Discovery Transmission Services LLC (Discovery). Midstream Gas & Liquids owns a 50 percent interest in Discovery. During 2002, Midstream Gas & Liquids became the operator of Discovery. Discovery's assets include a cryogenic natural gas processing plant near Larose, Louisiana, a natural gas liquids fractionator plant near Paradis, Louisiana and an offshore natural gas gathering and transportation system.

Gulf Coast Petrochemical and Olefins

In southern Louisiana, Midstream Gas & Liquids provides customers in the petrochemical industry a full suite of products and services. These operations include a 42 percent interest in a 1.3 billion pound per year ethylene production, storage and transportation complex in Geismer, Louisiana and the ownership interest in Gulf Liquids New River LLC (Gulf Liquids). Gulf Liquids, a start up entity that began operations in late 2001, consists of two refinery off gas processing facilities, an olefinic fractionator and propylene splitter and connecting pipeline system. In September 2002, Midstream Gas & Liquids acquired the remaining interest in and became the operator of Gulf Liquids. Prior to 2002, the ownership interests in the Geismer ethylene production complex and Gulf Liquids were included as a component of the Petroleum Services and Energy Marketing & Trading business segments respectively. We have announced our intention to sell the petrochemical and olefins assets located in Geismar, Louisiana.

Natural Gas Liquids Marketing and Risk Management

Midstream Gas & Liquids marketing and risk management operations provide natural gas liquid and petrochemical product supply to third party end users. Supply for the third party end user is obtained from the equity production from Midstream Gas & Liquid's processing, fractionation and Gulf Coast olefins facilities as well as from outside sources. During 2002, natural gas liquid marketing and risk management operations were transferred from Energy Marketing & Trading to Midstream Gas & Liquids.

Canada

Midstream Gas & Liquids owns and operates natural gas treating and extraction facilities in Alberta and British Columbia, Canada. These operations include a natural gas processing plant, four natural gas liquid extraction plants (two of which are partially-owned), a natural gas liquids gathering system and natural gas liquid storage and fractionation facilities.

Canadian operations also include a newly constructed liquids extraction plant located near Ft. McMurray, Alberta and an olefin fractionation facility near Edmonton, Alberta. Operations of these facilities began in the first quarter of 2002. These new facilities extract olefin liquids from off-gas and then fractionate, store, treat and terminal propane and propylene. This project involves the recovery of hydrocarbon liquids, impurities and olefins from the off-gas produced from third party tar sands refining facilities near Ft. McMurray, Alberta.

We have announced our intention to sell certain of our Canadian operations.

Venezuela

Midstream Gas & Liquids owns interests in one medium- and two high-pressure gas compression facilities, two natural gas liquids extraction units, one fractionation facility, and an operations contract on an oil and gas loading and storage facility located in Venezuela. During 2002, these operations were transferred to Midstream Gas & Liquids from the previously reported International business segment.

Expansion Projects

GATHERING AND PROCESSING -- WYOMING EXPANSION

In January 2002, Midstream Gas & Liquids completed an expansion of our Echo Springs natural gas plant near Wamsutter, Wyoming. This expansion included the addition of a third cryogenic gas processing unit that boosted the inlet capacity of the plant from 250 to 390 million cubic feet per day and liquids extraction from 18,000 barrels to 28,000 barrels per day. This project also included the expansion of the gathering system that brings natural gas to the Echo Springs facility.

GATHERING AND PROCESSING -- DEEPWATER PROJECTS

In 2002, Midstream Gas & Liquids expanded its Gulf Coast gathering and processing operations with the completion of the 137-mile pipeline system to gather and transport oil and natural gas production from Kerr-McGee Corporation's deepwater developments in the Nansen and Boomvang areas in the western Gulf of Mexico. First production from Nansen and Boomvang occurred in late January 2002 and early July 2002, respectively.

During 2002, Midstream Gas & Liquids also completed construction of Canyon Station, a state of the art production handling platform that treats and processes up to 500 million cubic feet gas per day from the Aconcagua Canden Hills and Kings Peak deepwater fields. First volumes began flowing through Canyon Station in September and are currently flowing in excess of 400 million cubic feet per day.

Midstream Gas & Liquids also continues construction on the deepwater projects for the Devils Tower field (operated by Dominion Exploration and Production) in the eastern Gulf of Mexico. This project called for Midstream Gas & Liquids to construct and own a floating production facility, a 90-mile gas pipeline and a 120-mile oil pipeline to handle production from the Devils Tower field. First production is expected in late 2003. Midstream Gas & Liquids intends to use the facilities to provide production-handling services to surrounding fields. Midstream Gas & Liquids' Mobile Bay plant will process the gas and recover natural gas liquids, which will then be transported to the Baton Rouge Fractionator via the Tri-States and Wilprise pipelines, all owned in whole or in part by Midstream Gas & Liquids.

Midstream Gas & Liquids also signed an agreement with Kerr-McGee to build a 100-mile oil pipeline to their Gunnison prospect. This pipeline will be connected to our Galveston Area Block A-244 platform for deliveries into a third party crude oil system. First oil production is expected by the second quarter 2004.

Customers and Operations

Midstream Gas & Liquids' domestic gas gathering and processing customers are generally natural gas producers who have proved and/or producing natural gas fields in the areas surrounding Midstream Gas & Liquids' infrastructure. During 2002, these operations gathered gas for 244 customers and processed gas for 96 customers. The largest gathering customer accounted for approximately 15 percent of total gathered volumes,

and the two largest processing customers accounted for 24 percent and 15 percent, respectively, of processed volumes. Midstream Gas & Liquids' gathering and processing agreements are generally long-term agreements with various expiration dates.

Midstream Gas & Liquids markets natural gas liquids and petrochemical products to a wide range of users in the energy and petrochemical industries. Midstream Gas & Liquids' marketing and risk management operations provide liquid and petrochemical product supply to third parties from the equity production from Midstream Gas & Liquids' domestic facilities as well as from outside sources. The majority of domestic sales are based on supply contracts of less than one-year in duration. Midstream Gas & Liquids' Canadian operations sold natural gas liquids produced from the Canadian facilities to third party end users. Canadian natural gas liquid sales contracts are typically long-term in nature. In order to meet the delivery requirements under various contracts Midstream Gas & Liquids maintains inventories of natural gas liquids at various locations throughout the United States and Canada.

Midstream Gas & Liquids' Venezuelan assets were originally constructed and are currently operated for the exclusive benefit of Petroleos de Venezuela S.A. (PDVSA), the state owned Petroleum Corporation of Venezuela. The significant contracts are 20 years in duration with revenues based on a combination of fixed capital payments, throughput volumes, and in the case of one of the gas compression facilities, a minimum throughput guarantee. During December 2002 and early 2003, a countrywide strike took place within Venezuela that resulted in significant political instability and a volatile economic environment. Employees of PDVSA joined this strike, which had an impact on the operations of most of the Venezuelan facilities. All owned facilities are presently operating. However, an operating agreement for the PDVSA owned oil terminaling facility is the subject of a contract dispute with PDVSA. The ultimate impact the economic and political instability will have on Midstream Gas & Liquids' Venezuelan operations will depend upon the duration of the economic and political instability as well as the ability to enforce certain contract provisions with PDVSA.

Operating Statistics

The following table summarizes Midstream Gas & Liquids' significant operating statistics.

2002 2001 2000 ----- ----- ----- Volumes*: Domestic gathering (trillion British Thermal Units)..... 2,108 2,174 2,116 Domestic Natural Gas Liquid Production**..... 135 122 132 Canadian Natural Gas Liquid Production**..... 208 169 190 Domestic Natural Gas Liquids and Petrochemical Products Marketed**..... 391 326 281

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* Excludes volumes associated with partially owned assets that are not consolidated for financial reporting purposes.

** Average thousand barrels per day.

REGULATORY AND ENVIRONMENTAL MATTERS

Under the Natural Gas Act (NGA), gathering and processing facilities and services are not subject to the regulatory authority of the FERC. Onshore gathering is reserved to the states and offshore gathering is subject to the Outer Continental Shelf Lands Act (OCSLA).

Of the states where Midstream Gas & Liquids operates, currently only Kansas, Oklahoma and Texas actively regulate gathering activities. Those states regulate gathering through complaint mechanisms under which the state commission may resolve disputes involving an individual gathering arrangement. Although gathering facilities located offshore are not subject to the NGA, some controversy exists as to how the FERC should determine whether offshore facilities function as gathering. These issues are currently before the FERC and appellate courts. Most gathering facilities offshore are subject to the OCSLA, which provides in part that

outer continental shelf pipelines "must provide open and nondiscriminatory access to both owner and nonowner shippers."

Midstream Gas & Liquids' business operations are subject to various federal, state, and local environmental and safety laws and regulations. The Discovery and other pipeline systems are subject to FERC regulation common to interstate gas transmission. Midstream Gas & Liquids' liquid pipeline operations are subject to the provisions of the Hazardous Liquid Pipeline Safety Act. In addition, the tariff rates, shipping regulations, and other practices of the Wilprise and Tri-States pipelines are regulated by the FERC pursuant to the provisions of the Interstate Commerce Act applicable to interstate common carrier petroleum and petroleum products pipelines. Both of these statutes require the filing of reasonable and nondiscriminatory tariff rates and subject Midstream Gas & Liquids to certain other regulations concerning its terms and conditions of service. Certain of our pipelines also file tariff rates covering intrastate movements with various state commissions. The United States Department of Transportation has prescribed safety regulations for common carrier pipelines. The pipeline systems are subject to various state laws and regulations concerning safety standards, exercise of eminent domain, and similar matters. The Kansas Department of Health and Environment (KDHE) has proposed new regulations to govern underground storage in Kansas, which may require additional equipment and testing for Midstream Gas & Liquids' storage operations in Kansas.

The majority of our Midstream Gas & Liquids' Canadian assets, are regulated provincially. The Alberta-based assets are regulated by the Alberta Energy & Utilities Board (AEUB) and Alberta Environment, while the British Columbia-based assets are regulated by the British Columbia Oil and Gas Commission and the British Columbia Ministry of Environment, Lands and Parks. The regulatory system for Alberta oil and gas industry incorporates a large measure of self-regulation, providing that licensed operators are held responsible for ensuring that their operations are conducted in accordance with all provincial regulatory requirements. For situations in which non-compliance with the applicable regulations is at issue, the AEUB and Alberta Environment have implemented an enforcement process with escalating consequences. The British Columbia Oil and Gas Commission operates in a slightly different manner than the AEUB, with more emphasis placed on pre-construction criteria and the submission of post-construction documentation, as well as periodic inspections. Only one asset is subject to federal regulation, under the jurisdiction of Canada's National Energy Board (NEB). One pipeline system, which is Leg Number 2 of the natural gas liquids gathering system, is regulated by the NEB as a Group 2 inter-provincial pipeline between British Columbia and Alberta. While Group 2 regulated companies are required to post a toll and tariff for the facilities they operate, they are regulated on a "complaint only" basis and need only to employ standard uniform accounting procedures, rather than the more stringent Group 1 NEB-mandated accounting and reporting requirements.

COMPETITION

The gathering and processing business is a local business with varying competitive factors in each basin. Midstream Gas & Liquids' gathering and processing business competes 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, location, 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. Midstream Gas & Liquids' gathering and processing services are generally covered under long-term contracts with applicable acreage or reserve dedications. Midstream Gas & Liquids' relatively large positions in the Western and Gulf Regions are indicators that demand for future gathering and processing infrastructure and services should continue.

OWNERSHIP OF PROPERTY

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

ENERGY MARKETING & TRADING

GENERAL

Our Energy Marketing & Trading segment, is a national energy services provider that buys, sells and transports energy and energy-related commodities, including power, natural gas, refined products, crude oil, and emission credits, primarily on a wholesale level. In addition, Energy Marketing & Trading provides energy-related services through a variety of financial instruments and structured transactions including exchange-traded futures, as well as over-the-counter forwards, options, swaps, tolling, load serving, full requirements, storage, transportation, and transmission agreements and other derivatives related to various energy and energy-related commodities. As a result of current liquidity and credit constraints, in June 2002 we decided to limit our financial commitment and exposure to the Energy Marketing & Trading business. Energy Marketing & Trading initiated efforts in 2002 to sell all or portions of its portfolio and/or pursue potential joint venture or business combination opportunities. Energy Marketing & Trading's future results will likely be affected by the reduction in liquidity available from its parent, the unwillingness of counterparties to enter into transactions with Energy Marketing & Trading, the liquidity of markets in which Energy Marketing & Trading operates, and the creditworthiness of other counterparties in the industry and their ability to perform their contractual obligations. During 2002, Energy Marketing & Trading's ability to manage or hedge its portfolio against adverse market movements was limited by a lack of market liquidity as well as market concerns regarding our credit and liquidity situation. See Note 15 of our Notes to Consolidated Financial Statements for information on financial instruments and energy trading activities.

At December 31, 2002, Energy Marketing & Trading employed approximately 410 employees, compared with approximately 1,000 employees at the end of 2001. As of February 25, 2003, the number of Energy Marketing & Trading employees was approximately 330 and additional staffing reductions are expected during 2003.

As discussed below and in Note 1 and 16 to our -- Notes to Consolidated Financial Statements, in 2002, the energy marketing and trading business sector, including Energy Marketing & Trading, experienced significant financial challenges, for example associated with credit downgrades and reduced liquidity, as well as significant legal and regulatory challenges, for example associated with federal and state investigations and numerous lawsuits, that adversely affected the energy marketing and trading business. These challenges are expected to continue in 2003.

During 2002, Energy Marketing & Trading marketed over 404,711 physical gigawatt hours of power. As part of its approximately 11,000 megawatt power supply portfolio at year-end, Energy Marketing & Trading has a mix of owned generation, tolling agreements and supply resources through full requirements transactions in support of its load obligations. Energy Marketing & Trading had a number of long-term tolling agreements at December 31, 2002, to market capacity of electric generation facilities totaling approximately 7,500 megawatts (California -- 3,956 megawatts; Alabama -- 845 megawatts; Louisiana -- 765 megawatts; New Jersey -- 752 megawatts; Pennsylvania -- 655 megawatts; and Michigan -- 538 megawatts). Under these tolling arrangements, Energy Marketing & Trading has the right, but not the obligation, to supply fuel for conversion to electricity and then market capacity, energy and ancillary services related to the generating facilities owned and operated by various unrelated third parties. As of December 31, 2002, Energy Marketing & Trading also had entered into several agreements to provide full requirements services for a number of customers whose supply resources are being managed with approximately 2,520 megawatts of load in the United States, including transactions in Indiana, Pennsylvania and Georgia. Additionally, Energy Marketing & Trading has marketing rights for the energy and capacity from two natural gas-fired electric generating plants owned by affiliated companies and located near Bloomfield, New Mexico (60 megawatts); in Hazleton, Pennsylvania (147 megawatts); and near Worthington, Indiana (170 megawatts). Energy Marketing & Trading's subsidiary, Worthington Generation, L.L.C., which owns the Worthington facility, was sold in January of 2003 for $67 million, including a termination of an approximately 1,056 megawatt load serving transaction in Indiana. In connection with a global settlement of claims asserted by the state of California, and as more fully discussed in Note 16 of our Notes to Consolidated Financial Statements, Energy Marketing & Trading renegotiated long-term power agreements with the California Department of Water Resources.

Energy Marketing & Trading's primary power customers include utilities, municipalities, cooperatives, governmental agencies and other power marketers.

In 2002, Energy Marketing & Trading marketed natural gas throughout North America with total physical volumes averaging 3.8 billion cubic feet per day. Beginning in 2000, Energy Marketing & Trading's natural gas marketing operations focused on activities that facilitate and/or complement the group's power portfolio. In addition to procuring supply for our Midstream Gas & Liquids operations, marketing equity gas for our Exploration & Production operations and managing firm service contracts for our Gas Pipeline operation, Energy Marketing & Trading's natural gas customers include local distribution companies, utilities, producers, industrials and other gas marketers.

In 2002, Energy Marketing & Trading provided supply, distribution and related risk management services to petroleum producers, refiners and end-users in the United States and various international regions. During 2002, Energy Marketing & Trading marketed on average approximately 832,000 barrels per day of physical crude oil and petroleum products.

In 2002, Energy Marketing & Trading curtailed its European trading activities conducted through its London office as part of our efforts to scale back our entire trading business in 2002. Included in the 2002 Energy Marketing & Trading staffing reductions noted above is a decrease in staffing of its London office from 32 at the end of 2001 to nine at the end of 2002.

OPERATING STATISTICS

The following table summarizes marketing and trading gross sales volumes for the periods indicated. Petroleum products volumes for 2001 and 2000 do not include volumes associated with the natural gas liquids business transferred to the Midstream Gas & Liquids segment during 2002.

Energy Marketing & Trading

2002 2001 2000 ------- -----
-- ------- U.S. Operations
Marketing and trading
physical volumes: Power
(thousand megawatt
hours).....
404,711 293,808 141,311
Natural Gas (billion cubic
feet per day).....
3.8 3.4 3.3 Petroleum
products (thousand barrels
per day)..... 832 241
728

2002 ------ European Operations
Marketing and trading physical
volumes: Power (thousand
megawatt
hours).....
26,094 Natural Gas (billion
cubic feet per
day)..... 0.2
Petroleum products (thousand
barrels per day)..... 83

As of December 31, 2002, Energy Marketing & Trading had approximately 287 customers compared with over 652 customers at the end of 2001.

REGULATORY AND LEGAL MATTERS

Energy Marketing & Trading's business is subject to a variety of laws and regulations at the local, state and federal levels in the United States and Europe (including the United Kingdom). In the U.S. Energy Marketing & Trading is regulated by the FERC and the Commodity Futures Trading Commission. Electricity and natural gas markets, in California and elsewhere, continue to be subject to numerous and wide-ranging federal and state regulatory proceedings and investigations, as well as civil actions, regarding among other things, market structure, behavior of market participants, market prices, and reporting to trade publications. Discussions in California and other states have ranged from threats of re-regulation to suspension of plans to

move forward with deregulation. Allegations have also been made that the wholesale price increases resulted from the exercise of market power and collusion of the power generators and sellers, such as Energy Marketing & Trading. These allegations have resulted in multiple state and federal investigations as well as the filing of class-action lawsuits in which Energy Marketing & Trading is named a defendant. Energy Marketing & Trading's long-term power contract with the California Department of Water Resources has also been challenged both at the FERC and in civil suits. On November 11, 2002, Energy Marketing & Trading and Williams executed a settlement agreement that is intended to resolve many of these disputes with the State of California with respect to non-criminal matters and includes renegotiated long-term energy contracts. The settlement is also intended to resolve complaints brought by the California Attorney General against us and the State of California's refund claims. In addition, the settlement is intended to resolve ongoing investigations by the States of California, Oregon, and Washington. The settlement closed December 31, 2002, although certain court approvals are pending. Notwithstanding this settlement, numerous investigations and actions related to energy marketing and trading remain. Energy Marketing & Trading may be liable for refunds and other damages and penalties as a result of the above actions and investigations. Each of these matters as well as other regulatory and legal matters related to Energy Marketing & Trading are discussed in more detail in Note 16 to our Consolidated Financial Statements. The outcome of these matters could affect the creditworthiness and ability to perform contractual obligations of Energy Marketing & Trading as well as the creditworthiness and ability to perform contractual obligations of other market participants.

On March 13, 2003, we entered into a settlement with FERC regarding its investigation of the relationship between Transco and Energy Marketing & Trading whereby Transco will pay a civil penalty in the amount of $20 million payable over a five year period. In addition, we agreed to certain operational restrictions and agreed to implement a compliance program to ensure future compliance with the settlement agreement and FERC's marketing affiliate rules. See Note 16 of our Notes to Consolidated Financial Statements for further information on the settlement.

COMPETITION AND MARKET ENVIRONMENT

Energy Marketing & Trading's operations compete directly with large independent energy marketers, marketing affiliates of regulated pipelines and utilities and natural gas producers. The financial trading business is highly competitive and Energy Marketing & Trading 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. In 2002, the energy marketing and trading industry, including Energy Marketing & Trading, experienced significant credit and liquidity constraints affecting the conduct of new business and performance on preexisting commitments. Energy Marketing & Trading's business also had relied upon our senior unsecured long-term debt investment-grade rating to satisfy credit support requirements of many counterparties. As a result of the credit rating downgrades to below investment grade levels, Energy Marketing & Trading's participation in energy risk management and trading activities requires adequate assurance or alternate credit support under certain existing agreements. In addition, we are required to fund margin requirements pursuant to industry standard derivative agreements with cash, letters of credit or other negotiable instruments. Certain of Energy Marketing & Trading's counterparties have experienced significant declines in their financial stability and creditworthiness which may adversely impact their ability to perform under contracts with Energy Marketing & Trading. Energy Marketing & Trading initiated efforts in 2002 to sell all or portions of its portfolio and/or pursue potential joint venture or business combination opportunities. During 2002, Energy Marketing & Trading closed out trading positions with a number of counterparties and has disputes associated with this liquidation. One counterparty has disputed a settlement amount related to the liquidation of a trading position with Energy Marketing & Trading and the amount of settlement is in excess of $100 million payable to Energy Marketing & Trading. The matter is being arbitrated. Credit constraints, declines in market liquidity, and financial instability of market participants, are expected to continue and potentially grow in 2003. Continued liquidity and credit constraints of Williams may also significantly impact Energy Marketing & Trading's ability to manage market risk and meet contractual obligations. These matters are further discussed in Management's Discussion & Analysis of Financial Conditions and Results of Operations.

OWNERSHIP OF PROPERTY

The primary assets of Energy Marketing & Trading are its term contracts, related systems and technological support. In addition, Energy Marketing & Trading owned a gas-fired generating facility located near Worthington, Indiana with a capacity of approximately 170 megawatts. In January 2003, Energy Marketing & Trading sold Worthington Generation L.L.C., its subsidiary that owns the Worthington generation facility.

As a result of our current liquidity constraints, Energy Marketing & Trading initiated efforts in 2002 to sell all or portions of its portfolio and/or pursue potential joint venture or business combination opportunities. No assurances can be made regarding the ultimate consummation of any sales or business combination activities currently being pursued. Energy Marketing & Trading is continuing to evaluate its potential alternatives. As discussed further in Note 1 to our Notes to Consolidated Financial Statements, portions of Energy Marketing & Trading's portfolio have been recognized at their estimated "fair value," which according to generally accepted accounting principles is the amount at which they could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale. Given the financial condition and liquidity constraints and needs of the Company, however, amounts ultimately realized in any portfolio sales or business combination may be significantly different than fair value estimates presented in the financial statements, depending on the timing and terms of any such transactions.

ENVIRONMENTAL MATTERS

Power generation facilities are subject to various environmental laws and regulations, including laws and regulations regarding emissions. We do not believe compliance with various environmental laws and regulations would have a material adverse effect on capital expenditures, earnings and the competitive position of Energy Marketing & Trading. Facility availability may be affected by these laws and regulations.

WILLIAMS ENERGY PARTNERS L.P.

GENERAL

We have announced our intention to sell our interests in Williams Energy Partners.

In October 2000, we formed Williams Energy Partners, a wholly-owned master limited partnership through various wholly-owned subsidiaries, to acquire, own and operate a diversified portfolio of energy assets, concentrated around the storage, transportation and distribution of refined petroleum products and ammonia. In February 2001, 4,600,000 common units, representing approximately 40 percent of the total outstanding units of Williams Energy Partners, were sold to the public in an initial public offering. Williams Energy Partners' common units trade on the New York Stock Exchange under the symbol WEG. Following this transaction, we owned approximately 65 percent of Williams Energy Partners, including 100 percent of Williams Energy Partners' general partner interest.

On April 11, 2002, Williams Energy Partners acquired all of the membership interests of Williams Pipe Line Company LLC from a wholly owned subsidiary of ours for approximately $1 billion. As consideration, Williams Energy Partners paid us $674.4 million in cash, after netting our $6 million required contribution to maintain our 2 percent general partner interest. We also received $304 million in the form of class B units representing limited partner interests in Williams Energy Partners. We currently own approximately a 53 percent limited partnership interest subject to certain limitations on voting rights and 100 percent of WEG GP LLC, Williams Energy Partners' sole general partner.

Williams Energy Partners" current asset portfolio includes:

- the Williams Pipe Line system, a 6,700 mile refined petroleum products pipeline system that serves the mid-continent region of the United States with 39 system terminals and 26 million barrels of storage;

- five petroleum products terminal facilities located along the Gulf Coast and near the New York harbor (marine terminals) with an aggregate storage capacity of approximately 18 million barrels;

- 23 petroleum products terminals located principally in the southeastern United States (inland terminals) with an aggregate storage capacity of five million barrels; and

- an 1,100-mile ammonia pipeline system that serves the mid-continent region of the United States.

REGULATORY AND ENVIRONMENTAL MATTERS

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

The Surface Transportation Board, a part of the United States Department of Transportation, has jurisdiction over interstate pipeline transportation of ammonia. Ammonia transportation rates must be reasonable, and a pipeline carrier may not unreasonably discriminate among its shippers. If the Surface Transportation Board finds that a carrier's rates violate these statutory commands, it may prescribe a reasonable rate. In determining a reasonable rate, the Surface Transportation Board will consider, among other factors, the effect of the rate on the volumes transported by that carrier, the carrier's revenue needs and the availability of other economic transportation alternatives.

COMPETITION

In certain markets, barges provide an alternative source for transporting refined products; however, pipelines are generally the lowest-cost alternative for refined product movements between different markets. As a result, the Williams Pipe Line system's most significant competitors are other pipelines that serve the same markets.

Williams Energy Partners experiences the greatest demand at its marine terminals when customers tend to store more product to take advantage of favorable pricing expected in the future. When the opposite market condition exists some companies choose not to store product or are less willing to enter into long-term storage contracts. The additional heating and blending services that Williams Energy Partners provides at its marine terminals attract additional demand for our storage services and result in increased revenue opportunities.

Several major and integrated oil companies have their own proprietary storage terminals along the Gulf Coast that are currently being used in their refining operations. If these companies choose to shut down their refining operations and elect to store and distribute refined petroleum products through their proprietary terminals, Williams Energy Partners would experience increased competition for the services that it provides. In addition, several companies have facilities in the Gulf Coast region and offer competing storage and distribution services.

OWNERSHIP OF PROPERTY

Williams Energy Partners owns its pipeline and terminalling assets. Its facilities are located on property owned, leased, licensed, or subject to right-of-way agreements.

PETROLEUM SERVICES

GENERAL

We completed a number of asset sales in the Petroleum Services segment during 2002 and early 2003. We regard the remaining assets within the Petroleum Services segment as non-strategic and substantially all of the remaining assets with the exception of our interest in Longhorn Partners pipeline will be sold in the near

future. Certain assets within the Petroleum Services segment, including the Alaska refinery and convenience stores, are pledged under our secured credit facilities.

The Petroleum Services segment currently owns and operates a petroleum products refinery and 29 convenience stores in Alaska and markets products related thereto. We have announced our intention to sell the Alaska refinery and related operations. In 2002, no one customer accounted for ten percent of Petroleum Services' total revenues.

We and our subsidiary, Longhorn Enterprises of Texas, Inc. (LETI), own a total 32.1 percent interest in Longhorn Partners Pipeline, LP, a joint venture formed to construct and operate a refined products pipeline from Houston, Texas, to El Paso, Texas. Pipeline construction is substantially complete and all regulatory and environmental approvals have been received. Operations are expected to commence by year-end 2003, once start-up financing is obtained. we have contributed a total of approximately $96 million and loaned approximately $139 million (including accrued interest of $21.5 million) to the joint venture. Williams Pipe Line Company, a subsidiary of Williams Energy Partners LP, has designed and constructed and will operate the pipeline.

On June 30, 2000, we purchased a 3.08 percent interest in TAPS and the Valdez Crude terminal in Alaska from Mobil Alaska Pipeline Company for $32.5 million. Petroleum Services' share of the crude oil deliveries for 2002 and 2001 was approximately 14.4 million barrels and 14.0 million barrels, respectively.

We also own Williams Bio-Energy L.L.C. that owns and operates an ethanol production plant in Pekin, Illinois, a 78.4 percent interest in another ethanol plant in Aurora, Nebraska, and have various agreements to market ethanol from third-party plants. On February 20, 2003, we announced a definitive agreement to sell our equity interest in Williams Bio-Energy L.L.C.

REFINING

Petroleum Services, through a subsidiary, owns and operates the North Pole, Alaska petroleum products refinery. The financial results of the North Pole refinery may be significantly impacted by changes in market prices for crude oil and refined products. Petroleum Services cannot predict the future of crude oil and product prices or their impact on its financial results. Due to our current credit situation, we must pre-pay for crude oil supply for our refinery operations. On June 18, 2002, we announced our intention to sell the Alaska refinery and related petroleum assets.

The North Pole Refinery includes the refinery located at North Pole, Alaska and a terminal facility at Anchorage, Alaska. The refinery, the largest in the state, is located approximately two miles from the TAPS, its supply point for crude oil. The refinery's processing capability is approximately 215,000 barrels per day. At maximum crude throughput, the refinery can produce up to 70,000 barrels per day of retained refined products. The refinery producers jet fuel, gasoline, diesel fuel, heating oil, fuel oil, naphtha and asphalt. These products are marketed in Alaska, western Canada and the Pacific Rim principally to wholesale, commercial, industrial and government customers and to Petroleum Services' retail petroleum group.

The North Pole Refinery processed and sold the following volumes per day:

2002	2001	2000
Barrels Processed and Sold (barrels).....		
63,400	61,705	58,109

The North Pole Refinery's crude oil is purchased from the state of Alaska or is purchased or received on exchanges from crude oil producers. The refinery has two long-term agreements with the state of Alaska for the purchase of royalty oil, both of which are scheduled to expire on December 31, 2003. The agreements permit the North Pole Refinery to purchase up to 56,000 barrels per day (approximately 80 percent of the refinery's supply needs for retained production) of the state's royalty share of crude oil produced from Prudhoe Bay, Alaska. These volumes, along with crude oil either purchased or received under exchange agreements from crude oil producers or other short-term supply agreements with the state of Alaska, are utilized as throughput for the refinery. Approximately 30 percent of the throughput is refined, retained and sold as

finished product and the remainder of the throughput is returned to the TAPS and either delivered to repay exchange obligations or sold.

RETAIL PETROLEUM

Petroleum Services, under the brand name "Williams Express," is engaged in the retail marketing of gasoline, diesel fuel, other petroleum products, convenience merchandise and fast food items. At December 31, 2002, the retail petroleum group operated 29 Williams Express convenience stores in Alaska. The convenience store sites are primarily concentrated in the vicinities of Anchorage and Fairbanks, Alaska. All of the motor fuel sold by Williams Express convenience stores is supplied either by exchanges or directly from the North Pole Refinery.

Convenience merchandise and fast food accounted for approximately 57 percent of the retail petroleum group's gross margins in 2002. Gasoline and diesel sales volumes for the periods indicated are noted below:

2002	2001	2000
Gasoline (thousands of gallons)		
40,049	44,248	45,917
Diesel (thousands of gallons)		
3,764	3,425	3,555

REGULATORY MATTERS

Environmental regulations and changing crude oil supply patterns continue to affect the refining industry. Environmental Protection Agency regulations, adopted pursuant to the Clean Air Act, require refiners to change the composition of fuel manufactured. A refiner's ability to respond to the effects of regulation and changing supply patterns will determine its ability to maintain and capture new market shares. We will continue to attempt to position ourself to respond to changing regulations and supply patterns but cannot predict how future changes in the marketplace will affect our market areas. Williams Alaska Petroleum (WAPI) is actively engaged in administrative litigation being conducted jointly by the FERC and the Regulatory Commission of Alaska concerning the TAPS Quality Bank. Primary issues being litigated include the appropriate valuation of the naphtha and residual product cuts within the TAPS crude stream as well as the appropriate retroactive effect of the determinations. WAPI's interest in these proceedings is material, but the outcome cannot be predicted with certainty nor can the likely result be quantified. See Note 16 to our Notes to Consolidated Financial Statements for further detail on the Quality Bank matter.

COMPETITION

Competition exists from other refineries, cargo shipments, railroads and tank trucks. Competition is affected by trades of products or crude oil production from other refineries that have access to the Alaska market and by trades among brokers, traders and others who control products. These trades can result in the diversion of volumes from the North Pole refinery that might otherwise be refined. The possible 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 refinery throughput.

The principal competitive forces affecting Petroleum Services' refining business are feedstock costs, refinery efficiency, refinery product mix and product distribution. Petroleum Services has no crude oil reserves and does not engage in crude oil exploration, and it must therefore obtain its crude oil requirements from unaffiliated sources. Petroleum Services believes that it will be able to obtain adequate crude oil and other feedstocks at generally competitive prices for the foreseeable future.

The principal competitive factors affecting Petroleum Services' retail petroleum business are location, product price and quality, appearance and cleanliness of stores and brand-name identification. Competition in the convenience store industry is intense.

OWNERSHIP OF PROPERTY

The North Pole refinery is located on land leased from the state of Alaska under a long-term lease scheduled to expire in 2005 and renewable at that time by us. The Anchorage, Alaska terminal is located on land leased from the Alaska Railroad Corporation under two long-term leases. Petroleum Services' management believes the condition and maintenance of its assets are adequate and sufficient for the conduct of its business.

ENVIRONMENTAL MATTERS

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

Petroleum Services and its subsidiaries also accrue environmental remediation costs for its refining and former retail petroleum operation primarily related to soil and groundwater contamination. In addition, Petroleum Services owns a discontinued petroleum refining facility that is being evaluated for potential remediation efforts. At December 31, 2002, Petroleum Services and its subsidiaries had accrued liabilities totaling approximately $9.6 million.

We have indemnified the purchaser of the Memphis refinery for certain environmental matters.

Petroleum Services is subject to various federal, state and local laws and regulations relating to environmental quality control. Management believes that Petroleum Services' operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings and competitive position of Petroleum Services. See Note 16 of our Notes to Consolidated Financial Statements for further details on legal and environmental matters.

ENVIRONMENTAL MATTERS

In addition to the environmental matters included in the business segment discussions above, a description of environmental claims is included in Note 16 of our Notes to Consolidated Financial Statements and is incorporated herein by reference.

EMPLOYEES

At March 14, 2003, we and our subsidiaries had approximately 7,300 full-time employees, of whom approximately 490 were represented by unions and covered by collective bargaining agreements. We expect further workforce reductions in 2003. Our employees are jointly employed by us and one of our subsidiaries. With the exception of the countrywide strike in Venezuela, we consider our relations with our employees to be generally good.

FORWARD LOOKING STATEMENTS/RISK FACTORS AND CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "continues," "estimates," "expects," "forecasts," "might," "planned," "potential," "projects," "scheduled" or similar expressions. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks that could cause future results to be materially different from the results stated or implied in this document. Events in 2002 significantly impacted the risk environment all businesses face and raised a level of uncertainty in the capital markets that has approached that which lead to the general market collapse of 1929. Beliefs and assumptions as to what constitutes appropriate levels of capitalization and fundamental value have changed abruptly. The collapse of Enron and the energy industry generally combined with the meltdown of the telecommunications industry are both new realities that have had and will likely continue to have specific impacts on all companies, including us.

RISK FACTORS

You should carefully consider the following risk factors in addition to the other information in this annual report. Each of these factors could adversely affect our business, operating results, and financial condition as well as adversely affect the value of an investment in our securities.

RISKS AFFECTING OUR STRATEGY AND FINANCING NEEDS

OUR STRATEGY TO STRENGTHEN OUR BALANCE SHEET AND IMPROVE LIQUIDITY DEPENDS ON OUR ABILITY TO DIVEST SUCCESSFULLY CERTAIN ASSETS.

On February 20, 2003, we announced our intention to sell an additional $2.25 billion in assets, properties and investments. At December 31, 2002, we had debt obligations of $3.8 billion (including certain contractual fees and deferred interest related to underlying debt) that will mature between now and March 2004. Because our cash flow from operations will be insufficient alone to repay all such debt and our access to capital markets is limited, in part as a result of the loss of our investment grade ratings, we will depend on our sales of assets to generate sufficient net cash proceeds to enable the payment of our maturing obligations.

Our secured credit facilities limit our ability to sell certain assets and require generally that one-half of all net proceeds from asset sales be applied (a) to repayment of certain long-term debt, (b) to cash collateralization of designated letters of credit, and (c) to reduction of the lender commitments under the secured facilities. The timing of and the net cash proceeds realized from such sales are dependent on locating and successfully negotiating sales with prospective buyers, regulatory approvals, industry conditions, and lender consents. If the realized cash proceeds are insufficient or are materially delayed, we might not have sufficient funds on hand to pay maturing indebtedness or to implement our strategy.

RECENT DEVELOPMENTS AFFECTING THE WHOLESALE POWER AND ENERGY TRADING INDUSTRY SECTOR HAVE REDUCED MARKET ACTIVITY AND LIQUIDITY AND MIGHT CONTINUE TO ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

As a result of the 2000-2001 energy crisis in California, the resulting collapse in energy merchant credit, the recent volatility in natural gas prices, the Enron Corporation bankruptcy filing, and investigations by governmental authorities into energy trading activities and increased litigation related to such inquiries, companies generally in the regulated and so-called unregulated utility businesses have been adversely affected.

These market factors have led to industry-wide downturns that have resulted in some companies being forced to exit from the energy trading markets, leading to a reduction in the number of trading partners and in market liquidity and announcements by us, other energy suppliers and gas pipeline companies of plans to sell large numbers of assets in order to boost liquidity and strengthen their balance sheets. Proposed and completed sales by other energy suppliers and gas pipeline companies could increase the supply of the type of assets we are attempting to sell and potentially lead either to our failing to execute such asset sales or our obtaining lower prices on completed asset sales. If either of these developments were to occur, our ability to realize our strategy of improving our liquidity and reducing our indebtedness through asset sales could be significantly hampered.

BECAUSE WE NO LONGER MAINTAIN INVESTMENT GRADE CREDIT RATINGS, OUR COUNTERPARTIES MIGHT REQUIRE US TO PROVIDE INCREASING AMOUNTS OF CREDIT SUPPORT WHICH WOULD RAISE OUR COST OF DOING BUSINESS.

Our transactions in each of our businesses, especially in our Energy Marketing & Trading business, will require greater credit assurances, both to be given from, and received by, us to satisfy credit support requirements. Additionally, certain market disruptions or a further downgrade of our credit rating might further increase our cost of borrowing or further impair our ability to access one or any of the capital markets. Such disruptions could include:

- further economic downturns;
- capital market conditions generally;
- market prices for electricity and natural gas;
- terrorist attacks or threatened attacks on our facilities or those of other energy companies; or
- the overall health of the energy industry, including the bankruptcy of energy companies.

RISKS RELATED TO OUR BUSINESS

ELECTRICITY, NATURAL GAS LIQUIDS AND GAS PRICES ARE VOLATILE AND THIS VOLATILITY COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS, CASH FLOWS, ACCESS TO CAPITAL AND ABILITY TO MAINTAIN EXISTING BUSINESSES.

Our revenues, operating results, profitability, future rate of growth and the carrying value of our electricity and gas businesses depend primarily upon the prices we receive for natural gas and other commodities. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital.

Historically, the markets for these commodities have been volatile and they are likely to continue to be volatile. Wide fluctuations in prices might result from relatively minor changes in the supply of and demand for these commodities, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of electricity natural gas petroleum, and relate commodities;
- weather conditions;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline capacity;
- the price and level of foreign imports;
- domestic and foreign governmental regulations and taxes;
- the overall economic environment; and
- the credit in the markets where products are bought and sold.

These factors and the volatility of the energy markets make it extremely difficult to predict future electricity and gas price movements with any certainty. Further, electricity and gas prices do not necessarily move in tandem.

WE MIGHT NOT BE ABLE TO SUCCESSFULLY MANAGE THE RISKS ASSOCIATED WITH SELLING AND MARKETING PRODUCTS IN THE WHOLESALE ENERGY MARKETS.

Our trading portfolios consist of wholesale contracts to buy and sell commodities, including contracts for electricity, natural gas, natural gas liquids and other commodities that are settled by the delivery of the commodity or cash throughout the United States. If the values of these contracts change in a direction or manner that we do not anticipate or cannot manage, we could realize material losses from our trading activities. In the past, certain marketing and trading companies have experienced severe financial problems

due to price volatility in the energy commodity markets. In certain instances this volatility has caused companies to be unable to deliver energy commodities that they had guaranteed under contract. In such event, we might incur additional losses to the extent of amounts, if any, already paid to, or received from, counterparties. In addition, in our businesses, we often extend credit to our counterparties. Despite performing credit analysis prior to extending credit, we are exposed to the risk that we might not be able to collect amounts owed to us. If the counterparty to such a financing transaction fails to perform and any collateral we have secured is inadequate, we will lose money.

If we are unable to perform under our energy agreements, we could be required to pay damages. These damages generally would be based on the difference between the market price to acquire replacement energy or energy services and the relevant contract price. Depending on price volatility in the wholesale energy markets, such damages could be significant.

OUR RISK MEASUREMENT AND HEDGING ACTIVITIES MIGHT NOT PREVENT LOSSES.

Although we have risk management systems in place that use various methodologies to quantify risk, these systems might not always be followed or might not always work as planned. Further, such risk measurement systems do not in themselves manage risk, and adverse changes in energy commodity market prices, volatility, adverse correlation of commodity prices, the liquidity of markets, and changes in interest rates might still adversely affect our earnings and cash flows and our balance sheet under applicable accounting rules, even if risks have been identified.

To lower our financial exposure related to commodity price and market fluctuations, we have entered into contracts to hedge certain risks associated with our assets and operations, including our long-term tolling agreements. In these hedging activities, we have used fixed-price, forward, physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges, as well as long-term structured transactions when feasible. Substantial declines in market liquidity, however, as well as deterioration, of our credit, and termination of existing positions (due for example to credit concerns) have greatly limited our ability to hedge risks identified and have caused previously hedged positions to become unhedged. To the extent we have unhedged positions, fluctuating commodity prices could cause our net revenues and net income to be volatile.

OUR OPERATING RESULTS MIGHT FLUCTUATE ON A SEASONAL AND QUARTERLY BASIS.

Revenues from our businesses, including gas transmission and the sale of electric power, can have seasonal characteristics. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, demand for power peaks during the winter. In addition, demand for gas and other fuels peaks during the winter. As a result, our overall operating results in the future might fluctuate substantially on a seasonal basis. The pattern of this fluctuation might change depending on the nature and location of our facilities and pipeline systems and the terms of our power sale agreements and gas transmission arrangements.

OUR INVESTMENTS AND PROJECTS LOCATED OUTSIDE OF THE UNITED STATES EXPOSE US TO RISKS RELATED TO LAWS OF OTHER COUNTRIES, TAXES, ECONOMIC CONDITIONS, FLUCTUATIONS IN CURRENCY RATES, POLITICAL CONDITIONS AND POLICIES OF FOREIGN GOVERNMENTS. THESE RISKS MIGHT DELAY OR REDUCE OUR REALIZATION OF VALUE FROM OUR INTERNATIONAL PROJECTS.

We currently own and might acquire and/or dispose of material energy-related investments and projects outside the United States. The economic and political conditions in certain countries where we have interests or in which we might explore development, acquisition or investment opportunities present risks of delays in construction and interruption of business, as well as risks of war, expropriation, nationalization, renegotiation, trade sanctions or nullification of existing contracts and changes in law or tax policy, that are greater than in the United States. The uncertainty of the legal environment in certain foreign countries in which we develop or acquire projects or make investments could make it more difficult to obtain non-recourse project or other financing on suitable terms, could adversely affect the ability of certain customers to honor their obligations

with respect to such projects or investments and could impair our ability to enforce our rights under agreements relating to such projects or investments.

Operations in foreign countries also can present currency exchange rate and convertibility, inflation and repatriation risk. In certain conditions under which we develop or acquire projects, or make investments, economic and monetary conditions and other factors could affect our ability to convert our earnings denominated in foreign currencies. In addition, risk from fluctuations in currency exchange rates can arise when our foreign subsidiaries expend or borrow funds in one type of currency but receive revenue in another. In such cases, an adverse change in exchange rates can reduce our ability to meet expenses, including debt service obligations. Foreign currency risk can also arise when the revenues received by our foreign subsidiaries are not in U.S. dollars. In such cases, a strengthening of the U.S. dollar could reduce the amount of cash and income we receive from these foreign subsidiaries. While we believe we have hedges and contracts in place to mitigate our most significant foreign currency exchange risks, our hedges might not be sufficient or we might have some exposures that are not hedged which could result in losses or volatility in our revenues.

RISKS RELATED TO LEGAL PROCEEDINGS AND GOVERNMENTAL INVESTIGATIONS

WE MIGHT BE ADVERSELY AFFECTED BY GOVERNMENTAL INVESTIGATIONS AND ANY RELATED LEGAL PROCEEDINGS RELATED TO THE ALLEGED CONDUCTING OF "ROUNDTRIP" TRADES BY OUR ENERGY TRADING BUSINESS.

Public and regulatory scrutiny of the energy industry and of the capital markets has resulted in increased regulation being either proposed or implemented. In particular, the activities of Enron Corporation and other energy traders in allegedly using "roundtrip" trades which involve the prearrangement of simultaneously executed and offsetting buy and sell trades for the purpose of increasing reported revenues or trading volumes, or influencing prices and which lack a legitimate business purpose, have resulted in increased public and regulatory scrutiny. To date, we have responded to requests for information from the FERC and the SEC, related to an investigation of "roundtrip" energy transactions from January 2000 to the present. We also have received and are responding to subpoenas and supplemental requests for information regarding gas and power trading activities from the Houston office of the U.S. Attorney relating to a Houston grand jury inquiry, which involve the same issues and time period covered by the SEC requests, and from the Commodity Futures Trading Commission (CFTC).

Such inquiries are ongoing and continue to adversely affect the energy trading business as a whole. We might see these adverse effects continue as a result of the uncertainty of these ongoing inquiries or additional inquiries by other federal or state regulatory agencies. In addition, we cannot predict the outcome of any of these inquiries, including the grand jury inquiry, or whether these inquiries will lead to additional legal proceedings against us, civil or criminal fines or penalties, or other regulatory action, including legislation, which might be materially adverse to the operation of our trading business and our trading revenues and net income or increase our operating costs in other ways.

WE MIGHT BE ADVERSELY AFFECTED BY GOVERNMENTAL INVESTIGATIONS RELATED TO PRICING INFORMATION THAT WE PROVIDED TO MARKET PUBLICATIONS.

On October 25, 2002, we disclosed that inaccurate pricing information had been provided to energy industry trade publications. This disclosure came as a result of an internal review conducted in conjunction with requests for information made by the FERC and the CFTC on energy trading practices. We had separately commenced a review of our historical survey publication data after another market participant announced in September 2002 that certain of its employees had provided inaccurate pricing data to publications. Later we received a subpoena from a federal grand jury regarding the same matters. We cannot predict the outcome of this investigation or whether this investigation will lead to additional legal proceedings against us, civil or criminal fines or penalties, or other regulatory action, including legislation, which MIGHT be materially adverse to the operation of our trading business and our trading revenues and net income or increase our operating costs in other ways.

WE MIGHT BE ADVERSELY AFFECTED BY OTHER LEGAL PROCEEDINGS AND GOVERNMENTAL INVESTIGATIONS RELATED TO THE ENERGY MARKETING AND TRADING BUSINESS.

Electricity and natural gas markets in California and elsewhere will continue to be subject to numerous and far-reaching federal and state proceedings and investigations because of allegations that wholesale price increases resulted from the exercise of market power and collusion of the power generators and sellers such as Energy Marketing & Trading. Discussions by governmental authorities and representatives in California and other states have ranged from threats of re-regulation to suspension of plans to move forward towards deregulation. The outcomes of these proceedings and investigations might directly or indirectly affect our creditworthiness and ability to perform our contractual obligations as well as other market participants' creditworthiness and their ability to perform of their contractual obligations.

RISKS RELATED TO THE REGULATION OF OUR BUSINESSES

OUR BUSINESSES ARE SUBJECT TO COMPLEX GOVERNMENT REGULATIONS. THE OPERATION OF OUR BUSINESSES MIGHT BE ADVERSELY AFFECTED BY CHANGES IN THESE REGULATIONS OR IN THEIR INTERPRETATION OR IMPLEMENTATION.

Existing regulations might be revised or reinterpreted, new laws and regulations might be adopted or become applicable to us or our facilities, and future changes in laws and regulations might have a detrimental effect on our business. Certain restructured markets have recently experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some of these markets, including California, proposals have been made by governmental agencies and other interested parties to re-regulate areas of these markets which have previously been deregulated. We cannot assure you that other proposals to re-regulate will not be made or that legislative or other attention to the electric power restructuring process will not cause the deregulation process to be delayed or reversed. If the current trend towards competitive restructuring of the wholesale and retail power markets is reversed, discontinued or delayed, our business models might be inaccurate and we might face difficulty in accessing capital to refinance our debt and funding for operating and generating revenues in accordance with our current business plans.

For example, in 2000, the FERC issued Order 637, which sets forth revisions to its policies governing the regulation of interstate natural gas pipelines that it finds necessary to adjust its current regulatory model to the needs of evolving markets. The FERC, however, determined that any fundamental changes to its regulatory policy will be considered after further study and evaluation of the evolving marketplace. Order 637 revised the FERC's pricing policy to waive through September 30, 2002 the maximum price ceilings for short-term releases of capacity of less than one year and to permit pipelines to file proposals to implement seasonal rates for short-term services and term-differentiated rates. Certain parties requested rehearing of Order 637 and eventually appealed certain issues to the District of Columbia Circuit Court of Appeals. The D.C. Circuit remanded as to certain issues, and on October 31, 2002, the FERC issued its order on remand. Rehearing requests for that order are now pending with the FERC. Given the extent of the FERC's regulatory power, we cannot give any assurance regarding the likely regulations under which we will operate our natural gas transmission and storage business in the future or the effect of regulation on our financial position and results of operations.

The FERC has proposed to broaden its regulations that restrict relations between our jurisdictional natural gas companies, or "jurisdictional companies," and our marketing affiliates. In addition, the proposed rules would limit communications between each of our jurisdictional companies and all of our other companies engaged in energy activities. The rulemaking is pending at the FERC and the precise scope and effect of the rule is unclear. If adopted as proposed, the rule could adversely affect our ability to coordinate and manage our energy activities.

OUR REVENUES MIGHT DECREASE IF WE ARE UNABLE TO GAIN ADEQUATE, RELIABLE AND AFFORDABLE ACCESS TO TRANSMISSION AND DISTRIBUTION ASSETS DUE TO THE FERC AND REGIONAL REGULATION OF WHOLESALE MARKET TRANSACTIONS FOR ELECTRICITY AND GAS.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we buy and sell in the wholesale market. If transmission is disrupted, if capacity is inadequate, or if credit requirements or rates of such utilities or energy companies are increased, our ability to sell and deliver products might be hindered. The FERC has issued power transmission regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, some companies have failed to provide fair and equal access to their transmission systems or have not provided sufficient transmission capacity to enable other companies to transmit electric power. We cannot predict whether and to what extent the industry will comply with these initiatives, or whether the regulations will fully accomplish the FERC'S objectives.

In addition, the independent system operators who oversee the transmission systems in regional power markets, such as California, have in the past been authorized to impose, and might continue to impose, price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms might adversely impact the profitability of our wholesale power marketing and trading. Given the extreme volatility and lack of meaningful long-term price history in many of these markets and the imposition of price limitations by regulators, independent system operators or other marker operators, we can offer no assurance that we will be able to operate profitably in all wholesale power markets.

THE DIFFERENT REGIONAL POWER MARKETS IN WHICH WE COMPETE OR WILL COMPETE IN THE FUTURE HAVE CHANGING REGULATORY STRUCTURES, WHICH COULD AFFECT OUR GROWTH AND PERFORMANCE IN THESE REGIONS.

Our results are likely to be affected by differences in the market and transmission regulatory structures in various regional power markets. Problems or delays that might arise in the formation and operation of new regional transmission organizations (RTOs) might restrict our ability to sell power produced by our generating capacity to certain markets if there is insufficient transmission capacity otherwise available. The rules governing the various regional power markets might also change from time to time which could affect our costs or revenues. Because it remains unclear which Companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets might have on our business.

Problems that might arise in the formation and operation of new RTOs might result in delayed or disputed collection of revenues. The rules governing the various regional power markets might also change from time to time which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets might have on our business.

OUR GAS SALES, TRANSMISSION, AND STORAGE OPERATIONS ARE SUBJECT TO GOVERNMENT REGULATIONS AND RATE PROCEEDINGS THAT COULD HAVE AN ADVERSE IMPACT ON OUR ABILITY TO RECOVER THE COSTS OF OPERATING OUR PIPELINE FACILITIES.

Our interstate gas sales, transmission, and storage operations conducted through our Gas Pipelines business are subject to the FERC's rules and regulations in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. The FERC's regulatory authority extends to:

- transportation and sale for resale of natural gas in interstate commerce;

- rates and charges;

- construction;

- acquisition, extension or abandonment of services or facilities;

- accounts and records;

- depreciation and amortization policies; and

- operating terms and conditions of service.

The FERC has taken certain actions to strengthen market forces in the natural gas pipeline industry that has led to increased competition throughout the industry. In a number of key markets, interstate pipelines are now facing competitive pressure from other major pipeline systems, enabling local distribution companies and end users to choose a transmission provider based on economic and other considerations.

RISKS RELATED TO ENVIRONMENTAL MATTERS

WE COULD INCUR MATERIAL LOSSES IF WE ARE HELD LIABLE FOR THE ENVIRONMENTAL CONDITION OF ANY OF OUR ASSETS.

We are generally responsible for all on-site liabilities associated with the environmental condition of our facilities and assets, which we have acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In addition, in connection with certain acquisitions and sales of assets, we might obtain, or be required to provide, indemnification against certain environmental liabilities. If we incur a material liability, or the other party to a transaction fails to meet its indemnification obligations to us, we could suffer material losses.

ENVIRONMENTAL REGULATION AND LIABILITY RELATING TO OUR BUSINESS WILL BE SUBJECT TO ENVIRONMENTAL LEGISLATION IN ALL JURISDICTIONS IN, WHICH IT OPERATES, AND ANY CHANGES IN SUCH LEGISLATION COULD NEGATIVELY AFFECT OUR RESULTS OF OPERATIONS.

Our operations are subject to extensive environmental regulation pursuant to a variety of federal, provincial, state and municipal laws and regulations. Such environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Existing environmental regulations could also be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. The federal government and several states recently have proposed increased environmental regulation of many industrial activities, including increased regulation of air quality, water quality and solid waste management.

Compliance with environmental legislation will require significant expenditures, including expenditures for compliance with the Clean Air Act and similar legislation, for clean up costs and damages arising out of contaminated properties, and for failure to comply with environmental legislation and regulations which might result in the imposition of fines and penalties. The steps we take to bring certain of our facilities into compliance could be prohibitively expensive, and we might be required to shut down or alter the operation of those facilities, which might cause us to incur losses.

Further, our regulatory rate structure and our contracts with clients might not necessarily allow us to recover capital costs we incur to comply with new environmental regulations. Also, we might not be able to obtain or maintain from time to time all required environmental regulatory approvals for certain development projects. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs. Should we fail to comply with all applicable environmental laws, we might be subject to penalties and fines imposed against us by regulatory authorities. Although we do not expect that the costs of complying with current environmental legislation will have a material adverse effect on our financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

RISKS RELATING TO ACCOUNTING POLICY

POTENTIAL CHANGES IN ACCOUNTING STANDARDS MIGHT CAUSE US TO REVISE OUR FINANCIAL DISCLOSURE IN THE FUTURE, WHICH MIGHT CHANGE THE WAY ANALYSTS MEASURE OUR BUSINESS OR FINANCIAL PERFORMANCE.

Recently discovered accounting irregularities in various industries have forced regulators and legislators to take a renewed look at accounting practices, financial disclosures, companies' relationships with their independent auditors and retirement plan practices. Because it is still unclear what laws or regulations will develop, we cannot predict the ultimate impact of any future changes in accounting regulations or practices in general with respect to public companies or the energy industry or in our operations specifically.

In addition, the Financial Accounting Standards Board (FASB) or the SEC could enact new accounting standards that might impact how we are required to record revenues, expenses, assets and liabilities. For instance, Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which we will implement effective on January 1, 2003, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate can be made. See Note 1 to our Consolidated Financial Statements for further details.

In October 2002, the FASBs Emerging Issues Task Force (EITF) reached consensus on Issue No. 02-03 deliberations and rescinded Issue No. 98-10. As a result, all energy trading contracts that do not meet the definition of a derivative under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," will be reported on an accrual basis.

We will initially apply the consensus effective January 1, 2003, and expect to record a reduction to net income of approximately $750 million to $800 million on an after-tax basis which will be reported as a cumulative effect of a change in accounting principle.

The accounting for Energy Marketing & Trading's energy-related contracts, which include contracts such as transportation, storage, load serving and tolling agreements, requires us to assess whether certain of these contracts are executory service arrangements or leases pursuant to SFAS No. 13, "Accounting for Leases." On January 23, 2003, the EITF reached a tentative consensus on Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," and directed the Working Group consider this Issue to further address certain matters, including transition. The March 14, 2003 report of the Working Group indicates the Working Group will support a prospective transition of this Issue, where the consensus could be applied to our arrangements consummated or substantively modified after the date of the final consensus.

Our preliminary review indicates that certain of our tolling agreements could be considered to be leases under the tentative consensus. Accordingly, if the EITF did not adopt a prospective transition and applied the consensus to existing arrangements there would be a significant negative impact to Williams' financial position and results of operations. Other future changes in accounting standards could lead to negative impacts on reported earnings or increases in liabilities, which in turn could affect our reported results of operations.

RISKS RELATING TO OUR INDUSTRY

THE LONG-TERM FINANCIAL CONDITION OF OUR U.S. AND CANADIAN NATURAL GAS TRANSMISSION AND MIDSTREAM BUSINESSES ARE DEPENDENT ON THE CONTINUED AVAILABILITY OF NATURAL GAS RESERVES.

The development of additional natural gas reserves requires significant capital expenditures by others for exploration and development drilling and the installation of production, gathering, storage, transportation and other facilities that permit natural gas to be produced and delivered to our pipeline systems. Low prices for natural gas, regulatory limitations, or the lack of available capital for these projects could adversely affect the development of additional reserves and production, gathering, storage and pipeline transmission and import and export of natural gas supplies. Additional natural gas reserves might not be developed in commercial quantities and in sufficient amounts to fill the capacities of our gathering and processing pipeline facilities.

OUR GATHERING, PROCESSING AND TRANSPORTING ACTIVITIES INVOLVE NUMEROUS RISKS THAT MIGHT RESULT IN ACCIDENTS AND OTHER OPERATING RISKS AND COSTS.

There are inherent in our gas gathering, processing and transporting properties a variety of hazards and operating risks, such as leaks, explosions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The occurrence of any of these events not fully covered by insurance could have a material adverse effect on our financial position and results of operations. The location of pipelines near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks.

OTHER RISKS

RECENT TERRORIST ACTIVITIES AND THE POTENTIAL FOR MILITARY AND OTHER ACTIONS COULD ADVERSELY AFFECT OUR BUSINESS.

The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies might lead to increased political, economic and financial market instability and volatility in prices for natural gas, which could affect the market for our gas operations. In addition, future acts of terrorism could be directed against companies operating in the United States, and it has been reported that terrorists might be targeting domestic energy facilities. While we are taking steps that we believe are appropriate to increase the security of our energy assets, there is no assurance that we can completely secure our assets or to completely protect them against a terrorist attack. These developments have subjected our operations to increased risks and, depending on their ultimate magnitude, could have a material adverse effect on our business. In particular, we might experience increased capital or operating costs to implement increased security for our energy assets.

The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks that we and our competitors typically insure against might decrease. In addition, the insurance that we are able to obtain might have higher deductibles, higher premiums and more restrictive policy terms.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

See Note 19 of our Notes to Consolidated Financial Statements for amounts of revenues during the last two fiscal years from external customers attributable to the United States and all foreign countries. See Note 19 of our Notes to Consolidated Financial Statements for information relating to long-lived assets during the last three fiscal years, other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights and deferred policy acquisition costs, located in the United States and all foreign countries. See Item 1 -- Forward Looking Statements/Risk Factors and Cautionary Statement for a description of the risks attendant to our foreign operations and any dependence on one or more of our segments upon such foreign operations.

ITEM 3. LEGAL PROCEEDINGS

For information regarding certain proceedings pending before federal regulatory agencies, see Note 16 of our Notes to Consolidated Financial Statements. We are also subject to other ordinary routine litigation incidental to our businesses.

ENVIRONMENTAL MATTERS

Since 1989, Texas Gas and Transco 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. Transco 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, 2002, these subsidiaries had accrued liabilities totaling approximately $31 million for these costs related to these sites.

Certain of our subsidiaries, including Texas Gas and Transco 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, we do not believe that these obligations or the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transco and Texas Gas have identified polychlorinated biphenyl contamination in compressor systems, soils and related properties at certain compressor station sites. Transco and Texas Gas have entered into consent orders with the EPA and state agencies to develop screening, sampling and cleanup programs. As of December 31, 2002, much of the work required by such consent orders had been completed. 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 Texas Gas and Transco. 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.

In addition to our gas pipelines, we have also accrued environmental remediation costs for our natural gas gathering and processing facilities, petroleum products pipelines, retail petroleum and refining operations and for certain facilities related to former propane marketing operations primarily related to soil and groundwater contamination. In 2002, an arbitrator determined that our subsidiary must pay $2.8 million in damages to the purchaser of certain marketing facilities. Settlement discussions with that purchaser have commenced. In addition, we own a discontinued petroleum refining facility that is being evaluated for potential remediation efforts. At December 31, 2002, Midstream Gas & Liquids and Petroleum Services had accrued liabilities totaling approximately $51 million for these cost. We accrue receivables related to environmental remediation costs based upon an estimate of amounts that will be reimbursed from state funds for certain expenses associated with underground storage tank problems and repairs. At December 31, 2002, we have accrued receivables totaling $1 million.

In connection with the 1987 sale of the assets of Agrico Chemical Company, we agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. At December 31, 2002, we had approximately $9 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.

On July 2, 2001, the EPA issued an information request asking for information on oil releases and discharges in any amount from our pipelines, pipeline systems and pipeline facilities used in the movement of oil or petroleum products, during the period July 1, 1998, through July 2, 2001. In November 2001, we furnished our response.

In 2002, Williams Refining & Marketing, LLC (Williams Refining) submitted to the EPA a self-disclosure letter indicating noncompliance with the EPA's benzene waste "NESHAP" regulations. This unintentional noncompliance had occurred due to a regulatory interpretation that resulted in under-counting the total annual benzene level at the Memphis refinery. Also in 2002, the EPA conducted an all-media audit of the Memphis refinery. The EPA anticipates releasing a report of its audit findings in mid-2003. The EPA will likely assess a penalty on Williams Refining due to the benzene waste NESHAP issue, but the amount of any such penalty is not known. On March 4, 2003, we completed the sale of the Memphis refinery. We are obligated to indemnify the purchaser for any such penalty.

In 2002, the Memphis/Selby County Health Department (MSCHD) assessed a $100,000 penalty on Williams Refining due to a four-day period in 2001 within which Williams Refining allegedly released excess emissions of sulfur dioxide. Negotiations with the MSCHD are ongoing.

In 2002, Williams Field Services Company (WFSC) submitted to the Oklahoma Department of Environmental Quality (ODEQ) with a WFSC gas processing facility's air permit. This unintentional noncompliance had occurred due to operational difficulties with the facility's flare. WFSC is in negotiations with ODEQ, and the amount of any penalty that ODEQ may assess to WFSC is not known.

OTHER LEGAL MATTERS

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, our subsidiaries Transco and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. As a result of such settlements, Transco has been sued by certain producers seeking indemnification from Transco. Transco is currently defending two lawsuits in which producers have asserted damages, including interest calculated through December 31, 2002, of approximately $18 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 Transco 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 FERC Order 528.

On June 8, 2001, 14 of our entities were named as defendants in a nationwide class action lawsuit which has been pending against other defendants, generally pipeline and gathering companies, for more than one year. The plaintiffs allege that the defendants, including the Williams defendants, have engaged in mismeasurement techniques that distort the heating content of natural gas, resulting in an alleged underpayment of royalties to the class of producer plaintiffs. In September 2001, the plaintiffs voluntarily dismissed two of the 14 Williams entities named as defendants. In January 2002, most of the Williams defendants, along with a group of Coordinating Defendants, filed a motion to dismiss for lack of personal jurisdiction. On August 19, 2002, the defendants' motion to dismiss on non-jurisdictional grounds was denied. In the fourth quarter 2002, the plaintiffs moved for certification of a plaintiffs' class. The Williams entities joined with other defendants in contesting certification of the class.

In 1998, the DOJ informed us that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against us and certain of our wholly-owned subsidiaries including Central, Kern River, Northwest Pipeline, WGP, Transco, Texas Gas, WFS and Williams Production Company. Mr. Grynberg has also filed claims against approximately 300 other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, a civil penalty, attorneys' fees, and costs. On April 9, 1999, the DOJ announced that it was declining to intervene in any of the Grynberg qui tam cases, including the action filed against our entities in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred all of the Grynberg qui tam cases, including those filed against us, to the United States District Court for the District of Wyoming for pre-trial purposes. In October 2002, the court granted the United States' motion to dismiss Grynberg's royalty valuation claims. Grynberg's measurement claims are not affected by the dismissal.

Between November 2000 and May 2001, class actions were filed on behalf of California electric ratepayers against California power generators and traders including Energy Marketing & Trading. These lawsuits concern the increase in power prices in California during the summer of 2000 through the winter of 2000-01. The suits claim that the defendants acted to manipulate prices in violation of the California antitrust and business practice statutes and other state and federal laws. Plaintiffs are seeking injunctive relief as well as restitution, disgorgement, appointment of a receiver, and damages, including treble damages. These cases have been consolidated before the San Diego County Superior Court. As part of a comprehensive settlement with the state of California and other parties, we and the plaintiffs in these suits have resolved these claims. While the settlement is final as to the state of California, it must still be approved by the San Diego Superior Court

as to the ratepayer plaintiffs. Numerous other federal investigations regarding California power prices are also underway that involve Energy Marketing & Trading.

Since January 29, 2002, numerous shareholder class action suits have been filed in the United States District Court for the Northern District of Oklahoma. The majority of the suits allege that we and our co-defendants, Williams Communications and certain corporate officers and directors, acted jointly and separately to inflate the stock price of both companies. Other suits allege similar causes of action related to a public offering in early January 2002, known as the FELINE PACS offering. This case was filed against us, certain of our corporate officers, all members of our board of directors and all of the offerings' underwriters. In addition, in 2002 class action complaints were filed in the United States District Court for the Northern District of Oklahoma against us and the members of our board of directors under the Employee Retirement Income Security Act by participants in our 401(k) plan based on similar allegations. We and other defendants have filed motions to dismiss each of these suits. Oral argument on the motions will be held in April 2003.

Our subsidiary Williams Alaska Petroleum (WAPI) is actively engaged in administrative litigation being conducted jointly by the FERC and the Regulatory Commission of Alaska concerning the Trans-Alaska Pipeline System (TAPS) Quality Bank. Primary issues being litigated include the appropriate valuation of the naphtha, heavy distillate, vacuum gas oil and residual product cuts within the TAPS Quality Bank as well as the appropriate retroactive effects of the determinations. WAPI's interest in these proceedings is material as the matter involves claims by crude producers and the State of Alaska for retroactive payments plus interest from WAPI in the range of $150 million to $200 million in aggregate. Because of the complexity of the issues involved, however, the outcome cannot be predicted within certainty nor can the likely result be quantified.

SUMMARY

While no assurances may be given, we, based on advice of counsel, do 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 our future financial position, results of operations or cash flow requirements.

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

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, period of service, and title of each of the executive officers of Williams as of February 28, 2003, are listed below.

ALAN S. ARMSTRONG.....	Senior Vice President, Midstream Gas & Liquids Age: 40 Position held since February 2002 From 1999 to February 2002, Mr. Armstrong was Vice President, Gathering and Processing for Midstream. From 1998 to 1999 he was Vice President, Commercial Development for Midstream Gas & Liquids.
JAMES J. BENDER.....	Senior Vice President and General Counsel Age 46 Position held since December 16, 2002 Prior to joining Williams, Mr. Bender was Senior Vice President and General Counsel with NRG Energy, Inc., a position held since June 2000, prior to which he had been Vice President, General Counsel and Secretary of NRG Energy Inc. since June 1997.

GARY R. BELITZ.....	Acting Chief Financial Officer, Controller and Chief Accounting Officer Age: 53 Position Held since December 2002 Mr. Belitz was named Acting Chief Financial Officer on December 31, 2002. Prior to that, he has been Controller of the Company since January 1, 1992 and Chief Accounting Officer since May 1994.
RALPH A. HILL.....	Senior Vice President, Exploration and Production Age: 43 Position held since December 1998 Mr. Hill was vice president of the exploration and productions unit from 1993 to 1998.
WILLIAM E. HOBBS.....	Senior Vice President, Energy Marketing & Trading Age: 43 Position held since October 2002 From February 2000 to October 2002, Mr. Hobbs was President and Chief Executive Officer of Williams Energy Marketing & Trading. From 1997 to February 2000, he served as a Vice President of various Williams subsidiaries.
MICHAEL P. JOHNSON, SR.....	Senior Vice President, Strategic Services and Administration Age: 55 Position held since April 1999 Mr. Johnson was named Senior Vice President of Human Resources and Administration for Williams in April 1999. Prior to joining Williams in December 1998, he held officer level positions, such as Vice President of Human Resources, Vice President for Corporate People Strategies, and Vice President Human Resource Services, for Amoco Corporation from 1991-1998.
STEVEN J. MALCOLM.....	Chief Executive Officer and President of Williams Age: 54 Position held since September 21, 2001 Mr. Malcolm was elected Chief Executive Officer of Williams in January 2002 and Chairman of the Board in May 2002. He was elected President and Chief Operating Officer of Williams in September 2001. Prior to that, he was an Executive Vice President of Williams since May 2001, President and Chief Executive Officer of Williams Energy Services, LLC, a subsidiary of Williams, since December 1998 and the Senior Vice President and General Manager of Williams Field Services Company, a subsidiary of Williams, since November 1994.
J. DOUGLAS WHISENANT.....	Senior Vice President, Gas Pipeline Age: 56 Position held since October 2002 From December 2001 to October 2002, Mr. Whisenant was President of Williams Gas Pipeline, a subsidiary of the Company. Prior to that, he served as Senior Vice President and General Manager of Williams Gas Pipeline -- West from 1997 to December 2001.
MARK D. WILSON.....	Senior Vice President, Corporate Development & Planning Age: 36 Position held since October 2002 Mr. Wilson was Vice President of Corporate Development for Williams from December 2000 to October 2002. Prior to joining Williams, Mr. Wilson served as Senior Vice President -- Corporate Development for Koch Petroleum Group at Koch Industries from 1997 to 2000. From 1992 to 1997, he served as a management consultant to the energy industry at Arthur D. Little, Inc. and Booz-Allen & Hamilton, Inc. where he led teams in mergers and acquisitions, strategy development, change management and process improvement.

PHILLIP D. WRIGHT..... Senior Vice President and Chief Restructuring Officer
Age: 47
Position held since October 2002
From September 2001 to October 2002, Mr. Wright served as President and Chief Executive Officer of Williams Energy Services. From 1996 until September 2001, he was Senior Vice President, Enterprise Development and Planning for Williams' energy services group. Mr. Wright has held various positions within Williams since 1989.

PART II

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

Our common stock is listed on the New York Stock Exchange and Pacific Stock Exchanges under the symbol "WMB." At the close of business on March 14, 2003, we had approximately 14,590 holders of record of our common stock and approximately 175,000 beneficial owners that hold in street name. The high and low closing sales price ranges (composite transactions) and dividends declared by quarter for each of the past two years are as follows:

	2002			2001		
QUARTER	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
1st	$25.97	$14.53	$.20	$45.90	$34.56	$.15
2nd	$24.17	$ 5.47	$.20	$43.55	$32.40	$.15
3rd	$ 6.32	$ 0.88	$.01	$33.97	$24.99	$.18
4th	$ 3.06	$ 1.35	$.01	$30.43	$22.10	$.20

Some of our subsidiaries' borrowing arrangements limit transfer of funds to us. These terms have not impeded, nor are they expected to impede, our ability to pay dividends. However, our secured credit facility currently prohibits us from paying cash dividends on common stock in excess of $6,250,000 per fiscal quarter.

Preferred Stock Issuance:

Securities:	On March 7, 2002, we sold 1,466,667 shares of 9 7/8% Cumulative Convertible Preferred Stock (9 7/8% Preferred Stock), par value $1.00 per share.
Purchaser:	MEHC Investment, Inc.
Consideration:	$187.50 per share less fees of $2,750,000.
Terms of conversion:	Each share of 9 7/8% Preferred Stock may be converted at any time, at the option of the holder into the number of fully-paid and non-assessable shares of common stock obtained by dividing the Stated Value (originally $187.50 per share) by the Conversion Price then in effect (originally $18.75 per share). On or after March 27, 2017, we may, by giving notice to the holders of the 9 7/8% Preferred Stock, convert each share of 9 7/8% Preferred Stock held by such holder into the number of shares of common stock equal to the Stated Value plus all accrued and unpaid dividends to the date of conversion divided by the Conversion Price then in effect; provided that in order to be allowed to exercise this right to compel mandatory conversion, the average of the last reported closing prices for the common stock for the 20 day period ending not more than 10 days prior to the date of

	the giving of the mandatory notice must be greater than 128% of the Conversion Price then in effect.
Exemption from Registration Claimed:	We claim exemption from registration under Section 4(2) of the Securities Act of 1933 as a private placement.

ITEM 6. SELECTED FINANCIAL DATA

The following financial data as of December 31, 2002 and 2001 and for the three years ended December 31, 2002 are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. All other amounts have been prepared from the Company's financial records. Certain amounts below have been restated or reclassified (see Note 1 of Notes to Consolidated Financial Statements in Item 8). Information concerning significant trends in the financial condition and results of operations is contained in Management's Discussion & Analysis of Financial Condition and Results of Operations of this report.

2002	2001	2000	1999	1998
(MILLIONS, EXCEPT PER-SHARE AMOUNTS)				
Revenues	$ 5,608.4	$ 7,065.5	$ 6,559.3	$ 4,811.7	$ 4,232.2
Income (loss) from continuing operations(1)	(501.5)	802.7	820.4	233.1	125.8
Income (loss) from discontinued operations(2)	(253.2)	(1,280.4)	(296.1)	(76.9)	1.3
Extraordinary gain (loss) (3)	--	--	--	65.2	(4.8)
Diluted earnings (loss) per common share: Income (loss) from continuing operations	(1.14)	1.61	1.83	.52	.28
Loss from discontinued operations	(2.56)	(.66)	(.17)	--	
Extraordinary gain (loss)	--	--	--	.15	(.01)
Total assets at December 31	34,988.5	38,614.2	34,776.6	21,682.1	17,900.2
Short-term notes payable and long-term debt due within one year	2,017.6	2,423.9	3,195.2	1,525.1	1,270.7
Long-term debt at December 31	11,896.4	8,692.7	6,504.3	6,438.5	5,690.2
Preferred interests in consolidated subsidiaries at December 31	--	976.4	877.9	335.1	335.1
Williams obligated mandatorily redeemable preferred securities of Trust at December 31	--	--	189.9	175.5	--
Stockholders' equity at December 31(4)	5,049.0	6,044.0	5,892.0	5,585.2	4,257.4
Cash dividends per common share	.42	.68	.60	.60	.60

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(1) See Note 3 of Notes to Consolidated Financial Statements for discussion of write-downs of certain assets related to Williams Communications Group, Inc. (WCG) in 2002 and 2001 and see Note 4 of Notes to Consolidated Financial Statements for discussion of asset sales, impairments and other accruals in 2002, 2001 and 2000.

(2) See Note 2 of Notes to Consolidated Financial Statements for the discussion of the 2002, 2001 and 2000 losses from discontinued operations. The income (loss) from discontinued operations for 1999 and 1998 relates to the operations of WCG, Kern River Gas Transmission, Williams Gas Pipelines Central, the Colorado soda ash mining operations, Mid-America and Seminole pipelines, retail travel centers, bio-energy operations and Midsouth refinery.

(3) The extraordinary gain for 1999 relates to the sale of Williams' retail propane business, Thermogas L.L.C. The extraordinary loss for 1998 relates to redemption of higher interest rate debt.

(4) Stockholders' equity for 2001 includes the January 2001 common stock issuance (see Note 13), the issuance of common stock for the Barrett acquisition and the impact to Williams of the WCG spinoff (see Note 2). Stockholders' equity for 1999 includes the issuance of WCG's common stock.

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

OVERVIEW OF THE YEAR 2002

In 2002, Williams faced many challenges including credit and liquidity constraints following the deterioration of our energy industry sector in the wake of the Enron collapse and the assumption of payment obligations and performance on guarantees associated with its former telecommunications subsidiary, Williams Communications Group, Inc. (WCG). With the deterioration of the energy industry, the credit rating agencies' requirements for investment grade companies became more stringent. Williams' credit rating was lowered below an investment grade rating in the middle of 2002. During 2002 and more recently, Williams has sold a significant amount of assets and/or businesses and outlined plans to sell more assets to satisfy maturing debt obligations and strengthen its short-term liquidity position. In regards to the short-term, Williams, at December 31, 2002, has maturing notes payable and long-term debt totaling approximately $3.8 billion (which includes certain contractual fees and deferred interest associated with an underlying debt) through the first quarter of 2004. The following discussion outlines in more detail the events of 2002 through the filing of this Form 10-K and the challenges facing the company.

During December 2001 and first-quarter 2002, Williams announced plans to strengthen its balance sheet and support retention of its investment grade ratings. The plans included reducing capital expenditures during the balance of 2002, future sales of assets to generate proceeds to be used to reduce outstanding debt and the lowering of expenses, in part through an enhanced-benefit early retirement program which concluded during the second quarter. Towards these plans and in satisfaction of continued liquidity demands, Williams completed debt issuances and sold one of its regulated interstate pipelines. In addition, the company completed a consent agreement on behalf of the WCG obligations that precluded immediate performance by Williams in the event of a bankruptcy filing by WCG. In addition, the plan included the elimination of certain "ratings triggers" that would give rise to options to put or accelerate debt or cause redemption of preferred interests. Exposure to these ratings triggers was removed by the third quarter of 2002. Williams also had exposure to ratings triggers through certain contracts of Energy Marketing & Trading which are discussed under Credit Ratings within Financial Condition and Liquidity.

During the second quarter of 2002, Williams experienced liquidity constraints, the effect of which limited Energy Marketing & Trading's ability to manage market risk and exercise hedging strategies as market liquidity deteriorated. During May 2002, major rating agencies lowered their credit ratings on Williams' unsecured long-term debt; however, the ratings remained investment grade for the balance of the second quarter. Williams announced it was expanding the scope of its plan to preserve its investment grade ratings, which included its intentions to offer for sale its two refineries and related assets, further reduce capital expenditures, scale back the operations of its Energy Marketing & Trading business and reduce its work force accordingly.

Williams experienced a substantial net loss for the second quarter of 2002. The loss primarily resulted from a decline in Energy Marketing & Trading's results and reflected a significant decline in the forward mark-to-market value of its portfolio, the costs associated with terminated power projects, and the partial impairment of goodwill reflecting a decline in fair value from the deteriorating energy merchant market conditions. Williams also recognized asset impairments and cost write-offs of certain of its assets, in large part a result of asset sale considerations and terminated projects reflecting a reduced capital expenditure program. In addition, the board of directors reduced the common stock dividend for the third quarter from the prior level of $.20 per share to $.01 per share. In July 2002, the major rating agencies downgraded Williams' unsecured long-term debt credit ratings to below investment grade, reflecting the uncertainty associated with the trading business, short-term cash requirements facing Williams and the increased level of debt the company had incurred to meet the WCG payment obligations and guarantees. Concurrent with these events, Williams was unable to complete a renewal of its unsecured short-term bank facility which expired on July 24, 2002. Subsequently, Williams and a subsidiary obtained two secured facilities totaling $1.3 billion, including a letter of credit facility for $400 million and a $900 million short-term loan (RMT note payable), and amended its existing revolving credit facility, which expires July 2005, to make it secured. These facilities include pledges of certain assets and contain financial ratios and other covenants that must be maintained (see

Note 11 of Notes to Consolidated Financial Statements). Included in these covenants are provisions that limit the ability to incur future indebtedness, pledge assets and pay dividends on common stock. In addition, debt and related commitments from banks must be reduced based on proceeds of asset sales and minimum levels of required current and future liquidity were established. If such provisions of these facilities are not adhered to, then Williams' lenders can declare all amounts outstanding to be immediately due and payable.

Also following the credit rating downgrade and in response to a potential liquidity shortfall, Williams sold certain exploration and production properties and substantially all of its natural gas liquids pipeline systems, receiving net cash proceeds of approximately $1.5 billion and resulting in gains on sales of $443 million ($302 million of which is reflected in discontinued operations). These actions, combined with the RMT note payable noted previously, provided proceeds to meet notes payable maturities. Williams also sold certain liquified natural gas assets for approximately $229 million, its 27 percent ownership interest in a Lithuanian refinery, pipeline and terminal investment for $85 million and its $75 million note receivable from the Lithuanian investment for face value. These transactions closed in September. Additionally in 2002, Williams' board of directors had approved for sale the Central natural gas pipeline unit, the soda ash mining operations, the Memphis refinery, bio-energy operations and the travel centers. The sale of Central closed in November 2002. The sales of the travel centers for $190 million before debt repayments and the Memphis refinery for $455 million were completed in February and March 2003, respectively. The remaining assets are expected to be sold in the first half of 2003. Concurrent with Williams' strategy of selling assets to reduce debt, reviews for impairment were performed on assets that were being considered for possible sale, including an assessment of the more likely than not probabilities of sale for each asset. The impairment reviews are updated to incorporate new information obtained through the maturation of the assets sales process or closing of a sale. Impairments and losses totaling $814 million on completed transactions and certain assets held for sale, are reported in discontinued operations for 2002 and an additional $378 million of impairments or guarantee loss accruals are reported in continuing operations for 2002. These impairments reflected management's estimate of the fair value of these assets based on information available at the time of the respective reviews.

OUTLOOK FOR 2003

On February 20, 2003, Williams outlined its planned business strategy for the next several years and believes it to be a comprehensive response to the events which have impacted the energy sector and Williams during 2002. The plan focuses on retaining a strong, but smaller, portfolio of natural-gas businesses and bolstering Williams' liquidity through more asset sales, limited levels of financing at the subsidiary level and additional reductions in its operating costs. The plan is designed to provide Williams with a clear strategy to address near-term and medium-term liquidity issues and further de-leverage the company with the objective of returning to investment grade status by 2005, while retaining businesses with favorable returns and opportunities for growth in the future. As part of this plan, Williams expects to generate proceeds, net of related debt, of nearly $4 billion from asset sales during 2003, including approximately $2.25 billion in newly announced offerings combined with those assets already under contract or in negotiations for sale. Newly announced offerings include the Texas Gas pipeline system, Williams' investment in Williams Energy Partners, and certain properties and assets within Exploration & Production and Midstream Gas & Liquids. The specific assets and the timing of such sales are dependent on various factors, including negotiations with prospective buyers, regulatory approvals, industry conditions, lender consents to sales of collateral and the short- and long-term liquidity requirements of Williams. While management believes it has considered all relevant information in assessing for potential impairments, the ultimate sales price for assets that may be sold and the final decisions in the future may result in additional impairments or losses and/or gains.

FACTORS AFFECTING WILLIAMS' BUSINESS

During 2002, the operating results of Energy Marketing & Trading were adversely affected by several factors, including Williams' overall liquidity and credit ratings which impacted Energy Marketing & Trading's ability to enter into price risk management and hedging activities. The credit rating downgrades in 2002 also triggered certain Energy Marketing & Trading contractual provisions that require Williams to provide counterparties with adequate assurance, margin, credit enhancement, or credit replacement. See the Liquidity

section for further discussion of what amounts Williams and Energy Marketing & Trading have provided. During the later half of 2002, several companies in the energy trading sector announced that they are either reducing commitments to, or exiting altogether, the energy trading business. These market conditions plus the unwillingness of existing counterparties and new entrants to the sector to enter into new business with Energy Marketing & Trading will continue to affect results in the future and could result in additional operating losses. Additionally, on October 25, 2002, the Emerging Issues Task Force (EITF) concluded in Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," to rescind Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," under which non-derivative energy trading contracts were previously marked-to-market. As a result, a substantial portion of the Energy Marketing & Trading activities previously required to be reported on a fair value basis must now be reflected under the accrual method of accounting beginning January 1, 2003 (see Note 1).

Williams continues its efforts to reduce the risk and liquidity impact of Energy Marketing & Trading on Williams. Part of these efforts includes the announced sale of certain portions of its trading portfolio, liquidation of certain trading positions and negotiations with parties for a joint venture or sale of all or a large portion of the trading portfolio. It is possible that Williams, in order to generate levels of liquidity that are needed in the future, would be willing to accept amounts for all or a portion or its entire portfolio that are less than its carrying value at December 31, 2002. Although the results of these negotiations could reduce the presence of the trading business, Energy Marketing & Trading will continue to be operated to meet the commitments of its remaining short- and long-term contracts.

At December 31, 2002, Williams has maturing notes payable and long-term debt totaling approximately $3.8 billion (which includes certain contractual fees and deferred interest associated with an underlying debt) through the first quarter of 2004. The Company's available liquidity to meet these requirements and fund a reduced level of capital expenditures will be dependent on several factors, including the cash flows of retained businesses, the amount of proceeds raised from the sale of assets previously mentioned and the price of natural gas. Future cash flows from operations may also be affected by the timing and nature of the sale of assets. Because of recent asset sales, anticipated asset sales and available secured credit facilities, Williams currently believes that it has the financial resources and liquidity to meet future cash requirements through the first quarter of 2004. In the event that Williams' financial condition does not improve or becomes worse, or if it fails to complete asset sales and reduce its commitment to its Energy Marketing & Trading business, Williams may have to consider other options including the possibility of seeking protection in a bankruptcy proceeding.

GENERAL

As a result of assets sales approved or closed during 2002 and in accordance with the provisions related to discontinued operations within Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the following components have been reported as discontinued operations (see Note 2):

- Kern River Gas Transmission (Kern River), previously one of Gas Pipeline's segments

- Central natural gas pipeline, previously one of Gas Pipeline's segments

- Colorado soda ash mining operations, part of the previously reported International segment

- Two natural gas liquids pipeline systems, Mid-American Pipeline and Seminole Pipeline, previously part of the Midstream Gas & Liquids segment

- Refining and marketing operations in the Midsouth, including the Midsouth refinery, previously part of the Petroleum Services segment

- Retail travel centers concentrated in the Midsouth, previously part of the Petroleum Services segment

- Bio-energy operations, previously part of the Petroleum Services segment

On March 30, 2001, the board of directors of Williams approved a tax-free spinoff of Williams' communications business, WCG, to Williams' shareholders. On April 23, 2001, Williams distributed 398.5 million shares, or approximately 95 percent of the WCG common stock held by Williams, to holders of record of Williams common stock. As a result, the consolidated financial statements reflect WCG as discontinued operations.

Unless otherwise indicated, the following discussion and analysis of results of operations, financial condition and liquidity relates to the continuing operations of Williams and should be read in conjunction with the consolidated financial statements and notes thereto included within Item 8. All prior period information has been restated to reflect these changes.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and assumptions. The selection of these has been discussed with the company's Audit Committee and the Audit Committee has reviewed the disclosures that follow. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Revenue Recognition -- Gas Pipeline

Most of Gas Pipeline's businesses are regulated by the Federal Energy Regulatory Commission (FERC). The FERC regulatory processes and procedures govern the tariff rates that the Gas Pipeline subsidiaries are permitted to charge customers for natural gas sales and services, including the interstate transportation and storage of natural gas. Accordingly, certain revenues are collected by Gas Pipeline which may be subject to refunds upon final orders in rate cases with the FERC. In recording estimates of refund obligations, Gas Pipeline takes into consideration Gas Pipeline's and other third-parties' regulatory proceedings, advice of counsel and estimated total exposure, as discounted and risk weighted, as well as collection and other risks. At December 31, 2002, approximately $9 million was recorded as subject to refund, reflecting management's estimate of amounts invoiced to customers that may ultimately require refunding. This balance is associated entirely with one of Williams' gas pipelines as there are no significant rate proceedings currently pending for the other pipelines. During 2002, rate refund liability accruals were reduced by $87 million as a result of settlements of regulatory proceedings including amounts refunded to customers. From time to time, certain of the Gas Pipeline subsidiaries are involved in rate case proceedings. Depending on the results of these proceedings, the actual amounts allowed to be collected from customers could differ from management's estimate.

Revenue Recognition -- Energy risk management and trading operations

Energy Marketing & Trading and the natural gas liquids trading operations (reported within the Midstream Gas & Liquids segment) have energy risk management and trading operations that enter into energy and energy-related contracts to trade with and provide price-risk management services to its customers. Energy and energy-related contracts utilized in energy risk management and trading activities are recorded at fair value with the net change in fair value of those contracts representing unrealized gains and losses recognized in income currently (marked-to-market). The fair value of energy and energy-related contracts is determined based on the nature of the transaction and the market in which transactions are executed. Certain contracts are executed in exchange traded or over-the-counter markets where quoted prices in active markets may exist. Transactions are also executed in exchange-traded or over-the-counter markets for which market prices may exist, however, the market may be relatively inactive and price transparency is limited. Hence, the ability to determine the fair value of the contract would be more subjective than if an independent third party quote were available. Transactions are also executed for which quoted market prices are not available. Determining fair value for certain contracts involves complex assumptions and judgments when estimating prices at which market participants would transact if a market existed for the contract or transaction.

On October 25, 2002, the (EITF) concluded in Issue No. 02-3 to rescind Issue No. 98-10, under which non-derivative energy trading contracts were previously marked-to-market. A substantial portion of the energy marketing and trading activities previously reported on a fair-value basis will now be reflected under the accrual method of accounting beginning January 1, 2003. In addition, trading inventories will also no longer be marked to market but will be reported on a lower of cost or market basis. Upon adoption of this new standard on January 1, 2003, Energy Marketing & Trading and the natural gas liquids trading operations (reported within the Midstream Gas & Liquids segment) will record a charge as a cumulative effect of change in accounting principle. The impact of this change in accounting principle is expected to result in a decrease to net income of approximately $750 million to $800 million in total on an after-tax basis for both business units. For further discussion on this issue, please refer to Note 1 of Notes to Consolidated Financial Statements.

Accounting for Energy Marketing & Trading's energy-related contracts, which include contracts such as transportation, storage, load serving, and tolling agreements, requires Williams to assess whether certain of these contracts are executory service agreements or leases pursuant to SFAS No. 13, "Accounting for Leases." On January 23, 2003, the EITF reached a tentative consensus on Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," and directed the Working Group it had formed to consider this issue to further address certain matters, including transition. The March 14, 2003 report of the Working Group indicates the Working Group supports a prospective transition of this Issue, where the consensus would be applied to arrangements consummated or substantively modified after the date of the final consensus. Williams' preliminary review indicates that certain of its tolling agreements could be considered to be leases under the tentative consensus. Accordingly, if the EITF did not adopt a prospective transition and applied the consensus to existing arrangements there could be a significant impact to Williams' financial position and results of operations.

As a result of Williams' current liquidity constraints, Energy Marketing & Trading initiated efforts in 2002 to sell all or portions of its portfolio and/or pursue potential joint venture or business combination opportunities. No assurances can be made regarding the ultimate consummation of any sales or business combination activities currently being pursued. Energy Marketing & Trading is continuing to evaluate its potential alternatives. As discussed further in Note 1 of Notes to Consolidated Financial Statements, portions of Energy Marketing & Trading's portfolio have been recognized at their estimated fair value, which per generally accepted accounting principles is the amount at which they could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale. Given the financial condition and liquidity constraints of Williams, however, amounts ultimately realized in any portfolio sales or business combination may be significantly different than fair value estimates presented in the financial statements.

Additional discussion of the accounting for energy and energy-related contracts at fair value is included in Note 1 of Notes to Consolidated Financial Statements and Fair Value of Energy risk management and trading activities.

Valuation of Deferred Tax Assets

Williams is required to assess the ultimate realization of deferred tax assets generated from the basis difference in certain investments and businesses. This assessment takes into consideration tax planning strategies, including assumptions regarding the availability and character of future taxable income. At December 31, 2002, Williams maintains $43.2 million of valuation allowances for deferred tax assets from basis differences in investments and capital loss carry forward generated during the year for which the ultimate realization of the tax asset may be dependent on the availability of future capital gains. In arriving at this conclusion, management considered forecasts of future company performance, particularly the estimated impact of potential asset dispositions. The ultimate amount of deferred tax assets realized could be materially different from those recorded, as influenced by potential changes in federal income laws and the circumstances upon the actual realization of related tax assets.

Impairment of Long-Lived Assets and Goodwill

Williams evaluates the long-lived assets of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. In addition to those long-lived assets for which impairment charges were recorded (see Notes 2 and 4), numerous others were reviewed for which no impairment was required under a "held for use" computation, pursuant to Williams' announced strategy of selling assets as a source of funds to meet debt obligations and provide liquidity. These computations utilized judgments and assumptions inherent in management's estimate of undiscounted future cash flows and "hold for use" versus sale probabilities to determine recoverability of an asset.

Pursuant to Williams' announced strategy during 2002 of selling significant levels of assets, numerous assets were considered more likely than not to be sold substantially in advance of their established recovery periods. To facilitate the actual sales, a reserve price auction process was employed for many of the assets. This type of process is one in which initial bids are received by interested parties, followed by submission of revised bids, with the company eventually selecting a single party in which to finalize a sale transaction. Under terms of the process, Williams is not obligated to accept an offer that it does not deem satisfactory. As a result, both the estimated fair value of an asset and management's assessment of the probability of sale often change through the course of the process.

At December 31, 2002, certain assets are in various stages of sale negotiations. With respect to the most significant of these, a ten percent decrease in estimated fair value would result in additional impairment charges of approximately $80 million, while a ten percent increase in fair value would result in a decrease of impairment charges of approximately $70 million.

It is possible that a computation under a "held for sale" situation for certain of these long-lived assets could result in a significantly different assessment because of market conditions, specific transaction terms and a buyer's different viewpoint of future cash flows.

Goodwill is evaluated annually for impairment. Approximately $1 billion of Williams' goodwill is carried by Exploration & Production for which the estimated fair value of the reporting unit exceeds its carrying value, including goodwill, by over 75 percent.

Contingent Liabilities

Williams records liabilities for estimated loss contingencies when it is management's assessment that a loss is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liabilities are reflected in income in the period in which new or different facts or information become known or circumstances change that affect the previous assumptions with respect to the likelihood or amount of loss. Liabilities for contingent losses are based upon management's assumptions and estimates, advice of legal counsel or other third parties regarding the probable outcomes of the matter. Should the outcome differ from the assumptions and estimates, revisions to the estimated liabilities for contingent losses would be required. See Note 16 of Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

CONSOLIDATED OVERVIEW

The following table and discussion is a summary of Williams' consolidated results of operations for the three years ended December 31, 2002. The results of operations by segment are discussed in further detail following this Consolidated Overview discussion.

YEARS ENDED DECEMBER 31,			
	2002	2001	2000
	(MILLIONS)		
Revenues	$ 5,608.4	$ 7,065.5	$6,559.3
Operating income	$ 790.8	$ 2,317.7	$1,936.8
Interest accrued -- net	(1,200.5)	(682.2)	(606.9)
Investing income (loss)	(109.7)	(168.6)	89.1
Interest rate swap loss	(124.2)	--	--
Minority interest in income and preferred returns of consolidated subsidiaries	(79.3)	(80.7)	(56.8)
Other income (expense) -- net	26.4	26.1	(.3)
Income (loss) from continuing operations before income taxes	(696.5)	1,412.3	1,361.9
(Provision) benefit for income taxes	195.0	(609.6)	(541.5)
Income (loss) from continuing operations	(501.5)	802.7	820.4
Loss from discontinued operations	(253.2)	(1,280.4)	(296.1)
Net income (loss)	(754.7)	(477.7)	524.3
Preferred stock dividends	90.1	--	--
Income (loss) applicable to common stock	$ (844.8)	$ (477.7)	$ 524.3

2002 vs. 2001

CONSOLIDATED OVERVIEW. Williams' revenue decreased $1,457.1 million, or 21 percent, due primarily to lower revenues associated with energy risk management and trading activities at Energy Marketing & Trading and the absence of $184 million of revenue related to the 198 convenience stores sold in May 2001 within Petroleum Services. Partially offsetting these decreases was the impact of an increase in net production volumes within Exploration & Production partly due to the August 2001 acquisition of Barrett Resources Corporation (Barrett).

Costs and operating expenses decreased $193.1 million, or 5 percent, due primarily to the absence of the 198 convenience stores sold in May 2001 and lower fuel and product shrink gas purchases related to processing activities at Midstream Gas & Liquids. Slightly offsetting these decreases are increased depletion, depreciation and amortization and lease operating expenses at Exploration & Production due primarily to the addition of the former Barrett operations.

Selling, general and administrative expenses decreased $69.1 million due primarily to lower variable compensation levels at Energy Marketing & Trading. Selling, general and administrative expenses for 2002 also include approximately $22 million of early retirement costs, $10 million of employee-related severance costs and approximately $6 million related to early payoff of employee stock ownership plan expenses.

Other (income) expense -- net in 2002, that is part of operating income, includes $244.6 million of impairment charges and loss accruals within Energy Marketing & Trading comprised of $138.8 million of impairments and loss accruals for commitments for certain power assets associated with terminated power projects, $61.1 million goodwill impairments and a $44.7 million impairment charge related to the Worthington generation facility sold in January 2003. Also included in other (income) expense -- net in 2002 are

$115 million of impairment charges related to Midstream Gas & Liquids' Canadian assets and $18.4 million of impairment charges within Petroleum Services related to the Alaska refinery and convenience store assets. Partially offsetting these impairment charges and accruals are $141.7 million of net gains on sales of natural gas production properties at Exploration & Production in 2002. Other (income) expense -- net in 2001 includes a $75.3 million gain on the May 2001 sale of the convenience stores and impairment charges of $13.8 million and $12.1 million within Midstream Gas & Liquids and Petroleum Services, respectively (see Note 4).

General corporate expenses increased $18.5 million, or 15 percent, due primarily to approximately $15 million of costs related to consulting services and legal fees associated with the liquidity and business issues addressed beginning third-quarter 2002, $6 million of expense related to the enhanced-benefit early retirement program offered to certain employee groups and $6 million of expense related to employee severance costs. Partially offsetting these increases were lower charitable contributions and advertising costs.

Operating income decreased $1,526.9 million, or 66 percent, due primarily to lower net revenues associated with energy risk management and trading activities at Energy Marketing & Trading and the impairment charges and loss accruals noted above. Partially offsetting these decreases are the gains from the sales of natural gas production properties and the impact of increased net production volumes at Exploration & Production, higher demand revenues and the effect of the reductions in rate refund liabilities associated with rate case settlements at Gas Pipeline, higher natural gas liquids margins at Midstream Gas & Liquids and higher equity earnings.

Interest accrued -- net increased $518.3 million, or 76 percent, due primarily to $154 million related to interest expense, including amortization of fees, on the RMT note payable (see Note 11), the $58 million effect of higher average interest rates, the $247 million effect of higher average borrowing levels and $56 million of higher debt issuance cost amortization expense.

In 2002, Williams entered into interest rate swaps with external counter parties primarily in support of the energy trading portfolio. The swaps resulted in losses of $124.2 million (see Note 19).

The 2002 investing loss decreased $66.9 million as compared to the 2001 investing loss. Investing loss for 2002 and 2001 consisted of the following components:

YEARS ENDED DECEMBER 31	2002	2001
(MILLIONS)		
Equity earnings (loss)*	$ 72.0	$ 22.7
Income (loss) from investments*	42.1	4.2
Write-down of WCG common stock investment	--	(95.9)
Loss provision for WCG receivables	(268.7)	(188.0)
Interest income and other	44.9	88.4
Investing loss	$(109.7)	$(168.6)

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* These items are also included in the measure of segment profit (loss).

The equity earnings increase includes a $27.4 million benefit reflecting a contractual construction completion fee received by an equity method investment of Williams (see Note 3) and $4 million of earnings in 2002 versus $20 million of losses in 2001 from the Discovery pipeline project, partially offset by an equity loss in 2002 of $13.8 million from Williams' investment in Longhorn Partners Pipeline LP. Income (loss) from investments in 2002 includes a $58.5 million gain on the sale of Williams' equity interest in a Lithuanian oil refinery, pipeline and terminal complex, which was included in the Other segment, a gain of $8.7 million related to the sale of Williams' general partner interest in Northern Borders Partners, L.P., a $12.3 million write-down of an investment in a pipeline project which was canceled and a $10.4 million net loss on the sale of Williams' equity interest in a Canadian and U.S. gas pipeline. Income (loss) from investments in 2001

includes a $27.5 million gain on the sale of Williams' limited partner equity interest in Northern Border Partners, L.P. offset by a $23.3 million loss from other investments, both which were determined to be other than temporary. See Note 2 for a discussion of the losses related to WCG. Interest income and other decreased due to a $22 million decrease in interest income related to margin deposits, a $4.9 million decrease in dividend income primarily as a result of the second-quarter 2001 sale of Ferrell gas Partners L.P. senior common units and write-downs of certain foreign investments.

Other income (expense) -- net below operating income increased $.3 million due primarily to an $11 million gain in second-quarter 2002 at Gas Pipeline associated with the disposition of securities received through a mutual insurance company reorganization, a $14 million decrease in losses from the sales of receivables to special purpose entities (see Note 15) and the absence in 2002 of a 2001 $10 million payment to settle a claim for coal royalty payments relating to a discontinued activity. Partially offsetting these increases was an $8 million loss related to early retirement of remarketable notes in first-quarter 2002.

The provision (benefit) for income taxes was favorable by $804.6 million due primarily to a pre-tax loss in 2002 as compared to pre-tax income in 2001. The effective income tax rate for 2002 is greater than the federal statutory rate due primarily to the effect of taxes on foreign operations, non-deductible impairment of goodwill and income tax credits recapture that reduced the tax benefit of the pre-tax loss, somewhat offset by the reduction in valuation allowances. The effective income tax rate for 2001 is greater than the federal statutory rate due primarily to valuation allowances associated with the tax benefits for investing losses, for which no tax benefits were provided and the effect of state income taxes.

In addition to the operating results from activities included in discontinued operations (see Note 2), the 2002 loss from discontinued operations includes pre-tax impairments and losses totaling $814.3. million. The $814.3 million consists of $240.8 million of impairments related to the Memphis refinery, $195.7 million of impairments related to bio-energy, $146.6 million of impairments related to travel centers, $133.5 million of impairments related to the soda ash operations, $91.3 million loss on sale related to the Central natural gas pipeline system and a $6.4 million loss on sale related to the Kern River natural gas pipeline system. Partially offsetting these impairments and losses was a pre-tax gain of $301.7 million related to the sale of the Mid-America and Seminole pipelines. Loss from discontinued operations in 2001 includes a $1.84 billion pre-tax charge for loss accruals related to guarantees and payment obligations for WCG and $184.7 million of other pre-tax charges for impairments and loss accruals including a $170 million pre-tax impairment charge related to the soda ash mining facility.

Income (loss) applicable to common stock in 2002 reflects the impact of the $69.4 million associated with accounting for a preferred security that contains a conversion option that was beneficial to the purchaser at the time the security was issued. The weighted-average number of shares in 2002 for the diluted calculation (which is the same as the basic calculation due to Williams reporting a loss from continuing operations -- see Note 6) increased approximately 16 million from December 31, 2001. The increase is due primarily to the 29.6 million shares issued in the Barrett acquisition in August 2001. The increased shares had a dilutive effect on earnings (loss) per share in 2002 of approximately $.05 per share.

2001 vs. 2000

Consolidated Overview. Williams' revenues increased $506.2 million, or 8 percent, due primarily to higher gas and electric power trading and services margins, a full year of Canadian operations within Midstream Gas & Liquids acquired in fourth-quarter 2000, higher natural gas sales prices and revenues from Barrett acquired in third-quarter 2001. Partially offsetting these increases was a decrease of $283 million in revenues related to the 198 convenience stores sold in May 2001, $116 million decrease in domestic natural gas liquids revenues and the effect in 2000 of a $69 million reduction of Gas Pipeline's rate refund liabilities.

Total segment costs and expenses increased $98.2 million, or 2 percent, due primarily to costs for a full year of Canadian operations acquired in fourth-quarter 2000 and operating costs associated with Barrett acquired in third-quarter 2001. These increases were partially offset by a $286 million decrease in costs as a result of the sale of 198 convenience stores in May 2001 and the $75.3 million gain on the sale of these convenience stores.

Operating income increased $380.9 million, or 20 percent, due primarily to higher gas and electric power service margins, the $75.3 million pre-tax gain on the sale of the convenience stores in May 2001, increased realized natural gas sales prices, the impact of Barrett and the effect in 2000 of $63.8 million in guarantee loss accruals and impairment charges at Energy Marketing & Trading. Partially offsetting these increases were lower per-unit natural gas liquids margins at Midstream Gas & Liquids, the $69 million effect in 2000 of reductions to rate refund liabilities and approximately $26 million of impairment charges and loss accruals within Midstream Gas & Liquids and Petroleum Services. Included in operating income are general corporate expenses which increased $27.1 million, or 28 percent, due primarily to an increase in advertising costs (which includes a branding campaign of $12 million) and higher charitable contributions.

Interest accrued -- net increased $75.3 million, or 12 percent, due primarily to the $71 million effect of higher borrowing levels offset by the $42 million effect of lower average interest rates, $19 million in interest expense related to an unfavorable court decision involving Transcontinental Gas Pipe Line (Transco), a $14 million increase in interest expense related to deposits received from customers relating to energy risk management and trading and hedging activities and a $12 million increase in amortization of debt expense. The increase in long-term debt includes the $1.1 billion of senior unsecured debt securities issued in January 2001 and $1.5 billion of long-term debt securities issued in August 2001 related to the cash portion of the Barrett acquisition.

Investing income decreased $257.7 million, due primarily to fourth-quarter 2001 charges for a $103 million provision for doubtful accounts related to the minimum lease payments receivable from WCG, an $85 million provision for doubtful accounts related to a $106 million deferred payment for services provided to WCG and a $25 million write-down of the remaining investment basis in WCG common stock (see Note 2). In addition, the decrease also reflects a $94.2 million charge in third-quarter 2001, representing declines in the value of certain investments, including $70.9 million related to Williams' investment in WCG and $23.3 million related to losses from other investments, which were deemed to be other than temporary (see Note 3). In addition, the decrease in investing income reflects a $13 million decrease in dividend income due to the sale of the Ferrellgas Partners L.P. (Ferrellgas) senior common units in second-quarter 2001. The decreases to investing income (loss) were slightly offset by increased interest income related to margin deposits of $17 million. Minority interest in income and preferred returns of consolidated subsidiaries increased $23.9 million, or 42 percent, due primarily to preferred returns of Snow Goose LLC, formed in December 2000, and minority interest in income of Williams Energy Partners L.P., partially offset by a $10 million decrease of preferred returns related to the second-quarter 2001 redemption of Williams obligated mandatorily redeemable preferred securities of Trust.

Other income (expense) -- net increased $26.4 million to $26.1 million of income in 2001 due primarily to an $11 million increase in capitalization of interest on internally generated funds related to various capital projects at certain FERC regulated entities and $6 million lower losses from the sales of receivables to special purpose entities (see Note 15).

The provision for income taxes increased $68.1 million primarily due to higher pre-tax income and increase in valuation allowance. The effective income tax rate for 2001 is greater than the federal statutory rate due primarily to valuation allowances associated with the investing losses, for which no tax benefits were provided plus the effects of state income taxes. The effective income tax rate for 2000 is greater than the federal statutory rate due primarily to the effects of state income taxes.

In addition to the operating results from the activities included in discontinued operations (see Note 2), the loss from discontinued operations for 2001 includes a $1.84 billion pre-tax charge for loss accruals for contingent obligations related to guarantees and payment obligations for WCG, $184.7 million of other pre-tax charges for impairments and loss accruals including a $170 million pre-tax impairment charge related to the soda ash mining facility. Loss from discontinued operations in 2000 primarily represents the operating results of the operations.

RESULTS OF OPERATIONS -- SEGMENTS

Williams is currently organized into the following segments: Energy Marketing & Trading, Gas Pipeline, Exploration & Production, Midstream Gas & Liquids, Williams Energy Partners and Petroleum Services. Certain activities previously reported within the International segment have been included in Other. Williams currently evaluates performance based upon segment profit (loss) from operations (see Note 19).

In addition to the impact to the segments as a result of discontinued operations previously discussed, the following changes occurred in 2002:

- Effective July 1, 2002, management of certain operations previously conducted by Energy Marketing & Trading, International and Petroleum Services was transferred to Midstream Gas & Liquids. These operations included natural gas liquids trading, activities in Venezuela and a petrochemical plant, respectively.

- On April 11, 2002, Williams Energy Partners L.P., a partially owned and consolidated entity of Williams, acquired Williams Pipe Line, an operation previously included within the Petroleum Services segment. Accordingly, Williams Pipe Line's results of operations have been transferred from the Petroleum Services segment to the Williams Energy Partners segment.

- Management of an investment in an Argentine oil and gas exploration company was transferred from the previously reported International segment to the Exploration & Production segment to align exploration and production activities.

Prior period amounts have been restated to reflect these changes. The following discussions relate to the results of operations of Williams' segments.

ENERGY MARKETING & TRADING

YEARS ENDED DECEMBER 31,						
	2002	2001	2000			
	--- (MILLIONS)					
Segment revenues	$ (85.2)	$1,705.6	$1,295.1			
Segment profit (loss)	$(624.8)	$1,270.0	$ 970.6			

2002 vs. 2001

ENERGY MARKETING & TRADING'S revenues decreased $1,790.8 million, or 105 percent, due primarily to a $1,783.3 million decrease in risk management and trading revenues. During 2002, Energy Marketing & Trading's results were adversely affected by the impact of market movements against its portfolio as discussed below and a significant reduction in origination activities. Energy Marketing & Trading's ability to manage or hedge its portfolio against adverse market movements was limited by a lack of market liquidity as well as Williams' limited ability to provide credit and liquidity support.

The $1,783.3 million decrease in risk management and trading revenues is due primarily to a decrease of $1,901.4 million in the natural gas and power revenues partially offset by a $6.3 million increase in the petroleum products revenues, a $12 million increase in European trading revenues, and a $99.8 million increase in revenues from the net impact of interest rate movements including the impact of interest derivatives. The $1,783.3 million decrease in the risk management and trading revenues includes a $205 million decrease in revenues from new transactions originated and contract amendments as compared to 2001. Of the $1,901.4 million decline in natural gas and power revenues, $454.9 million is attributable to a decline in natural gas revenues, caused primarily by increasing prices on short natural gas positions during the third quarter of 2002. The remaining $1,446.5 million decline relates to lower revenues from the power portfolio caused primarily by smaller spark spreads on certain power tolling portfolios and lower volatility (the fair value of Energy Marketing & Trading's tolling agreements are adversely affected by declines in power and gas volatility) compared with 2001 as well as the net impact of portfolio valuation adjustments associated with the decline in market liquidity and portfolio liquidation activities. The $6.3 million increase in petroleum

products revenues is primarily due to origination activities during the first quarter of 2002. The $12 million increase in European trading revenues is principally due to the commencement of trading activities in the European office as compared to start-up activities in 2001. The European operations have now been reduced and are in the process of being wound down.

As a result of Williams' current liquidity constraints, Energy Marketing & Trading initiated efforts in 2002 to sell all or portions of its portfolio and/or pursue potential joint venture or business combination opportunities. No assurances can be made regarding the ultimate consummation of any sales or business combination activities currently being pursued. Energy Marketing & Trading is continuing to pursue its potential alternatives. As discussed further in Note 1 of the Notes to Consolidated Financial Statements, portions of Energy Marketing & Trading's portfolio have been recognized at their estimated fair value, which under generally accepted accounting principles is the amount at which they could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale. As a result of information obtained through the portfolio sales efforts in 2002, the estimated fair value of certain portions of the portfolio were adjusted to reflect viable market information received. For those portions of the portfolio for which no viable market information was received through sales efforts, fair value has been estimated using other market-based information and consistent application of valuation techniques. Portfolio valuation adjustments recognized in 2002 as a result of new market information obtained through sales efforts resulted in a $74.8 million decrease in operating profit. Given the financial condition and liquidity constraints of Williams which may accelerate sales, amounts ultimately realized in any portfolio sales or business combination may be significantly different than fair value estimates presented in the financial statements, depending on the timing and terms of any such transactions.

Revenues for 2002 also includes a favorable fourth-quarter net effect of approximately $85 million resulting from a settlement with the state of California, the restructuring of associated energy contracts, and the related improved credit situation of the counterparties during the quarter.

Energy Marketing & Trading's future results will be affected by the reduction in liquidity and credit support available from its parent, the willingness of counterparties to enter into transactions with Energy Marketing & Trading, the liquidity of markets in which Energy Marketing & Trading transacts, and the creditworthiness of other counterparties in the industry and their ability to perform under contractual obligations. Since Williams is not currently rated investment grade by credit rating agencies, Williams is required, in certain instances, to provide additional adequate assurances in the form of cash or credit support to enter into and maintain existing transactions. With the decision to continue to limit Williams' financial commitment and exposure to the trading business, it is likely that Energy Marketing & Trading will have greater exposure to market movements, which could result in additional operating losses. In addition, other companies in the energy trading and marketing sector are experiencing financial difficulties which will affect Energy Marketing & Trading's credit and default assessment related to the future value of its forward positions and the ability of such counterparties to perform under contractual obligations. The ultimate outcome of these items could result in significant future operating losses for Energy Marketing & Trading or limit Energy Marketing & Trading's ability to achieve profitable operations.

Selling, general, and administrative expenses decreased by $124.7 million, or 37 percent. This cost reduction is primarily due to lower variable compensation levels associated with reduced segment profit and the impact of staff reductions in this segment.

Other (income) expense -- net in 2002 includes $138.8 million of impairments and loss accruals associated with commitments for certain power projects that have been terminated, partial impairment of goodwill totaling $61.1 million, reflecting a decline in fair value resulting from deteriorating market conditions during 2002 and a $44.7 million impairment charge related to the January 2003 sale of the Worthington generation facility. Other (income) expense -- net in 2001 included $13.3 million due to a terminated expansion project.

Segment profit (loss) decreased $1,894.8 million, or 149 percent, due primarily to the $1,783.3 million reduction of risk management and trading revenues and the other (income) expense -- net items discussed previously, partially offset by the $124.7 million reduction in selling, general and administrative expenses,

discussed above, and the $23.3 million charge from the write-downs in 2001 of marketable equity securities and a cost based investment (see Note 3).

On October 25, 2002, the EITF concluded in Issue No. 02-3 to rescind Issue No. 98-10, under which non-derivative energy trading contracts were marked-to-market. A substantial portion of the energy marketing and trading activities previously reported on a fair-value basis will now be reflected under the accrual method of accounting beginning January 1, 2003. Certain of the trading activities utilizing derivative instruments will continue to be reported on a fair value basis to the extent that these instruments are not designated as hedges under SFAS No. 133. The related changes in fair value will be reported as unrealized gains or losses in the consolidated income statement. In addition, trading inventories will no longer be marked-to-market but will be reported on a lower of cost or market basis. Upon adoption of this new standard on January 1, 2003, Energy Marketing & Trading will record a charge as a cumulative effect of change in accounting principle. Energy Marketing & Trading's portion of the impact of this change in accounting principle is expected to be a decrease to net income of approximately $750 million to $800 million on an after-tax basis. For further discussion on this issue, please refer to Note 1 of Notes to Consolidated Financial Statements.

Contingent liabilities and commitments that could affect the results of Energy Marketing & Trading, including a recent settlement between the FERC and Transcontinental Gas Pipe Line, Energy Marketing & Trading and Williams are discussed in Note 16 of the Notes to Consolidated Financial Statements.

2001 vs. 2000

Energy Marketing & Trading's revenues increased by $410.5 million, or 32 percent in 2001, due primarily to a $402.3 million increase in risk management and trading revenues.

The $402.3 million increase in risk management and trading revenues results primarily from an increase in risk management activities surrounding Energy Marketing & Trading's power tolling portfolio. As further discussed in Note 15 of the Notes to Consolidated Financial Statements, power tolling agreements provide Energy Marketing & Trading the right, but not the obligation, to call on the counterparty to convert natural gas to electricity at a predefined heat conversion rate. Energy Marketing & Trading benefited from higher natural gas and electric power services margins through the first quarter of 2001 from power tolling agreements previously recognized in 2000. Energy Marketing & Trading, through its origination of new contracts, executed several offsetting positions throughout the year to mitigate declines in these margins that occurred subsequent to the first quarter 2001. These new contracts consisted of full requirements, load serving and power supply agreements and typically have terms of up to 15 years. Execution of these contracts had the effect of reducing the risk of future changes in natural gas and power prices within the portfolio and also provided further insight into the prices for which third parties would be willing to exchange in illiquid periods. This additional insight provided better information for the valuation of other existing contracts which generally had the effect of increasing the value recognized on these existing contracts. Subsequent to the execution of these origination transactions, natural gas and power prices declined dramatically. As a result of Energy Marketing & Trading's management strategies, this reduction had minimal impact to the overall portfolio fair value. Also contributing to the increase in the risk management and trading revenues during 2001 was an increase in successful forward natural gas financial trading.

Through a variety of energy commodity and derivative contracts, Energy Marketing & Trading had credit exposure to Enron and certain of its subsidiaries which have sought protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. During fourth-quarter 2001, Energy Marketing & Trading recorded a reduction in trading revenues of approximately $130 million through the valuation of contracts with Enron. Approximately $91 million of this reduction in value was recorded pursuant to events immediately preceding and following Enron's announced bankruptcy. At December 31, 2001, Williams had reduced its exposure to accounts receivable from Enron, net of margin deposits, to expected recoverable amounts. In 2002, Energy Marketing & Trading sold rights to certain Enron receivables to a third party in exchange for $24.5 million cash. That amount was recorded as trading revenues in the first quarter of 2002.

Selling, general, and administrative expenses increased by $134.7 million, or 68 percent. This cost increase was primarily due to $42.5 million higher variable compensation levels associated with improved

operating performance, $19 million of costs related to the European trading and marketing office in London which began operation in 2001, $13 million of increased charitable contributions to state universities, as well as increased outside services costs and increased costs as a result of higher staffing levels.

Other (income) expense -- net in 2001 includes a $13.3 million impairment charge due to a terminated expansion project. In 2000, other (income) expense -- net included $47.5 million in guarantee loss accruals and impairment charges and $16.3 million impairment of assets related to a distributed generation business.

Segment profit increased $299.4 million, or 31 percent, due primarily to the $402.3 million higher trading revenues discussed above and the effect of the $63.8 million of guarantee loss accruals and impairment charges in 2000 noted above. Partially offsetting the increase to segment profit was the $134.7 million increase in selling, general and administrative costs, as discussed above, $23.3 million of write-downs in 2001 of marketable equity securities and a cost based investment and the $13.3 million impairment in 2001 noted above.

Potential Impact of California Power Regulation and Litigation

At December 31, 2002, Energy Marketing & Trading had net accounts receivable recorded of approximately $230 million compared to $388 million at December 31, 2001, for power sales to the California Independent System Operator and the California Power Exchange Corporation (CPEC). In March and April of 2001, two California power-related entities, the CPEC and Pacific Gas and Electric Company (PG&E), filed for bankruptcy under Chapter 11. While the amount recorded reflects management's best estimate of collectibility, future events or circumstances could change those estimates.

As discussed in Rate and regulatory matters and related litigation in Note 16 of Notes to Consolidated Financial Statements, the FERC and the DOJ have issued orders or initiated actions that relate to the activities of Energy Marketing & Trading in California and the western states. In addition to these federal agency actions, a number of federal and state initiatives addressing the issues of the California electric power industry are also ongoing and may result in restructuring of various markets in California and elsewhere. Discussions in California and other states have ranged from threats of re-regulation to suspension of plans to move forward with deregulation. Allegations have also been made that the wholesale price increases experienced in 2000 and 2001 resulted from the exercise of market power and collusion of the power generators and sellers, including Energy Marketing & Trading. These allegations have resulted in multiple state and federal investigations as well as the filing of class-action lawsuits in which Energy Marketing & Trading is a named defendant. Energy Marketing & Trading's long-term power contract with the State of California has also been challenged both at the FERC and in civil suits. Most of these initiatives, investigations and proceedings are in their preliminary stages and their likely outcome cannot be estimated. However, Energy Marketing & Trading and Williams executed a settlement agreement on November 11, 2002, that is intended to resolve many of these disputes with the State of California and that includes renegotiated long-term energy contracts. The settlement is also intended to resolve complaints brought by the California Attorney General against Energy Marketing & Trading and the State of California's refund claims. In addition, the settlement is intended to resolve ongoing investigations by the States of California, Oregon, and Washington. The settlement is subject to various court and agency approvals (see Other legal matters in Note 16). There can be no assurance that these initiatives, investigations and proceedings will not have a material adverse effect on Williams' results of operations or financial condition.

GAS PIPELINE

YEARS ENDED DECEMBER 31,			
	2002	2001	2000
	(MILLIONS)		
Segment revenues	$1,503.8	$1,426.0	$1,567.0
Segment profit	$ 661.3	$ 571.7	$ 597.3

During 2002, Williams sold both its Central and Kern River interstate natural gas pipeline businesses. The following discussions exclude any gains or losses on such sales and the results of operations related to

these businesses which are reported within discontinued operations. The following discussions relate to the current continuing businesses of the Gas Pipeline segment which include Transco, Texas Gas Transmission (Texas Gas), Northwest Pipeline and various joint venture projects. On February 20, 2003, Williams announced its intention to sell Texas Gas. Segment revenues of Texas Gas were $266.4 million, $249.9 million and $260.9 million in 2002, 2001 and 2000, respectively. Segment profit of Texas Gas was $116.2 million, $99.6 million and $103.2 million for 2002, 2001 and 2000, respectively.

2002 vs. 2001

GAS PIPELINE'S revenues increased $77.8 million, or 5 percent, due primarily to $67 million higher demand revenues on the Transco system resulting from new expansion projects and new settlement rates effective September 1, 2001, the effect of $19 million in reductions in the rate refund liabilities associated with rate case settlements on the Transco and Texas Gas systems, $16 million higher transportation revenues on the Texas Gas and Northwest Pipeline systems, $9 million from environmental mitigation credit sales and services and $4 million higher revenues associated with tracked costs which are passed through to customers and offset in general and administrative expenses. Partially offsetting these increases were $23 million lower gas exchange imbalance settlements (offset in costs and operating expenses), $14 million lower storage revenues and $7 million lower revenues associated with the recovery of tracked costs which are passed through to customers (offset in costs and operating expenses). The decrease in storage revenues is due primarily to $9 million lower rates on Cove Point's short-term storage contracts (the Cove Point facility was sold in September 2002) and a $6 million decrease at Transco due primarily to lower storage demand revenues.

Costs and operating expenses decreased $33 million, or 5 percent, due primarily to $23 million lower gas exchange imbalance settlements (offset in revenues), $22 million lower operations and maintenance expense due primarily to lower professional and other contractual services and telecommunications expenses, $7 million lower other tracked costs which are passed through to customers (offset in revenues) and a $5 million franchise tax refund for Transco. These decreases were partially offset by the $15 million effect in 2001 of a regulatory reserve reversal resulting from the FERC's approval for recovery of fuel costs incurred in prior periods by Transco, as well as $5 million higher depreciation expense. The $5 million higher depreciation expense reflects a $13 million increase due to increased property, plant and equipment placed into service (including depletion of property held for the environmental mitigation credit sales), partially offset by an $8 million adjustment related to the 2002 rate case settlements resulting in lower depreciation rates applied retrospectively.

General and administrative costs increased $22 million, or 11 percent, due primarily to $14 million higher employee-related benefits expense, including $8 million related to higher pension and retiree medical expense due to decreases in assumed return on plan assets and approximately $4 million related to expense recognized as a result of accelerated company contributions to an employee stock ownership plan, $11 million in costs associated with an early retirement program, a $5 million write-off in 2002 of capitalized software development cost resulting from cancellation of a project and $4 million higher tracked costs (offset in revenues). These increases were partially offset by $13 million lower charitable contributions in 2002.

Other (income) expense -- net in 2002 includes a $17 million charge associated with a FERC penalty (see Note 16) and a $3.7 million loss on the sale of the Cove Point facility. Other (income) expense -- net in 2001 includes an $18 million charge resulting from the unfavorable court decision and resulting settlement in one of Transco's royalty claims proceedings (an additional $19 million is included in interest expense).

Segment profit, which includes equity earnings and income (loss) from investments (both included in investing income), increased $89.6 million, or 16 percent, due primarily to the higher demand revenues discussed above, the $27 million effect of rate refund liability reductions and other adjustments related to the finalization of rate cases during third-quarter 2002, $42.1 million higher equity earnings, the lower costs and operating expenses discussed above, the effect of the $18 million charge in 2001 discussed previously in other (income) expense -- net and an $8.7 million gain in 2002 on the sale of the general partnership interest in Northern Border Partners, L.P. These increases were partially offset by a $10.4 million loss on the sale of Gas Pipeline's 14.6 percent ownership interest in Alliance Pipeline, a $12.3 million write-down in 2002 of Gas

Pipeline's investment in a pipeline project that has been cancelled, the effect of a $27.5 million gain in 2001 from the sale of the limited partnership interest in Northern Border Partners, L.P., the $22 million increase in general and administrative costs discussed above, the $17 million FERC penalty and the $3.7 million loss on the sale of the Cove Point facility. The increase in equity earnings includes a $27.4 million benefit in 2002 related to the contractual construction completion fee received by an equity affiliate. This equity affiliate served as the general contractor on the Gulfstream pipeline project for Gulfstream Natural Gas System (Gulfstream), an interstate natural gas pipeline subject to FERC regulation and also an equity affiliate. The fee, paid by Gulfstream and associated with the completion during the second quarter of 2002 of the construction of Gulfstream's pipeline, was capitalized by Gulfstream as property, plant and equipment and is included in Gulfstream's rate base to be recovered in future revenues. Additionally, the equity earnings reflects an $18 million increase from Gulfstream, $12 million of which is related to interest capitalized on the Gulfstream pipeline project in accordance with FERC regulations.

2001 vs. 2000

Gas Pipeline's revenues decreased $141 million, or 9 percent, due primarily to the effect of a $69 million reduction of rate refund liabilities in 2000 following the settlement of prior rate proceedings, $72 million lower gas exchange imbalance settlements (offset in costs and operating expenses), $10 million lower recovery of tracked costs which are passed through to customers (offset in general and administrative expenses), and $10 million lower transportation revenues at Texas Gas due primarily to turnback capacity remarketed at discounted rates and for shorter contracted terms. Partially offsetting these decreases were $13 million higher gas transportation demand revenues as a result of new expansion projects and new rates on the Transco system and $9 million higher revenues from a liquefied natural gas storage facility acquired in June 2000.

Costs and operating expenses decreased $79 million, or 10 percent, due primarily to the $72 million lower gas exchange imbalance settlements (offset in revenues), $15 million resulting from the FERC's approval for recovery of fuel costs incurred in prior periods by Transco, and $6 million of accruals for gas exchange imbalances in 2000. Partially offsetting these decreases was $16 million in higher depreciation expense due to increased property, plant & equipment placed into service during 2001.

General and administrative costs decreased $16 million resulting primarily from lower tracked costs which are passed through to customers (offset in revenues), partially offset by higher charitable contributions.

Other (income) expense -- net in 2001 within segment costs and expenses includes an $18 million charge resulting from an unfavorable court decision in one of Transco's royalty claims proceedings (an additional $19 million is included in interest expense).

Segment profit decreased $25.6 million due primarily to the lower revenues discussed previously and the item discussed previously in other (income) expense -- net. These decreases were partially offset by the lower costs and operating expenses discussed above, a $19 million increase in equity investment earnings from pipeline joint venture projects, a $27.5 million gain from the sale of Williams' limited partnership interest in Northern Border Partners, L.P. and the lower general and administrative expenses. The increase in equity investment earnings reflects $13 million from new projects which are primarily comprised of interest capitalized on internally generated funds as allowed by the FERC and a $6 million increase from earnings on existing projects.

EXPLORATION & PRODUCTION

YEARS ENDED DECEMBER 31,			
	2002	2001	2000
			(MILLIONS)
Segment revenues	$899.9	$615.2	$331.0
Segment profit	$520.5	$234.1	$ 87.6

On February 20, 2003, Williams announced additional assets to be sold including Exploration & Production properties. Depending on the nature and size of the sales, future operating results could be impacted significantly.

2002 vs. 2001

EXPLORATION & PRODUCTION'S revenues increased $284.7 million, or 46 percent, due primarily to $284 million higher domestic production revenues, $27 million in unrealized gains from the mark-to-market financial instruments related to basis differentials on natural gas production, partially offset by $28 million lower domestic gas management revenues. The $284 million increase in domestic production revenues includes $254 million associated with an increase in net domestic production volumes as well as $30 million from increased net realized average prices for production (including the effect of hedge positions). The increase in net production volumes mainly results from the acquisition in third-quarter 2001 of the former Barrett operations. Approximately 83 percent of domestic production in 2002 was hedged. Exploration & Production has entered into contracts that hedge approximately 85 percent of projected 2003 domestic natural gas production before consideration of any potential property sales in 2003. These hedges are entered into with Energy Marketing & Trading which in turn, enters into offsetting derivative contracts with unrelated third parties. Energy Marketing & Trading bears the counterparty performance risks associated with unrelated third parties. During 2001, a portion of the external derivative contracts was with Enron, which filed for bankruptcy in December 2001. As a result, the contracts were effectively liquidated due to contractual terms concerning bankruptcy and Energy Marketing & Trading recorded estimated charges for the credit exposure. During the third quarter of 2002, Energy Marketing & Trading had additional contracts not related to Enron that were terminated. The other comprehensive income related to these terminated contracts remains in accumulated other comprehensive income and is recognized as the underlying volumes are produced. During 2002, approximately $35 million related to the terminated contracts was recognized as revenues while $45 million remains in accumulated other comprehensive income at December 31, 2002.

Domestic gas management revenues consist primarily of marketing activities within the Exploration & Production segment that are not a direct part of the results of operations for producing activities. These non-producing activities include acquisition and disposition of other working interest and royalty interest gas and the movement of gas from the wellhead to the tailgate of the respective plants for sale to Energy Marketing & Trading or third parties.

Costs and operating expenses, including selling, general and administrative expenses, increased $131 million, due primarily to increased depreciation, depletion and amortization, lease operating expenses and selling, general and administrative expenses due primarily to the addition of the former Barrett operations. The increases were partially offset by decreased gas management purchase costs.

Other (income) expense-net in 2002 includes $120.3 million and $21.4 million in gains from the sales of substantially all of the interests in natural gas production properties in the Jonah field (Wyoming) and in the Anadarko Basin, respectively. The Jonah field properties represented approximately 11 percent of total reserves at December 31, 2001, the absence of which could impact future revenue levels.

Segment profit increased $286.4 million due primarily to the gains from asset sales mentioned above, increased production volumes, and higher net realized average prices. Segment profit also includes $11.8 million and $15.4 million related to international activities for 2002 and 2001, respectively.

2001 vs. 2000

Exploration & Production's revenues increased $284.2 million, or 86 percent, due primarily to $263 million higher domestic production revenues including $119 million from increased net realized prices for production (including the effect of hedge positions) and $144 million associated with an increase in net volumes from domestic production. Approximately $115 million of the $144 million increase relates to volumes associated with Barrett, which became a consolidated entity on August 2, 2001. Approximately 75 percent of domestic production in 2001 was hedged. Revenues from domestic gas management activities increased $14 million.

Segment costs and operating expenses increased $141 million, including a $24 million increase in selling, general and administrative expense. Segment costs and operating expenses increased due primarily to costs related to Barrett operations, comprised primarily of depreciation, depletion and amortization, lease operating expenses and gas management costs. In addition to the increase as a result of the Barrett acquisition, the higher segment costs and operating expenses reflect $10 million higher domestic lease operating expenses, $8 million higher domestic depreciation, depletion and amortization expenses and $6 million higher domestic production-related taxes. Other income (expense) -- net in 2000 includes a $6 million impairment charge for certain gas producing properties. The charge represented the impairment of these held for sale assets to fair value based on expected net proceeds. These properties were sold in March 2001.

Segment profit increased $146.5 million, or 167 percent, due primarily to the higher domestic production revenues in excess of costs. A major portion of this increase can be attributed to the Barrett acquisition. In addition, segment profit included $9 million in equity earnings from the 50 percent investment in Barrett held by Williams for the period from June 11, 2001 through August 2, 2001, partially offset by $6 million lower equity earnings from an Argentina oil and gas investment.

MIDSTREAM GAS & LIQUIDS

YEARS ENDED DECEMBER 31,	2002	2001	2000
	(MILLIONS)		
Segment revenues	$1,909.1	$1,906.8	$1,574.3
Segment profit	$ 189.3	$ 171.9	$ 278.0

In August 2002, Williams completed the sale of 98 percent of Mapletree LLC and 98 percent of E-Oaktree, LLC to Enterprise Products Partners L.P. Mapletree owned all of Mid-America Pipeline, a 7,226-mile natural gas liquids pipeline system. E-Oaktree owned 80 percent of the Seminole Pipeline, a 1,281-mile natural gas liquids pipeline system. The gains on the sale of these businesses and the related results of operations have been reported as discontinued operations. Williams has also announced the intended sale of additional assets, including certain operations in Canada. Future asset sales would have the effect of lowering liquid product sales in periods following their sale but are expected to be offset by increasing deepwater or gathering and transportation revenue. The following discussion reflects the results of Midstream Gas & Liquids' continuing operations.

2002 vs 2001

MIDSTREAM GAS & LIQUIDS revenues increased $2.3 million as a result of a $60.3 million increase in domestic gathering, processing, transportation and liquid product sales revenues, a $48.7 million increase in Venezuelan revenues and a $10.3 million increase in Canadian revenues, offset by a $117 million decline in domestic petrochemical and trading revenues.

The $60.3 million increase in domestic gathering, processing, transportation and liquid product sales revenues was driven by a $34 million increase in liquid sales, a $39 million increase in liquid product sales from Gulf Liquids, (a new off gas processing and olefin extraction facility that became a consolidated subsidiary in September 2002) and a $10 million increase in transportation revenues. Partially offsetting these increases is a $17 million decrease in gathering revenues primarily due to the third quarter 2002 sale of the

Kansas-Hugoton gathering system. The increase in liquid sales reflects a $67 million increase in gulf coast liquid sales resulting from higher production at existing processing facilities and the September 2001 completion of a new processing facility that processes natural gas gathered from deepwater projects off the coast of Texas. Offsetting the increase in gulf coast liquid sales was a $33 million decline in liquid sales in the west, primarily caused by a decline in average liquid sales prices. The $10 million increase in transportation revenues reflects the results of a new deepwater oil and gas transportation system which was completely operational by mid-year.

The $117 million decline in petrochemicals and trading revenues is due largely to a change in the reporting during September 2001 of certain petrochemical and liquid product trading transactions from a gross revenue basis to a net revenue basis combined with lower natural gas liquid trading margins.

The $48.7 million increase in Venezuelan revenues reflects a full year of results from a new gas compression facility that began operations in August 2001.

The increase in Canadian revenues results from a $56 million increase in natural gas liquids product sales from fractionation activities reflecting a 48 percent increase in volumes. The increase in volumes sold was partially offset by a 19 percent decline in average liquid product sales prices. The increase in volumes resulted from improvements made at a parafins facility and higher volumes of natural gas liquid supply from processing facilities within Northern Alberta and British Columbia. The increase in Canadian revenues is partially offset by a $24 million decrease in processing revenues reflecting lower processing rates under cost of service agreements as a result of lower natural gas shrink prices combined with a $24 million decrease in liquid sales from processing activities which reflects lower average liquid sales prices.

Costs and operating expenses decreased $112 million, or 7 percent, primarily reflecting a decline in fuel and product shrink costs at the Wyoming and Canadian processing facilities of $21 million and $85 million ($41 million from costs under cost of service processing agreements), respectively. These decreases reflect lower average natural gas prices in Canada and Wyoming, offset by higher volumes and prices in the gulf coast. The lower average gas prices in Wyoming during 2002 reflect a favorable differential between gas prices in Wyoming and the gulf as a result of limited transportation capacity from Wyoming to other markets. This favorable basis differential had the effect of lower shrink costs and increasing liquid sales margins from Wyoming processing plants and is not expected to continue once take away transportation capacity within this region has been expanded. Costs and operating expenses also reflect a $92 million decline in petrochemical and trading costs resulting from the change in reporting certain product trading classifications in September 2001, as discussed above. Partially offsetting these decreases are $32 million of higher product shrink costs at Gulf Liquids operations, $30 million higher depreciation costs from the addition of Gulf Liquids and other new facilities combined with $14 million higher transportation, fractionation, and marketing costs. Operations and maintenance expenses were relatively unchanged on a segment basis, with a $32 million decline in costs in the west primarily resulting from lower maintenance spending, offset by a corresponding increase in the gulf, Canada and Venezuela largely driven by the higher maintenance costs resulting from the new Venezuelan gas compression facility, Canadian olefins facility, the Gulf Liquids facilities and new deepwater offshore operations.

Selling, general and administrative costs increased $10 million primarily due to the consolidation of Gulf Liquids during 2002.

Other (income) expense -- net within segment costs and expense for 2002 includes a $115 million impairment associated with the Canadian processing, extraction and olefin extraction assets (see Note 4) and a $6 million impairment associated with the sale of the Kansas Hugoton gathering system in the third quarter. Reflected in 2001 are $13.8 million of impairment charges related to certain south Texas non-regulated gathering and processing assets.

Segment profit of $189.3 million for 2002 was largely impacted by a $115 million impairment on Canadian natural gas processing, extraction and olefin extraction assets during the fourth quarter. Before this impairment charge, Midstream Gas & Liquids' 2002 segment profit reflects a $132 million increase over 2001.

This increase reflects a $70 million increase in domestic operations, a $20 million increase in Venezuelan operations and a $42 million increase in Canadian operations.

Domestic segment profit reflects a $45 million increase in liquid sales margins resulting from the low fuel and shrink costs in the west reflecting the wide basis differential for natural gas prices in Wyoming. Domestic segment profit also increased $32 million due to income from equity investments primarily related to significant improvements in the operations of Discovery pipeline following new supply connections that resulted in higher transportation and liquid volumes. Domestic segment profit was also impacted by a $16 million increase in profits from an increase in deepwater operations, offset by $25 million in losses resulting from operational issues associated with Gulf Liquids.

The increase in segment profit from Canadian operations (excluding the $115 million impairment discussed above) resulted from a $23 million increase in liquid product margins from fractionation activities due to higher liquid sales volumes and prices combined with a $37 million increase in liquid sales margins from processing activities primarily resulting from lower shrink costs. Offsetting these increases are higher depreciation, and operations and maintenance expense primarily resulting from the new olefins fractionation facility.

Segment profit from Venezuelan operations reflects an increase resulting from a full year of results following the completion of a new gas compression facility in August 2001. Midstream Gas & Liquids Venezuelan assets were constructed and are currently operated for the exclusive benefit of Petroleos de Venezuela S.A. (PDVSA), the state owned Petroleum Corporation of Venezuela. During December 2002 and January 2003, a countrywide strike took place within Venezuela that resulted in significant political instability and a volatile economic environment. Employees of PDVSA joined this strike, which had an impact on the operations of most of the Venezuelan facilities. All owned facilities are presently operating. However, an operating agreement for the PDVSA owned oil terminaling facility is the subject of a contract dispute with PDVSA. The ultimate impact the political and economic situation within Venezuela will have on Midstream Gas and Liquids' revenues, segment profits and operating cash flows will depend upon the extent and duration of the political and economic instability and the enforceability of certain contractual arrangements provisions with PDVSA.

2001 vs. 2000

Midstream Gas & Liquids' revenues increased $332.5 million, or 21 percent, due primarily to $564 million in revenues for the first three quarters of 2001 from Canadian operations that were acquired in October 2000. The $564 million of increased revenues from Canadian operations consists primarily of $270 million of natural gas liquids sales from processing activities, $205 million of natural gas liquids sales from fractionation activities, and $81 million of processing revenues. Canadian revenues decreased $57 million for the comparable periods of 2001 and 2000 due primarily to natural gas liquids product sales price decline. Revenues were $32 million higher due to a new Venezuelan gas compression facility which began operations in August 2001. Revenues from domestic natural gas liquids trading operations decreased $112 million due primarily to declining prices on ethane and lower ethelyne volumes and prices related to marketing of products of a petrochemical plant acquired by Williams in early 1999, as well as a change in the reporting during 2001 of certain petrochemical and liquid product trading transactions from a gross revenue basis to a net revenue basis. Domestic natural gas liquids revenues decreased $116 million including $78 million from 15 percent lower volumes sold and $38 million due to lower average natural gas liquids sales prices. The 15 percent decrease in volumes sold is due primarily to less favorable processing economics. Additionally, there were $15 million lower revenues related to the petrochemical plant due to a plant turnaround in first-quarter 2001 and curtailed production. Domestic gathering revenues increased $11 million due primarily to higher volumes related to recent asset acquisitions in the Gulf Coast area.

Costs and operating expenses increased $393 million to $1.6 billion, due primarily to $549 million of costs and operating expenses related to the Canadian operations for the first three quarters of 2001 and $18 million higher domestic general operating and maintenance costs and $13 million related to the new gas compression facility in Venezuela. Partially offsetting these increases were $95 million lower expenses related to decreased

ethane prices for the natural gas liquids trading operations, $58 million lower Canadian costs and operating expenses for the comparable periods of 2001 and 2000 due to lower shrink gas replacement costs, $38 million lower domestic shrink gas replacement costs and the effect in 2000 of $12 million of losses associated with certain propane storage transactions.

General and administrative expenses increased $7 million, or 6 percent, due primarily to $11 million of general and administrative expenses related to the Canadian operations for the first three quarters of 2001 and higher general and administrative expenses for natural gas liquids trading operations, partially offset by $12 million of reorganization and early retirement costs incurred in 2000.

Included in other (income) expense -- net within segment costs and expenses for 2001 is $13.8 million of impairment charges related to management's 2001 decisions and commitments to sell certain south Texas non-regulated gathering and processing assets. The charges represent the impairment of the assets to fair value based on expected proceeds from the sales. These sales closed during first-quarter 2002. Also included in other (income) expense-net within segment costs and expenses for 2000 is a $12.4 million gain on the sale of certain natural gas liquids contracts.

Segment profit decreased $106.1 million, or 38 percent, due primarily to $54 million from lower average per-unit domestic natural gas liquids margins and $22 million from decreased domestic natural gas liquids volumes sold, $16 million lower margins from natural gas liquids trading activity, $18 million higher domestic operating and maintenance costs, $17 million lower operating profit from activities at the petrochemical plant as revenues decreased due to plant turnaround and curtailed production without a corresponding decrease in cost, $13.8 million and $12.4 million due to the 2001 impairment charge and the 2000 gain on sale of certain natural gas liquids contracts discussed above and $10 million higher losses from equity investments. Partially offsetting these decreases to segment profit were an $18 million increase from the new Venezuelan gas compression facility which began operations in third-quarter 2001, $6 million lower domestic general and administrative expenses, $11 million higher domestic gathering revenues and $12 million of losses associated with certain propane storage transactions during 2000.

WILLIAMS ENERGY PARTNERS

YEARS ENDED DECEMBER 31,			
2002	2001	2000	(MILLIONS)
			Segment revenues
$423.7	$402.5	$373.0	Segment profit
$ 99.3	$101.2	$104.2	

On February 20, 2003, Williams announced that it is pursuing a potential sale of its investment in Williams Energy Partners L.P., including its general partner interest.

2002 vs. 2001

WILLIAMS ENERGY PARTNERS' revenue increased $21.2 million, or 5 percent, reflecting increased revenues from petroleum products transportation, terminal and other activities. Transportation revenues increased as a result of higher average transportation rates slightly offset by lower volumes. The increase in average transportation rates were due to supply shifts within the Williams Pipe Line system, caused by the temporary capacity reductions of certain refineries, which created longer hauls during the current year. These refinery capacity reductions are not anticipated to recur in 2003. The increase in terminals and other revenues principally reflect increased utilization and higher rates. In addition, 2002 results benefited from the full-year impact of acquisitions made during 2001, which include two inland terminals and one marine terminal facility.

Costs and operating expenses increased $17 million due primarily to $10 million of higher environmental expense accruals, a full year of operating expenses related to the marine facility and two inland terminals discussed above, and higher third-party pipeline lease expenses. Most of the increase in environmental expenses resulted from the completion of state-mandated environmental assessments at six terminal facilities

on the pipeline system during the current year. These increases were partially offset by lower transportation field expenses principally reflecting maintenance cost-reduction measures implemented in the current year.

Segment profit decreased $1.9 million, or 2 percent, due to the items discussed above, $5.9 million higher selling, general and administrative expenses and decreased other income of $0.2 million. General and administrative costs increased due to costs incurred during 2002 by Williams Energy Partners relating to the acquisition of Williams Pipe Line, increased allocations from Williams and increased equity-based incentive compensation expense.

2001 vs. 2000

Williams Energy Partners' revenue increased $29.5 million, or 8 percent, due primarily to higher revenues from the petroleum products transportation activities, the acquisition of a marine terminal facility in September 2000 and higher revenues and rates from the storage of petroleum products at the Gulf Coast marine facilities. Segment profit decreased $3 million, or 3 percent, due primarily to higher operating costs corresponding with the revenue increase discussed above and higher general and administrative expenses.

PETROLEUM SERVICES

YEARS ENDED DECEMBER 31,		
2002	2001	2000
(MILLIONS)		
Segment revenues		
$866.0	$1,109.7	$1,456.3
Segment profit		
$ 32.8	$ 145.7	$ 38.9

Petroleum Services' continuing operations include the North Pole, Alaska refining operations, retail operations from the 29 Williams Express convenience stores in Alaska, a 3.0845 percent undivided interest in the Trans-Alaska Pipeline System (TAPS) acquired in June 2000 and transportation operations. Transportation operations primarily include Williams' 32.1 percent interest in Longhorn Partners Pipeline LP (which is not yet operational), and gas liquids blending activities for Williams Pipe Line Company which is owned and part of the Williams Energy Partners segment. Williams has announced that it is pursuing the sale of its operations in Alaska. If a sale is approved and other conditions are met, these operations would be reported as discontinued operations in the future. In addition, 2001 and 2000 include the results of operations through May 2001 of 198 convenience stores in the Midsouth which were sold in May 2001. These operations did not qualify as discontinued operations under previous accounting guidance.

2002 vs. 2001

PETROLEUM SERVICES' revenues decreased $243.7 million, or 22 percent, due primarily to $194 million lower convenience store sales and $47 million lower Alaska refining revenues. The $194 million decrease in convenience store sales reflects the absence of $184 million in revenues related to the sale of the 198 convenience stores in May 2001 and an $11 million decrease in revenues related to the retained Alaska convenience stores. The $11 million decrease in revenues of the retained Alaska convenience stores reflects $7 million from a 9 percent decrease in gasoline sales volumes and $4 million from a 6 percent decrease in average gasoline sales prices. The $47 million decrease in refining revenues primarily includes $69 million from 9 percent lower average refined product sales prices, partially offset by $21 million from a 3 percent increase in refined product volumes sold.

Costs and operating expenses decreased $228 million, or 23 percent, due primarily to $196 million lower convenience store costs and $32 million lower Alaska refining costs. The $196 million decrease in convenience store costs is due primarily to the absence of $185 million in costs related to the sale of the 198 convenience stores in May 2001 and an $11 million decrease in costs for the retained Alaska convenience stores. The $11 million decrease in costs for the retained Alaska convenience stores reflects $5 million from a 10 percent decrease in average gasoline purchase prices and $6 million from 9 percent lower gasoline sales volumes. The $32 million lower Alaska refining costs is due primarily to $50 million from 8 percent lower average refined

product purchase prices, partially offset by $17 million from a 3 percent increase in refined product volumes sold.

Other (income) expense -- net in 2002 includes a total of $18.4 million of impairment charges related to the Alaska refining operations and the Alaska convenience stores. As previously mentioned, Williams has announced its intention to pursue a sale of its operations in Alaska. These impairment charges reflect the excess of the carrying cost of these assets over management's estimate of fair value. Other (income) expense -- net in 2001 includes the $75.3 million pre-tax gain from the sale of the 198 convenience stores and a $12.1 million impairment charge related to an end-to-end mobile computing systems business.

Segment profit decreased $112.9 million, or 77 percent, due primarily to the $81.6 million net unfavorable effect related to the items noted above in other (income) expense -- net and $14 million lower operating profit from refining operations. In addition, the decrease reflects a 2002 equity loss of $13.8 million from its investment in Longhorn Partners Pipeline LP resulting almost entirely from fourth-quarter 2002 adjustments recorded by Longhorn Partners Pipeline LP to expense certain amounts previously capitalized as property costs.

2001 vs. 2000

Petroleum Services' revenue decreased $346.6 million, or 24 percent, due primarily to $279 million lower convenience store sales and $49 million lower refining revenues, partially offset by $28 million higher revenues from Williams' 3.0845 percent undivided interest in TAPS acquired in late June 2000. The $279 million decrease in convenience store sales is due primarily to a $283 million decrease in revenues related to the sale of the 198 convenience stores in May 2001, slightly offset by higher merchandise sales by the Alaska convenience stores. The $49 million decrease in refining revenues is due to $145 million resulting from 16 percent lower average refined product sales prices, partially offset by $96 million from 12 percent higher refined product volumes sold.

Costs and operating expenses decreased $362 million, or 27 percent, due primarily to $278 million lower convenience store costs and $57 million lower refining costs. The $278 million decrease in convenience store costs is due primarily to the $282 million decrease in costs related to the 198 convenience stores which were sold in May 2001, slightly offset by higher merchandise costs by the Alaska convenience stores. The $57 million decrease in refining costs is due primarily to $138 million resulting from 18 percent lower average refined product costs, partially offset by $80 million from a 12 percent increase in refined volumes sold.

Included in other (income) expense -- net within segment costs and expenses for 2001, is a $75.3 million pre-tax gain from the sale of the 198 convenience stores. Also included in other (income) expense -- net within segment costs and expenses in 2001 and 2000 are impairment charges of $12.1 million and $11.9 million, respectively, related to an end-to-end mobile computing systems business. The impairment charges result from management's decision in 2000 to sell certain of its end-to-end mobile computing systems and represent the impairment of the assets to fair value based on expected net sales proceeds, as revised. Other (income) expense -- net within segment costs and expenses in 2000 also included a $7 million write-off of a retail software system.

Segment profit increased $106.8 million due primarily to $82.1 million net favorable effect related to the items noted above in other (income) expense -- net, $20 million from Williams interest in TAPS acquired in late June 2000 and $8 million higher operating profit from refining operations.

OTHER

YEARS ENDED DECEMBER 31,			
2002	2001	2000	(MILLIONS)
			Segment revenues
$65.9	$ 80.3	$ 74.4	Segment profit (loss)
$27.9	$(25.7)	$(20.2)	

2002 vs. 2001

OTHER segment profit in 2002 includes a $58.5 million gain from the September 2002 sale of Williams' 27 percent ownership interest in the Lithuanian refinery, pipeline and terminal complex and a $9.5 million decrease in equity losses from the Lithuanian operations for the period. Williams received proceeds of approximately $85 million from the sale of this investment. In addition, Williams sold its $75 million note receivable from the Lithuanian operations at face value.

FAIR VALUE OF ENERGY RISK MANAGEMENT AND TRADING ACTIVITIES

As more thoroughly described in Note 1 of Notes to Consolidated Financial Statements, energy and energy-related contracts are carried at fair value and, with the exception of certain commodity inventories, are recorded in current and noncurrent energy risk management and trading assets and liabilities in the Consolidated Balance Sheet. Fair value of energy and energy-related contracts is determined based on the nature of the transaction and market in which transactions are executed. Certain transactions are executed in exchange-traded or over-the-counter markets for which quoted prices in active periods exist, while other transactions are executed where quoted market prices are not available or the contracts extend into periods for which quoted market prices are not available. Quoted market prices for varying periods in active markets are readily available for valuing forward contracts, futures contracts, swap agreements and purchase and sales transactions in the commodity markets in which Energy Marketing & Trading and the natural gas liquids trading operations transact. Market data in active periods is also available for interest rate transactions affecting the trading portfolio. For contracts or transactions that extend into periods for which actively quoted prices are not available, Energy Marketing & Trading estimates energy commodity prices in the illiquid periods by incorporating information obtained from commodity prices in actively quoted markets, prices reflected in current transactions and market fundamental analysis. For contracts where quoted market prices are not available, primarily transportation, storage, full requirements, load serving and power tolling contracts, Energy Marketing & Trading estimates fair value using proprietary models and other valuation techniques that reflect the best information available under the circumstances. In situations where Energy Marketing & Trading has received current information from negotiation activities with potential buyers of these contracts, the information is considered in the determination of the fair value of the contract. The valuation techniques used when estimating fair value for energy-related contracts incorporate option pricing theory, statistical and simulation analysis, present value concepts incorporating risk from uncertainty of the timing and amount of estimated cash flows and specific contractual terms. The estimates of fair value also assume liquidating the positions in an orderly manner over a reasonable period of time in a transaction between a willing buyer and seller. These valuation techniques utilize factors such as quoted energy commodity market prices, estimates of energy commodity market prices in the absence of quoted market prices, volatility factors underlying the positions, estimated correlation of energy commodity prices, contractual volumes, estimated volumes under option and other arrangements, liquidity of the market in which the contract is transacted, and a risk-free market discount rate. Fair value also reflects a risk premium that market participants would consider in their determination of fair value. Regardless of the method for which fair value is determined, the recognized fair value of all contracts also considers the risk of non-performance and credit considerations of the counterparty. The estimates of fair value are adjusted as assumptions change or as transactions become closer to settlement and enhanced estimates become available. In some cases, Energy Marketing & Trading enters into price-risk management contracts that have forward start dates commencing upon completion of construction and development of assets to be owned and operated by third parties. Until construction commences, revenue recognition and the fair value of these contracts is limited to the amount of any guaranty or similar form of acceptable credit support that encourages the counterparty to perform under the terms of the contract with appropriate consideration for any contractual provisions that provide for contract termination by the counterparty.

Information used in determining the significant estimates and assumptions utilized in the determination of fair value of energy-related contracts is derived from market fundamental analysis. Interpreting this data requires judgment and Energy Marketing & Trading recognizes that others in the market place might interpret this data differently. It is reasonably possible that different interpretations of this data could result in a different estimation of fair value in periods for which estimates and assumptions are significant components of estimating fair value. In estimating fair value, Energy Marketing & Trading considers how it believes others in the market place would interpret this information in order to further validate that the estimates and assumptions used in estimating fair value provides the best estimate of the amount that active market participants would exchange in an arms-length transaction. Once offsetting contracts are entered into to mitigate commodity price risk, the reliance on management's assumptions and estimates utilized in the estimation of the fair value of each contract becomes less significant. However, the assumptions and estimates surrounding counterparty performance and credit are still an integral component in the estimation of fair value

for these contracts. Energy Marketing & Trading enhances its valuation techniques, models and significant estimates and assumptions as better information about the markets in which Energy Marketing & Trading transacts becomes available.

On October 25, 2002, the EITF, concluded in Issue No. 02-3 to rescind Issue No. 98-10, under which non-derivative energy trading contracts were previously marked-to-market. A substantial portion of the energy marketing and trading activities previously reported on a fair-value basis will be reflected under the accrual method of accounting beginning January 1, 2003. In addition, trading inventories will no longer be marked-to-market but will be reported on a lower of cost or market basis. Upon adoption of this new standard on January 1, 2003 Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) will record a charge as a cumulative effect of change in accounting principle. The impact of this change in accounting principle is expected to be a decrease to net income of $750 million to $800 million on an after-tax basis. For further discussion on this issue, please refer to Note 1 of Notes to Consolidated Financial Statements.

METHODS OF ESTIMATING FAIR VALUE

Quoted prices in active markets

Quoted market prices for varying periods in active markets are readily available for valuing forward contracts, futures contracts, swap agreements and purchase and sales transactions in the commodity markets in which Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) transact. These prices reflect the economic and regulatory conditions that currently exist in the market place and are subject to change in the near term due to changes in future market conditions. The availability of quoted market prices in active markets varies between periods and commodities based upon changes in market conditions.

Quoted prices and other external factors in less active markets

For contracts or transactions extending into periods for which actively quoted prices are not available, Energy Marketing & Trading and the natural gas liquids trading operations estimate energy commodity prices in these illiquid periods by incorporating information about commodity prices in actively quoted markets, quoted prices in less active markets, and other market fundamental analysis. While an active market may not exist for the entire period, quoted prices can generally be obtained for natural gas through 2012, power through 2006, crude and refined products through 2004 and natural gas liquids through 2003. The ability to obtain quoted market prices varies greatly from region to region, and the time periods mentioned above are an estimation of aggregate liquidity. Prices reflected in current transactions executed by Energy Marketing & Trading are used to further validate the estimates of these prices. The ability to validate prices has been limited due to the recent decline in overall market liquidity.

Models and other valuation techniques

Contracts for which quoted market prices are not available primarily include transportation, storage, full requirements, load serving, transmission, and power tolling contracts (energy-related contracts). A description of these contracts is included in Note 15 of Notes to Consolidated Financial Statements. Energy Marketing & Trading estimates fair value using models and other valuation techniques that reflect the best available information under the circumstances. The valuation techniques incorporate option pricing theory, statistical and simulation analysis, present value concepts incorporating risk from uncertainty of the timing and amount of estimated cash flows and specific contractual terms. Factors utilized in the valuation techniques include quoted energy commodity market prices, estimates of energy commodity market prices in the absence of quoted market prices, the risk-free market discount rate, volatility factors underlying the positions, estimated correlation of energy commodity prices, contractual volumes, estimated volumes, liquidity of the market in which the contract is transacted and a risk premium that market participants would consider in their determination of fair value. Although quoted market prices are not available for these energy-related contracts

themselves, quoted market prices for the underlying energy commodities are a significant component in the valuation of these contracts.

Each of the methods discussed above also include counterparty performance and credit consideration in the estimation of fair value.

The chart below reflects the fair value of energy risk management and trading contracts for Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) by valuation methodology and the period in which the recorded fair value is expected to be realized. Refer to Note 1 of Notes to Consolidated Financial Statements regarding the estimated impact of the Company's January 1, 2003 adoption of EITF Issue No. 02-3 on fair values as reported below.

TO BE REALIZED IN 1-12 MONTHS	TO BE REALIZED IN 13-36 MONTHS	TO BE REALIZED IN 37-60 MONTHS	TO BE REALIZED IN 61-120 MONTHS	TO BE REALIZED IN 121+ MONTHS	TOTAL FAIR VALUE (MILLIONS)	VALUATION TECHNIQUE
12/31/2001 $ 757	$316 $ 345	$ 363 $ 18	$1,799			Based upon quoted prices in active markets and quoted prices & other external factors in less liquid markets(1)
2002 Change $ (794)	$ 97	$(124)	$(170)	$ 19	$ (972)	
12/31/2001 $ 231	$ 12 $ (19)	$ 50 $188	$ 462			Based upon Models & Other Valuation Techniques(2)
12/31/2002 (46)	98 108	295 350	805			
2002 Change $ (277)	$ 86	$ 127	$ 245	$162	$ 343	
12/31/2001 $ 988	$328 $ 326	$ 413	$206	$2,261		Total
12/31/2002 (83)	511 329	488 387	1,632			
2002 Change $(1,071)						

$183	$ 3	$
75	$181	$
	(629)	

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(1) A significant portion of the value expected to be realized relates to contracts within the California power market. The terms of these agreements provide for the sale of power at fixed prices ranging from $62.50 to $87.00 per megawatt hour at varying volumes through 2010 for up to 700 megawatts per hour, and a unit-specific dispatchable fuel conversion service with fixed capacity prices ranging from $117 to $140 per kilowatt year at varying capacities of up to 1,175 megawatts through 2010.

(2) Quoted market prices of the underlying commodities are significant factors in estimating the fair value.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS USED IN THE VALUATION ESTIMATION PROCESS

The most significant estimates and assumptions used to estimate the value of energy and energy-related contracts that extend beyond liquidly traded time periods include:

- Estimates of natural gas, power, and refined products market prices in illiquid periods;

- Estimates of volatility and correlation of natural gas, power and refined products prices;

- Estimates of risk inherent in estimating cash flows; and

- Estimates and assumptions regarding counterparty performance and credit considerations.

Estimates of natural gas, power, and refined products market prices in illiquid periods

Natural gas, power, and refined products prices are the most significant commodity prices impacting the fair value of Energy Marketing & Trading contracts at December 31, 2002. In estimating natural gas, power, and refined products prices during illiquid periods, Energy Marketing & Trading includes factors such as quoted market prices, prices of current market transactions and market fundamental analysis. Market fundamental analysis incorporates the most recent market data from industry publications, regulatory publications, existing and forecasted electricity generation capacity, natural gas reserve data, alternative fuel

source availability, weather patterns and other indicative information supporting supply and demand relationships. These estimated market prices are highly dependent upon actively quoted market prices for natural gas, power, and refined products, current economic and regulatory conditions, as well as, information supporting future conditions that would affect the supply and demand relationships. Alternative methods for determining prices in illiquid periods could materially impact management's estimate of fair value.

As new information is obtained about market prices during illiquid periods, Energy Marketing & Trading incorporates this information in its estimates of market prices. Such new information includes additional executed transactions extending into these periods. These transactions give insight into the market prices for which market participants are willing to buy or sell in arms-length transactions.

Estimation of volatility and correlation of natural gas, power, and refined products prices

Volatility of natural gas, power, and refined products prices represents a significant assumption in the determination of fair value of contracts that contain optionality and whose fair value is estimated using option-pricing models. Correlation of natural gas, power, and refined products prices represents a significant assumption in the determination of fair value of contracts that contain optionality and involve multiple commodities and whose fair value is estimated using option-pricing models. Volatility and correlation can be implied from option based market transactions during periods when quoted market prices exist for natural gas and power. Volatility and correlation are estimated in periods during which quoted market prices are not available through quantitative analysis of historical volatility patterns of the commodities, expected future changes in estimated natural gas, power, and refined products prices, and market fundamental analysis. Estimates of volatility and correlation significantly impact the estimation of fair value for all periods in which the contract is valued using option-pricing models. Alternative methods for determining volatilities and correlations in illiquid periods could materially impact management's estimate of fair value.

Estimates of risk inherent in estimating cash flows

Risk inherent in estimating cash flows represents the uncertainty of events occurring in the future which could ultimately affect the realization of cash flows. Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) estimate the risk active market participants would include in the price exchanged in an arms-length transaction in the estimation of fair value for each contract. Energy Marketing & Trading and the natural gas liquids trading operation estimate risk utilizing the capital asset pricing theory in the estimation of fair value of energy-related contracts. The capital asset pricing theory considers that investors require a higher return for contracts perceived to embody higher risk of uncertainty in the market. This risk is most significant in illiquid periods and markets. Factors affecting the estimate of risk include liquidity of the market in which the contract is executed, ability to transact in future periods, existence of similar transactions in the market, uncertainty of timing and amounts of cash flows, and market fundamental analysis.

Estimates and assumptions regarding counterparty performance and credit considerations

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) includes in its estimate of fair value for all contracts an assessment of the risk of counterparty non-performance. Such assessment considers the credit rating of each counterparty as represented by public rating agencies such as Standard & Poor's and Moody's Investor's Service, the inherent default probabilities within these ratings, the regulatory environment that the contract is subject to, as well as the terms of each individual contract.

The gross forward credit exposure from energy trading and price-risk management activities for Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) as of December 31, 2002 is summarized below.

INVESTMENT COUNTERPARTY TYPE	GRADE(A)	TOTAL
(MILLIONS)		
Gas and electric utilities	$2,326.4	$3,255.1
Energy marketers and traders	2,371.7	3,661.1
Financial Institutions	1,006.8	1,007.0
Other	1,176.4	1,182.4
	$6,881.3	9,105.6
Credit reserves		(250.4)
Gross credit exposure from energy risk management & trading activities(b)		$8,855.2

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) assess its credit exposure on a net basis when appropriate and contractually allowed. The net forward credit exposure from energy trading and price-risk management activities as of December 31, 2002 is summarized as below.

INVESTMENT COUNTERPARTY TYPE	GRADE(A)	TOTAL
(MILLIONS)		
Gas and electric utilities	$1,290.1	$2,648.5
Energy marketers and traders	163.6	183.2
Financial Institutions	201.1	201.1
Other	44.6	50.8
	$1,699.4	$3,083.6
Credit reserves		(250.4)
Net credit exposure from energy risk management & trading activities(b)		$2,833.2

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(a) "Investment Grade" is primarily determined using publicly available credit ratings along with consideration of cash, standby letters of credit, parent company guarantees, and property interests, including oil and gas reserves. Included in "Investment Grade" are counterparties with a minimum Standard & Poor's and Moody's Investors Service rating of BBB- or Baa3, respectively.

(b) One counterparty within the California power market represents greater than ten percent of assets from energy risk management and trading activities and is included in "investment grade." Standard & Poor's and Moody's Investor's Service do not currently rate this counterparty. However, recent bond issuances by this counterparty have been rated as investment grade by the various rating agencies. This counterparty has been included in the "investment grade" column based upon contractual credit requirements in the event of assignment or novation.

Certain of Energy Marketing & Trading's counterparties have experienced significant declines in their financial stability and creditworthiness which may adversely impact their ability to perform under contracts with Energy Marketing & Trading. In 2002, Energy Marketing & Trading closed out trading positions with a number of counterparties and has disputes associated with certain portions of this liquidation. One counterparty has disputed a settlement amount related to the liquidation of a trading position with Energy Marketing & Trading. The amount of settlement is in excess of $100 million payable to Energy Marketing & Trading. The matter is being arbitrated. Credit constraints, declines in market liquidity, and financial instability of market participants are expected to continue and potentially grow in 2003. Continued liquidity

and credit constraints of Williams may also significantly impact Energy Marketing & Trading's ability to manage market risk and meet contractual obligations.

In addition to credit risk, Energy Marketing & Trading is subject to performance risk of parties with which it has significant contracts such as tolling agreements. Currently, approximately 5,400 megawatts of Energy Marketing & Trading's tolling portfolio are subject to agreements with subsidiaries of the AES Corporation. The ability of Energy Marketing & Trading to realize future estimated fair values may be significantly affected by the ability of such tolling parties to perform as contractually required.

Electricity and natural gas markets, in California and elsewhere, continue to be subject to numerous and wide-ranging federal and state regulatory proceedings and investigations, as well as civil actions, regarding among other things, market structure, behavior of market participants, market prices, and reporting to trade publications. Energy Marketing & Trading may be liable for refunds and other damages and penalties as a part of these actions. Each of these matters as well as other regulatory and legal matters related to Energy Marketing & Trading are discussed in more detail in Note 16 of Notes to Consolidated Financial Statements. The outcome of these matters could affect the creditworthiness and ability to perform contractual obligations of Energy Marketing & Trading as well as the creditworthiness and ability to perform contractual obligations of other market participants.

CHANGES IN FAIR VALUE DURING 2002

The fair value of energy risk management and trading contracts for Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) decreased $629 million, or 28 percent, during 2002. The following table reflects the changes in fair value between December 31, 2001 and December 31, 2002.

(MILLIONS) ---------- FAIR VALUE OF CONTRACTS OUTSTANDING AT DECEMBER 31, 2001.... $2,261 Recognized losses included in the fair value of contracts outstanding at December 31, 2001 expected to be realized during the period(1)..... 32 Initial recorded value of new or amended contracts entered into during the period..... 155 Changes in fair value attributable to changes in valuation techniques..... (20) Other changes in fair value of contracts(2)..... (796) ------ FAIR VALUE OF CONTRACTS OUTSTANDING AT DECEMBER 31, 2002.... $1,632
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(1) This category includes certain balance sheet reclassifications made in 2002 that did not impact 2002 earnings.

(2) This category includes changes in the fair market value of contracts outstanding as a result of various market movements (including changes in market prices, market volatility, and market liquidity) and changes in the net balance of option premiums paid and received. Option premiums paid and received are included in the fair value of contracts outstanding during any given period as they are a portion of the overall energy trading portfolio. Option premiums paid result in an initial increase in the fair value of contracts outstanding and a decrease in cash; premiums received result in an initial decrease in the fair value of contracts outstanding and an increase in cash. The underlying value of the options associated with the premium payments are also included in the fair value of contracts outstanding.

Changes in fair value during 2002 include the realization of cash flows on contracts outstanding at December 31, 2001 that were expected to be realized during 2002. These amounts may have differed from the values that were actually realized during 2002 due to changes in market prices, the creditworthiness of counterparties, and other factors that occurred during 2002 prior to the realization of those cash flows.

During 2002, Energy Marketing & Trading recognized revenues resulting from the execution of new long-term contracts providing for energy price risk management services to customers. See Energy Marketing & Trading's 2002 Results of Operations for a discussion of the type of contracts executed during the year. The

fair value of new contracts at the time they are executed reflect the prices negotiated in long-term contracts which includes the premium Energy Marketing & Trading receives for managing the energy price risk of its customers. Additionally, as further discussed in Note 1 of Notes to Consolidated Financial Statements, Energy Marketing & Trading does not recognize revenue on contracts until all requirements for revenue recognition have been achieved. As a result, the fair value of these contracts at the time they were executed is likely to differ from the fair value of the contracts at the time they were initially recognized in the financial statements due to changes in market prices and other factors that may have occurred during the intervening period.

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) continuously evaluate the valuation techniques and models used in estimating fair value and modify and implement new valuation techniques based upon emerging financial theory in order to provide a better estimate of fair value.

Changes attributable to market movements reflect the change in fair value of contracts resulting from changes in quoted market prices of commodities, interest rates, volatility and correlation of commodity prices. This also includes improvements in the estimates and assumptions that Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) use in estimating fair value based upon new information and data available in the marketplace.

FINANCIAL CONDITION AND LIQUIDITY

LIQUIDITY

Williams' liquidity comes from both internal and external sources. Certain of those sources are available to Williams (the parent) and others are available to certain of its subsidiaries. Williams' sources of liquidity consist of the following:

- Cash-equivalent investments at the corporate level of $1.3 billion at December 31, 2002, as compared to $1.1 billion at December 31, 2001.

- Cash and cash-equivalent investments of various international and domestic entities other than Williams Energy Partners of $354 million at December 31, 2002 as compared to $163 million at December 31, 2001.

- Cash generated from operations and the future sales of certain assets.

- $463 million available under Williams' revolving credit facility at December 31, 2002, as compared to $700 million at December 31, 2001. This credit facility is available to the extent that it is not used to satisfy the financial ratios and other covenants under certain credit agreements. As discussed in Note 11 of Notes to Consolidated Financial Statements, the borrowing capacity under this facility will reduce as assets are sold.

- $3 million remaining at December 31, 2002, under a new $400 million secured short-term letter of credit facility obtained in third-quarter 2002.

In April 2002, Williams filed a shelf registration statement with the Securities and Exchange Commission to enable it to issue up to $3 billion of a variety of debt and equity securities. This registration statement was declared effective June 26, 2002. Because of Williams' debt rating and loan covenant restrictions, it is unlikely that Williams would be able to issue securities under the shelf registration statement in the near term.

In addition, there are outstanding registration statements filed with the Securities and Exchange Commission for Williams' wholly owned subsidiaries: Northwest Pipeline, Texas Gas Transmission and Transcontinental Gas Pipe Line. As of March 17, 2003, approximately $450 million of shelf availability remains under these outstanding registration statements and may be used to issue a variety of debt securities. Interest rates, market conditions, and industry conditions will affect amounts raised, if any, in the capital markets. On March 4, 2003, Northwest Pipeline Corporation, a subsidiary of Williams, completed an offering of $175 million of 8.125 percent senior notes due 2010 to certain institutional investors. The offering is exempt from the registration requirements of the Securities Act of 1933. The $450 million of shelf availability mentioned above is not affected by this offering.

Williams expects to fund capital and investment expenditures, debt payments and working-capital requirements through (1) cash on hand, (2) cash generated from operations, (3) the sale of assets, (4) issuance of debt by certain subsidiaries and/or (5) amounts available under Williams' revolving credit facility.

As discussed in Note 11 of Notes to Consolidated Financial Statements, Williams Production RMT Company (RMT), a wholly owned subsidiary, entered into a $900 million Credit Agreement (RMT note payable) dated as of July 31, 2002, with certain lenders including a subsidiary of Lehman Brothers, Inc., a related party to Williams. The RMT Note Payable is secured by substantially all of the assets of RMT and the capital stock of Williams Production Holdings LLC (parent of RMT), RMT and certain RMT subsidiaries. It is also guaranteed by Williams, Williams Production Holdings LLC (Holdings) and certain RMT subsidiaries. The assets of RMT are comprised primarily of the assets of the former Barrett Resources Corporation acquired in 2001, which were primarily natural gas properties in the Rocky Mountain region. Within 75 days of a parent liquidity event, Williams must sell RMT. Under the terms of the RMT Credit Agreements, Williams must provide liquidity projections on a weekly basis until the maturity date. Each projection covers a period extending 12 months from the report date. One of the parent liquidity provisions requires that Williams maintain actual and projected liquidity (a) at any time from the closing date (July 31, 2002) through the

180th day thereafter (January 27, 2003), of $600 million; (b) at any time thereafter through and including the maturity date, of $750 million; and (c) for liquidity projections provided during the term of the loan, projected liquidity after the maturity date, of $200 million. The loan matures on July 25, 2003.

Outlook

On February 20, 2003, Williams announced that it intended to sell an additional $2.25 billion over those previously announced in assets, properties and investments. To realize this level of proceeds, Williams announced that it was pursuing the sales of its general partnership interest and limited-partner investments in Williams Energy Partners, its 6,000 mile Texas Gas pipeline system and targeted assets in the Exploration & Production and Midstream Gas & Liquids segments.

Based on the Company's forecast of cash flows and liquidity, Williams believes that it has the financial resources and liquidity to meet future cash requirements and satisfy current lending covenants through the first quarter of 2004. Included in this forecast are expected proceeds, net of related debt, totaling nearly $4 billion from the sale of assets. Including periods through first-quarter 2004, the Company has scheduled debt retirements (which includes certain contractual fees and deferred interest associated with an underlying debt) of approximately $3.8 billion. Realization of the proceeds from forecasted assets sales is a significant factor for the Company to satisfy its loan covenant which requires minimum levels of parent liquidity and to satisfy current scheduled debt maturities.

Credit Ratings

At December 31, 2001, Williams maintained certain preferred interest and debt obligations that contained provisions requiring accelerated payment of the related obligation or liquidation of the related assets in the event of specified declines in Williams' senior unsecured long-term credit ratings assigned by Moody's Investors Service and Standard & Poor's (rating agencies). Obligations subject to these "ratings triggers" totaled $816 million at December 31, 2001. During the first quarter of 2002, Williams negotiated changes to certain of the agreements, which eliminated the exposure to the "ratings trigger" clauses incorporated in the agreements. Negotiations for one of the agreements resulted in Williams agreeing to redeem a $560 million preferred interest over the next year in equal quarterly installments (see Note 12). The obligations subject to "ratings triggers" were reduced to $182 million at March 31, 2002. As a result of the credit rating downgrades to below investment grade in July 2002, Williams redeemed $135 million of preferred interests on August 1, 2002 and repaid a $47 million loan in August 2002, thereby eliminating the remaining $182 million exposure.

Williams' energy risk management and trading business also relied upon the investment-grade rating of Williams' senior unsecured long-term debt to satisfy credit support requirements of many counterparties. As a result of the credit rating downgrades to below investment grade, Energy Marketing & Trading's participation in energy risk management and trading activities requires alternate credit support under certain existing agreements. In addition, Williams is required to fund margin requirements pursuant to industry standard derivative agreements with cash, letters of credit or other negotiable instruments. As a result of Williams credit downgrade to non-investment grade during 2002, Williams is effectively required to post margins of 100 percent or more on forward positions which result in a loss. Any future liquidity requirements related to these instruments will be driven by changes in the value of such instruments as a result of changes in price, volatility, etc.

At December 31, 2002, Williams has been assigned the following credit ratings on its senior unsecured long-term debt, which are considered to be below investment grade:

Moody's Investors Service.....	Caa1	(negative outlook)
Standard & Poor's.....	B	(negative watch)

Off-Balance Sheet Financing Arrangements and Guarantees of Debt or Other Commitments to Third Parties

At December 31, 2001, Williams had operating lease agreements with special purpose entities (SPE's). The lease agreements relate to certain Williams travel center stores (included in discontinued operations), offshore oil and gas pipelines and an onshore gas processing plant. As a result of changes to the agreements in conjunction with the secured financing facilities completed in July 2002, the agreements no longer qualified for operating lease treatment. The operating leases were recorded as capital leases within long-term debt beginning in July 2002, however the travel center lease is reported in liabilities of discontinued operations and was repaid in March 2003 pursuant to the travel centers sale.

Williams had agreements to sell, on an ongoing basis, certain of its accounts receivable to qualified special-purpose entities. On July 25, 2002, these agreements expired and were not renewed.

Williams provides a guarantee of approximately $126.9 million towards project financing of energy assets owned and operated by Discovery Producer Services LLC in which Williams owns an interest of 50 percent. This obligation is not consolidated in Williams' balance sheet as Williams does not maintain a controlling interest in the entity and therefore follows equity accounting for its interest. Performance under the guarantee generally would occur upon a failure of payment by the financed entity or certain events of default related to the guarantor. These events of default primarily relate to bankruptcy and/or insolvency of the guarantor. At December 31, 2002, there were no events of default by the guarantors or delinquent payments by the financed entity with respect to the project financings. The guarantee expires at the end of 2003.

Williams has provided guarantees in the event of nonpayment by WCG on certain lease performance obligations of WCG that extend through 2042 and have a maximum potential exposure of approximately $53 million. Williams' exposure declines systematically throughout the remaining term of WCG's obligations. The carrying value of these guarantees was $48 million at December 31, 2002.

In addition to these guarantees, Williams has issued guarantees and other similar arrangements with off-balance sheet risk as discussed under Guarantees in Note 15 of Notes to Consolidated Financial Statements.

WCG

At December 31, 2001, Williams had financial exposure from WCG of $375 million of receivables and $2.21 billion of guarantees and payment obligations. Receivables included a $106 million deferred payment for services provided to WCG prior to the spinoff and $269 million from the long term lease to WCG of the Technology Center building and three aircraft. The $2.21 billion of guarantees and payment obligations included the indirect credit support for $1.4 billion of WCG's Note Trust Notes and the guarantee of WCG's obligations under the asset defeasance program (ADP) transaction (see Note 2). During 2002, Williams acquired all of the WCG Note Trust Notes by exchanging $1.4 billion of Williams Senior Unsecured 9.25 percent Notes due March 2004. WCG was indirectly obligated to reimburse Williams for any payments Williams is required to make in connection with the WCG Note Trust Notes. On March 29, 2002, Williams funded the purchase price of $754 million related to WCG's March 8, 2002 exercise of its option to purchase the covered network assets under the ADP transaction. Williams then became entitled to an unsecured claim from WCG for the same amount.

On April 22, 2002, WCG filed for bankruptcy protection under Chapter 11 of the US Bankruptcy Code. The Chapter 11 Plan of Reorganization (Plan) was confirmed by the United States Bankruptcy Court for the Southern District of New York on September 30, 2002. On October 15, 2002, WCG consummated its Plan. The Plan included the sale, by Williams to Leucadia National Corporation (Leucadia) for $180 million in cash of Williams' claims against WCG for the WCG Note Trust Notes, the funding of the WCG Purchase option for the covered network assets under the ADP transaction and the deferred payment for services. It also included the sale by Williams to WCG of the Technology Center building for (a) a seven and one-half year promissory note in the principal amount of $100 million with interest at 7 percent (Long Term Note) and (b) a four year promissory note (which may be prepaid without penalty) with face amount of $74.4 million

and an original principal amount of $44.8 million (Short Term Note) both of which are secured by a mortgage on the Technology Center and certain other collateral.

At December 31, 2002, Williams had a $121.5 million receivable (original principal amount of $144.8 million) from WCG for the promissory notes relating to the sale of the Technology Center. The notes were initially recorded at fair value based on contractual cash flows and an estimated discount rate considering the creditworthiness of WCG, the amount and timing of the cash flows and Williams' security in the Technology Center and certain other collateral. The fourth-quarter 2002 sale of certain of Williams' claims against WCG to Leucadia resulted in the elimination of $2.26 billion of receivables, and the associated $2.08 billion allowance, from Williams' Consolidated Balance Sheet. Williams continues to guarantee approximately $53 million, previously discussed of WCG obligation under certain contractual commitments.

For more information regarding Williams and WCG, see WCG in Note 2 of Notes to Consolidated Financial Statements.

OPERATING ACTIVITIES

Cash provided (used) by continuing operating activities was: 2002 -- $(800) million; 2001 -- $1.7 billion; and 2000 -- $324 million. The 2002 $633.4 million increase in margin deposits is due to higher deposits required by counterparties relating to trading activities at Energy Marketing & Trading. The decrease in accounts payable for 2002 is primarily due to decreased levels of trading activity at Energy Marketing & Trading. The decrease in receivables which provides cash in 2002 relates to the decrease in trading activities at Energy Marketing & Trading offset by the expiration in 2002 of the various sale of receivables programs which served to delay the realization of cash related to receivables. The decrease in 2002 of accrued liabilities is due to lower employee costs and decreased deposits received from customers relating to energy risk management and trading and hedging activities (see Note 10).

In March 2002, WCG exercised its option to purchase certain network assets under the ADP transaction for which Williams provided a guarantee of WCG's obligations. On March 29, 2002, Williams, as guarantor under the agreement, paid $754 million related to WCG's purchase of these network assets (see WCG section for further discussion). In 2002, Williams recorded in continuing operations additional pre-tax charges of $268.7 million related to the settlement of these receivables and claims (see Note 2). In 2001, Williams had recorded a $188 million charge related to estimated recovery of amounts from WCG.

During 2002, Williams recorded approximately $455 million in provisions for losses on property and other assets. Those provisions consisted primarily of impairments of Canadian assets within Midstream Gas & Liquids and impairments of goodwill and loss accruals related to power generating turbines at Energy Marketing & Trading. The net gain on disposition of assets in 2002 primarily relates to the sales of Exploration & Production properties (see Note 4) and Williams' investment in AB Mazeikiu Nafta (see Note 3).

The amortization of deferred set-up fee and fixed rate interest on the RMT note payable relates to amounts recognized in the income statement as interest expense, but generally will not be paid until maturity.

During 2002, Williams was required to provide $108 million of cash collateral in support of surety bonds underwritten by various insurance companies and provide cash collateral in support of letters of credit due to downgrades by credit rating agencies.

During 2002, Williams also made $78 million in contributions to its qualified pension plans.

FINANCING ACTIVITIES

Net cash provided by financing activities of continuing operations was: 2002 -- $16.6 million; 2001 -- $2.0 billion; and 2000 -- $2.0 billion. Long-term debt proceeds, net of principal payments, were $1.4 billion, $1.9 billion, and $283 million, during 2002, 2001, and 2000, respectively. Notes payable payments, net of notes payable proceeds, were $1.1 billion and $801 million, during 2002 and 2001, respectively. Notes payable proceeds, net of notes payable payments were $1.5 billion in 2000. The increase in net borrowings from

2001 per the Consolidated Balance Sheet also reflects the assumption of the $1.4 billion of WCG notes. The increase in net borrowings during 2001 and 2000 reflects borrowings to fund capital expenditures, investments and acquisitions of businesses.

On January 14, 2002, Williams completed the sale of 44 million publicly traded units, more commonly known as FELINE PACS, that include a senior debt security and an equity purchase contract. The $1.1 billion of debt has a term of five years, and the equity purchase contract will require the company to deliver Williams common stock to holders after three years based on a previously agreed rate. Net proceeds from this issuance were approximately $1.1 billion. The FELINE PACS were issued as part of Williams' plan to strengthen its balance sheet and maintain its investment-grade rating.

On March 19, 2002, Williams issued $850 million of 30-year notes with an interest rate of 8.75 percent and $650 million of 10-year notes with an interest rate of 8.125 percent. The proceeds were used to repay outstanding commercial paper, provide working capital and for general corporate purposes.

In May 2002, Energy Marketing & Trading entered into an agreement which transferred the rights to certain receivables, along with risks associated with that collection, in exchange for cash. Due to the structure of the agreement, Energy Marketing & Trading accounted for this transaction as debt collateralized by the claims. The $79 million of debt is classified as current.

As discussed in Note 11 of Notes to Consolidated Financial Statements and under the Liquidity heading of Management's Discussion and Analysis, RMT entered into a $900 million credit agreement dated as of July 31, 2002.

For a discussion of other borrowings and repayments in 2002, see Note 11 of Notes to Consolidated Financial Statements.

The proceeds from issuance of Williams common stock in 2001 reflect $1.3 billion in net proceeds from approximately 38 million shares of common stock issued by Williams in January 2001 in a public offering at $36.125 per share. Additionally, the proceeds from issuance of Williams common stock in 2002, 2001 and 2000 reflect exercise of stock options under the plans providing for common-stock-based awards to employees and to non-employee directors.

The proceeds from issuance of preferred stock in 2002 reflect $271 million in net proceeds for the issuance of approximately 1.5 million shares of 9.875 percent cumulative convertible preferred stock for $275 million, which were issued concurrent with its sale of Kern River to MEHC. Dividends on the preferred stock are payable quarterly (see Note 13).

Dividends paid on common stock decreased $110 million from 2001 levels as Williams' board of directors' reduced the quarterly dividend on common stock, beginning in July 2002, from $.20 per share to $.01 per share. Additionally, one of the new covenants within the credit agreements limits the common stock dividends paid by Williams in any quarter to not more than $6.25 million. Dividends on common stock in 2001 increased $75.2 million from 2000 reflecting an increase in the number of shares outstanding and an increase in the per share dividends. The number of shares increased due primarily to the 38 million shares issued in January 2001 and the 29.6 million shares issued in the Barrett acquisition. Third-quarter 2001 and fourth-quarter 2001 dividends increased to 18 cents per share and 20 cents per share, respectively, up from the quarterly dividend of 15 cents per share in 2000.

In May 2002, Williams Energy Partners L.P., a partially owned and consolidated entity, issued approximately 8 million common units at $37.15 per unit resulting in approximately $279 million of net proceeds. Proceeds from sale of limited partners units of consolidated partnership in 2001 reflect an initial public offering of Williams Energy Partners L.P., then a wholly owned partnership, of approximately 4.6 million common units at $21.50 per unit for net proceeds of approximately $92 million.

In December 2001, Williams received net proceeds of $95.3 million from sale of a non-controlling preferred interest in Piceance Production Holdings LLC (Piceance) to an outside investor (see Note 12). During 2000, Williams received net proceeds totaling $546.8 million from the sale of a preferred return interest in Snow Goose Associates, L.L.C. (Snow Goose) to an outside investor (see Note 12). During 2002,

changes to these limited liability company member interests and interests in Castle Associates L.P. (Castle) required classification of these outside investor interests as debt. The changes to the Snow Goose structure also included the repayment of the investor's preferred interest in installments. During 2002, approximately $558 million was repaid related to these interests and are included in the payments of long-term debt.

In third-quarter 2002, the downgrade of Williams' senior unsecured rating below BB by Standard & Poor's, or Ba1 by Moody's Investors Service, resulted in the early retirement of an outside investor's preferred ownership interest for $135 million (see Note 12).

In April 2001, Williams redeemed the Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures for $194 million. Proceeds from the sale of the Ferrellgas senior common units held by Williams were used for this redemption.

Long-term debt, including long-term debt due within one year: at December 31, 2002 was $13.0 billion compared with $9.7 billion at December 31, 2001, and $7.7 billion at December 31, 2000. At December 31, 2001, $844 million of current debt obligations were classified as noncurrent obligations based on Williams' intent and ability to refinance on a long-term basis. The 2002 increase in long-term debt is due primarily to the $1.1 billion related to the FELINE PACS issuance discussed above, the combined $1.5 billion issued on March 19, 2002 and the assumption of the $1.4 billion of WCG Note Trust notes. Williams' long-term debt to debt-plus-equity ratio (excluding debt of discontinued operations) was 70.2 percent at December 31, 2002, compared to 59.0 percent and 52.5 percent at December 31, 2001 and 2000, respectively. If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 73.4 percent at December 31, 2002 compared to 64.8 percent and 62.2 percent at December 31, 2001 and 2000, respectively. Additionally, the long-term debt to debt-plus-equity ratio as calculated for covenants under certain debt agreements was 65.2 percent at December 31, 2002 as compared to 61.5 percent at December 31, 2001. See Note 11 of Notes to Consolidated Financial Statements for discussion of this and other covenants.

Significant items reflected as discontinued operations within financing activities in the Consolidated Statement of Cash Flows include the cash provided by financing activities in 2001, primarily reflecting the issuance of $1.4 billion of WCG Note Trust Notes for which Williams provided indirect credit support (see Note 2). WCG retained all of the proceeds from this issuance. In 2000, WCG issued $1 billion in long-term debt obligations consisting of $575 million in 11.7 percent notes due 2008 and $425 million in 11.875 percent notes due 2010. During 2000, WCG received net proceeds of approximately $240.5 million from the issuance of five million shares of 6.75 percent redeemable cumulative preferred stock.

INVESTING ACTIVITIES

Net cash provided (used) by investing activities of continuing operations was: 2002 -- $1.3 billion; 2001 -- $(3.3) billion; and 2000 $(2.0) billion. Capital expenditures of Energy Marketing & Trading, primarily to purchase power generating turbines, were $136 million in 2002, $104 million in 2001 and $63 million in 2000. Capital expenditures of Gas Pipeline, primarily to expand deliverability into the east and west coast markets and upgrade current facilities, were $697 million in 2002, $632 million in $2001, and $448 million in 2000. Capital expenditures for Midstream Gas & Liquids, primarily to acquire, expand and modernize gathering and processing facilities and terminals, were $497 million in 2002, $560 million in 2001, and $326 million in 2000. Capital expenditures for Exploration & Production, primarily for continued development of the company's natural gas reserves base through the drilling of wells, were $380 million in 2002, $218 million in 2001, and $70 million in 2000. Capital expenditures for Williams Energy Partners, primarily to expand and upgrade existing facilities, increase storage and develop pipeline connections to new supply sources, were $40 million in 2002, $35 million in 2001, and $73 million in 2000. Capital expenditures for Petroleum Services, were $18 million in 2002, $13 million in 2001, and $42 million in 2000. Budgeted capital expenditures and investments for continuing operations for 2003 are estimated to be approximately $900 million to $1.05 billion.

The acquisition of businesses in 2001 reflects the June 11, 2001, acquisition by Williams of 50 percent of Barrett's outstanding common stock in a cash tender offer of $73 per share for a total of approximately $1.2 billion. On August 2, 2001, Williams completed the acquisition of Barrett by issuing 29.6 million shares

of Williams common stock in exchange for the remaining Barrett shares. In 2000, Williams acquired various energy-related operations in Canada for approximately $540 million. Included in the purchase were interests in several NGL extraction and fractionation plants, NGL transportation pipeline and storage facilities, and a natural gas processing plant.

The purchase of investments/advances to affiliates in 2002 includes approximately $234 million towards the development of the Gulfstream joint venture project, a Williams equity investment. In 2001, Williams contributed $437 million toward the development of Williams' joint interest in the Gulfstream project.

For 2002, net cash proceeds from asset dispositions, the sales of businesses and disposition of investments include the following:

- $1.15 billion related to the sale of Mid-American and Seminole Pipeline.

- $464 million related to the sale of Kern River.

- $380 million related to the sale of Central.

- $326 million from the sale of properties in Jonah Field and the Anadarko Basin.

- $229 million related to the sale of the Cove Point LNG facility.

- $173 million related to the sale of Williams' interest in Alliance Pipeline.

- $85 million related to the sale of Williams' interest in the Lithuanian refinery.

- $77 million related to the sale of Kansas Hugoton.

- $12 million from the sale of the general partner interest in Northern Border Partners.

The proceeds received from disposition of investments and other assets in 2001 reflects Williams' sale of the Ferrellgas senior common units to an affiliate of Ferrellgas for proceeds of $199 million in April 2001 and the sale of certain convenience stores for approximately $150 million in May 2001.

In 2001, the purchase of assets subsequently leased to seller reflects Williams' purchase of the Williams Technology Center, other ancillary assets and three corporate aircraft for $276 million.

As discussed previously, Williams received $180 million in proceeds from the sale of claims against WCG to Leucadia in fourth-quarter 2002.

Significant items reflected as discontinued operations within investing activities of the Consolidated Statement of Cash Flows include the following:

- Capital expenditures of WCG and network and purchase of investments by WCG, totaled 1.5 billion in 2001 and 4.9 billion in 2000. WCG also had proceeds from sales of investments of $2.9 billion in 2000.

- Capital expenditures of Kern River, primarily for expansion of its interstate natural gas pipeline system, were $134 million in 2001 and $5 million in 2000.

COMMITMENTS

The table below summarizes some of the more significant contractual obligations and commitments by period.

2003	2004	2005	2006	2007	THEREAFTER	TOTAL
--	(MILLIONS) Notes payable.....					
$ 935(1)	$ --	$ --	$ --	$ --	$ --	$ 935
Long-term debt, including current portion.....						
1,083	1,832	1,364(2)	1,057	855	6,788	12,979
Debt of discontinued operations....	69(3)	--	--	--	--	8
77	Operating leases.....					
34	22	18	11	9	28	122
Fuel conversion and other service contracts(4).....						
420	443	446	449	452	5,517	7,727
Total.....						
$2,541	$2,297	$1,828	$1,517	$1,316	$12,341	$21,840

- ---

(1) An additional $228 million will be paid at maturity of the RMT note payable related to a deferred set-up fee and deferred interest.

(2) Includes $1.1 billion of 6.5 percent notes, payable 2007 subject to remarketing in 2004 (FELINE PACS). If the remarketing is unsuccessful in 2004 and a second remarketing in February 2005 is unsuccessful as defined in the offering document of the FELINE PACS, then Williams could exercise its right to foreclose on the notes in order to satisfy the obligation of the holders of the equity forward contracts requiring the holder to purchase Williams common stock.

(3) $67 million was paid in 2003 related to the sale of the travel centers.

(4) Energy Marketing & Trading has entered into certain contracts giving Williams the right to receive fuel conversion services as well as certain other services associated with electric generation facilities that are either currently in operation or are to be constructed at various locations throughout the continental United States. These contracts are included at fair value within energy risk management and trading assets and liabilities.

Additionally, at December 31, 2002, commitments for construction and acquisition of property, plant and equipment are approximately $448 million. At December 31, 2002, commitments for additional investment in Gulfstream Natural Gas System, LLC, and certain international cost investments are $49 million.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 1 of Notes to Consolidated Financial Statements for a discussion of recently issued accounting standards.

EFFECTS OF INFLATION

Williams' cost increases in recent years have benefited from relatively low inflation rates during that time. Approximately 43 percent of Williams' gross property, plant and equipment is at Gas Pipeline and approximately 57 percent is at other operating units. Gas Pipeline is subject to regulation, which limits recovery to historical cost. While amounts in excess of historical cost are not recoverable under current FERC practices, Williams believes it will be allowed to recover and earn a return based on increased actual cost incurred to replace existing assets. Cost-based regulation along with competition and other market factors may limit the ability to recover such increased costs. For the other operating units, operating costs are influenced to a greater extent by specific price changes in oil and gas and related commodities than by changes in general inflation. Crude, refined product, natural gas, natural gas liquids and power prices are particularly sensitive to OPEC production levels and/or the market perceptions concerning the supply and demand balance in the near future.

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 16 of our Notes to Consolidated Financial Statements), 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 is jointly and severally liable along with unrelated third parties in some of these activities and solely responsible in others. Current estimates of the most likely costs of such cleanup activities are approximately $87 million, all of which is accrued at December 31, 2002. Williams expects to seek recovery of approximately $31 million of the accrued costs through future natural gas transmission rates. Williams will fund these costs from operations and/or available bank-credit facilities. Estimates of the most likely costs of cleanup are generally based on completed assessment studies, preliminary results of studies or our experience with other similar cleanup operations. At December 31, 2002, certain assessment studies were still in process for which the ultimate outcome may yield significantly different estimates of most likely costs. Therefore, the actual costs incurred will depend on the final amount, type and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Williams is subject to the federal Clean Air Act and to the federal Clean Air Act Amendments of 1990 which require the EPA to issue new regulations. Williams is also subject to regulation at the state and local level. In September 1998, the EPA promulgated rules designed to mitigate the migration of ground-level ozone in certain states. Williams estimates that capital expenditures necessary to install emission control devices over the next five years to comply with rules will be between $306 million and $344 million. The actual costs incurred will depend on the final implementation plans developed by each state to comply with these regulations. In December 1999, standards promulgated by the EPA for tailpipe emissions and the content of sulfur in gasoline were announced. Williams estimates that capital expenditures necessary to bring its refinery into compliance over the next five years will be approximately $51 million. The actual costs incurred will depend on the final implementation plans. In addition to the above mentioned capital expenditures pertaining to the Clean Air Act and amendments, estimated future capital expenditures as of December 31, 2002, for various compliance issues across the company are approximately $19 million.

On July 2, 2001, the EPA issued an information request asking for information on oil releases and discharges in any amount from Williams' pipelines, pipeline systems, and pipeline facilities used in the movement of oil or petroleum products, during the period July 1, 1998 through July 2, 2001. In November 2001, Williams furnished its response.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Williams' current interest rate risk exposure is related primarily to its debt portfolio and its energy risk management and trading portfolio.

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

At December 31, 2002 and 2001, the amount of Williams' fixed and variable rate debt was at targeted levels. Williams has historically maintained an investment grade credit rating as one aspect of managing its interest rate risk. However, in July 2002, Moody's Investors Service and Standard & Poor's downgraded their credit ratings of Williams' long-term unsecured debt to below investment grade.

Williams also has interest rate risk in long-dated energy-related contracts included in its energy risk management and trading portfolio. The value of these transactions can fluctuate daily based on movements in the underlying interest rate curves used to assign value to the transactions. Williams strives to mitigate the associated interest rate risk from the value of these transactions by fixing the underlying interest rate inherent in the energy risk management and trading portfolio. During 2001, Williams began actively managing this exposure as a component of its targeted levels of fixed to floating obligations. Williams uses both floating to fixed interest rate swaps and other derivative transactions to manage this variable rate exposure. Due to Williams' credit situation at December 31, 2002, only $300 million notional of interest rate swaps were outstanding.

The tables on the following page provide information as of December 31, 2002 and 2001, about Williams' interest rate risk sensitive instruments. 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, 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.

	FAIR VALUE DECEMBER 31, 2003	2004	2005	2006	2007	THEREAFTER	TOTAL	2002
	(DOLLARS IN MILLIONS)							
Notes payable								
	$ 935	$ --	$ --	$ --	$ --	$ 935	$1,002	
Interest rate								
	5.8%(1)							
Long-term debt, including current portion: Fixed rate								
	$ 328	$1,741	$1,355	$969	$695	$6,648	$11,736	$8,214
Interest rate								
	7.8%	7.7%	7.6%	7.8%	7.9%	8.2%		
Variable rate								
	$ 755	$ 91	$ 9	$ 88	$160	$ --	$ 1,103	$1,103
Interest rate(2)								
Capital leases								
	$ --	$ --	$ 140	$ --	$ --	$ --	$ 140	$ 140
Lease rate								
	6.4%							

	FAIR VALUE DECEMBER 31, 2002	2003	2004	2005	2006	THEREAFTER	TOTAL	2001
	(DOLLARS IN MILLIONS)							
Notes payable								
	$1,425	$ --	$ --	$ --	$ --	$ 1,425	$1,425	
Interest rate								
	3.3%							
Long-term debt, including current portion: Fixed rate								
	$ 796	$ 292	$ 581	$240	$954	$5,282	$ 8,145	$8,300
Interest rate								
	7.2%	7.3%	7.3%	7.3%	7.4%	7.6%		
Variable rate								
	$ 204	$ 402	$ 941	$ --	$ --	$ --	$ 1,547	$1,547
Interest rate(2)								
Interest rate swaps(3)								

- ---

(1) This is the variable rate portion related to these notes which is based on the Eurodollar rate plus 4 percent per annum. An additional 14 percent fixed rate, compounded quarterly, accrues to the RMT note payable (see Note 11).

(2) 2002-Weighted-average interest rate through 2006 is LIBOR plus an applicable margin ranging from 1.125 percent to 5.0 percent, except $178 million at Eurodollar plus 4.25 percent; weighted-average interest rate in 2007 is Eurodollar plus 4.25 percent. 2001-Weighted-average interest rates is LIBOR plus one percent for all years.

(3) The interest rate swaps at December 31, 2001 are reflected at fair value within energy risk management and trading assets and liabilities in the Consolidated Balance Sheet as these swaps are entered into to mitigate the interest rate risk inherent in the energy risk management and trading portfolio. Notional amounts total approximately $1 billion at December 31, 2001.

COMMODITY PRICE RISK

TRADING

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) have trading operations that incur commodity price risk as a consequence of providing price-risk management services to third-party customers. The most significant exposure to commodity price-risk is associated with the natural gas and electricity markets in the United States. This exposure is primarily within the portfolio of transportation, storage, full-requirements, load serving, transmission, and

power tolling contracts. Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) also has commodity price-risk exposure to crude oil, refined products, electricity and natural gas in the United States and Europe, natural gas liquids markets in the United States and the natural gas markets in Canada through other energy contracts such as forward, futures,

options, swaps, and purchase and sale contracts. These energy and energy-related contracts are valued at fair value and unrealized gains and losses from changes in fair value are recognized in income (see Note 1 of Notes to Consolidated Financial Statements regarding change in accounting principle due to adoption of EITF No. 02-3 effective January 1, 2003). These energy and energy-related contracts are subject to risk from changes in energy commodity market prices, volatility and correlation of those commodity prices, the portfolio position of its contracts, the liquidity of the market in which the contract is transacted and changes in interest rates. Energy Marketing & Trading and the natural gas liquids trading operations actively seek to diversify its portfolio in managing the commodity price risk in the transactions that it executes in various markets and regions by executing offsetting contracts to manage this risk in accordance with parameters established in its trading policy. A Risk Control Group monitors compliance with the established trading policy and measures the risk associated with the trading portfolio.

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) measures the market risk in its trading portfolio utilizing a value-at-risk methodology to estimate the potential one-day loss from adverse changes in the fair value of its trading operations. At December 31, 2002 and 2001, the value at risk for the trading operations was $50.2 million and $92.7 million, respectively. This decline in value at risk is primarily a result of the 28 percent decline in overall portfolio value outlined in previous sections. Value at risk requires a number of key assumptions and is not necessarily representative of actual losses in fair value that could be incurred from the trading portfolio. The value-at-risk model includes all financial instruments and physical positions and commitments in its trading portfolio and assumes that as a result of changes in commodity prices, there is a 95 percent probability that the one-day loss in fair value of the trading portfolio will not exceed the value at risk. The value-at-risk model uses historical simulations to estimate hypothetical movements in future market prices assuming normal market conditions based upon historical market prices. Value at risk does not consider that changing the energy risk management and trading portfolio in response to market conditions could affect market prices and could take longer to execute than the one-day holding period assumed in the value-at-risk model. While a one-day holding period is the industry standard, a longer holding period could more accurately represent the true market risk in an environment where market illiquidity and credit and liquidity constraints of the company may result in further inability to mitigate risk in a timely manner in response to changes in market conditions.

NON-TRADING

Williams is also exposed to market risks from changes in energy commodity prices within Exploration & Production, Petroleum Services, the non-trading operations of Midstream Gas & Liquids and the non-trading operations of Energy Marketing & Trading. Exploration & Production has commodity price risk associated with the sales prices of the natural gas and crude oil it produces. Petroleum Services' refinery is exposed to commodity price risk for crude oil purchases and refined product sales. Midstream Gas & Liquids is exposed to commodity price risk related to natural gas purchases, natural gas liquids purchases and sales, and electricity cost. Energy Marketing & Trading is exposed to changing prices of natural gas purchased for the production of electricity. Williams manages its exposure to certain of these commodity price risks through the use of derivative commodity instruments.

Williams' non-trading derivative commodity instruments primarily consist of natural gas price and basis swaps in its Exploration & Production business. A value-at-risk methodology was used to measure the market risk of these derivative commodity instruments in the non-trading portfolio. It estimates the potential one-day loss from adverse changes in the fair value of these instruments. The value-at-risk model did not consider the underlying commodity positions to which these derivative commodity instruments relate; therefore, it is not representative of actual losses that could occur on a total non-trading portfolio basis that includes the underlying commodity positions. At December 31, 2002, the value-at-risk for the non-trading derivative commodity instruments was approximately $45 million. Value-at-risk requires a number of key assumptions and is not necessarily representative of actual losses in fair value that could be incurred from the non-trading derivative commodity instruments. The value-at-risk model assumes that as a result of changes in commodity prices there is a 95 percent probability that the one-day loss in fair value of the non-trading derivative commodity instruments will not exceed the value-at-risk. The value-at-risk model uses historical simulations

to estimate hypothetical movements in future market prices assuming normal market conditions based upon historical market prices. Gains and losses on these derivative commodity instruments would be substantially offset by corresponding gains and losses on the hedged commodity positions.

FOREIGN CURRENCY RISK

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

International investments accounted for under the cost method totaled $130 million and $143 million at December 31, 2002, and 2001, respectively. The fair value of these investments is deemed to approximate their carrying amount as the investments are primarily in non-publicly traded companies for which it is not practicable to estimate the fair value of these investments. Williams continues to believe that it can realize the carrying value of these investments considering the status of the operations of the companies underlying these investments. If a 20 percent change occurred in the value of the underlying currencies of these investments against the U.S. dollar, the fair value of these investments at December 31, 2002, could change by approximately $26 million assuming a direct correlation between the currency fluctuation and the value of the investments.

The net assets of foreign operations whose functional currency is the local currency, which are consolidated are located primarily in Canada and approximate 15 percent of Williams' net assets at December 31, 2002. These foreign operations do not have significant transactions or financial instruments denominated in other currencies. However, these investments do have the potential to impact Williams' financial position, due to fluctuations in these local currencies arising from the process of re-measuring the local functional currency into the U.S. dollar. As an example, a 20 percent change in the respective functional currencies against the U.S. dollar could have changed stockholders' equity by approximately $148 million at December 31, 2002.

Williams historically has not utilized derivatives or other financial instruments to hedge the risk associated with the movement in foreign currencies with the exception of a Canadian dollar-denominated note receivable (see Note 15). However, Williams evaluates currency fluctuations and will consider the use of derivative financial instruments or employment of other investment alternatives if cash flows or investment returns so warrant.

EQUITY PRICE RISK

Equity price risk primarily arises from investments in publicly traded energy-related companies. The investments in the energy-related companies are carried at fair value and totaled approximately $14 million and $8 million at December 31, 2002 and 2001, respectively.

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, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the index at Item 15(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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. 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
March 5, 2003

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

YEARS ENDED DECEMBER 31,	2002	2001	2000
(MILLIONS, EXCEPT PER-SHARE AMOUNTS) Revenues: Energy Marketing & Trading	$ 56.2	$ 1,705.6	$1,295.1
Gas Pipeline	1,503.8	1,426.0	1,567.0
Exploration & Production	899.9	615.2	331.0
Midstream Gas & Liquids	1,909.1	1,906.8	1,574.3
Williams Energy Partners	423.7	402.5	373.0
Petroleum Services*	866.0	1,109.7	1,456.3
Other	65.9	80.3	74.4
Intercompany eliminations	(116.2)	(180.6)	(111.8)
Total revenues	5,608.4	7,065.5	6,559.3
Segment costs and expenses: Costs and operating expenses*	3,653.5	3,846.6	3,828.9
Selling, general and administrative expenses	723.9	793.0	617.8
Other (income) expense -- net	297.4	(16.1)	78.6
Total segment costs and expenses	4,674.8	4,623.5	4,525.3
General corporate expenses	142.8	124.3	97.2
Operating income (loss): Energy Marketing & Trading	(471.7)	1,294.6	968.2
Gas Pipeline	586.8	497.9	570.3
Exploration & Production	516.8	219.5	75.8
Midstream Gas & Liquids	171.7	185.9	282.0
Williams Energy Partners	99.3	101.2	104.2
Petroleum Services	48.1	145.8	39.5
Other	(17.4)	(2.9)	(6.0)
General corporate expenses	(142.8)	(124.3)	(97.2)
Total operating income	790.8	2,317.7	1,936.8
Interest accrued	(1,229.5)	(720.6)	(641.2)
Interest capitalized	29.0	38.4	34.3
Interest rate swap loss	(124.2)	--	--
Investing income (loss)	(109.7)	(168.6)	89.1
Minority interest in income and preferred returns of consolidated subsidiaries	(79.3)	(80.7)	(56.8)
Other income (expense) -- net	26.4	26.1	(.3)
Income (loss) from continuing operations before income taxes	(696.5)	1,412.3	1,361.9
Provision (benefit) for income taxes	(195.0)	609.6	541.5
Income (loss) from continuing operations	(501.5)	802.7	820.4
Loss from discontinued operations	(253.2)	(1,280.4)	(296.1)
Net income (loss)	(754.7)	(477.7)	524.3
Preferred stock dividends	90.1	--	--
Income (loss) applicable to common stock	$ (844.8)	$ (477.7)	$ 524.3
Basic earnings (loss) per common share: Income (loss) from continuing operations	$ (1.14)	$ 1.62	$ 1.85
Loss from discontinued operations	(.49)	(2.58)	(.67)
Net income (loss)	$ (1.63)	$ (.96)	$ 1.18
Diluted earnings (loss) per common share: Income (loss) from continuing operations	$ (1.14)	$ 1.61	$ 1.83
Loss from discontinued operations	(.49)	(2.56)	(.66)
Net income (loss)	$ (1.63)	$ (.95)	$ 1.17

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* Includes consumer excise taxes of $10.8 million, $33.4 million and $95.6 million in 2002, 2001 and 2000, respectively.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31,	2002	2001
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,728.3	$ 1,258.5
Restricted cash	102.8	--
Accounts and notes receivable less allowance of $113.2 ($252.2 in 2001)	2,524.4	2,762.4
Inventories	443.1	543.5
Energy risk management and trading assets	5,276.5	6,401.1
Margin deposits	804.8	171.4
Assets of discontinued operations	981.3	800.3
Deferred income taxes	569.2	440.6
Other current assets and deferred charges	455.7	447.2
Total current assets	12,886.1	12,825.0
Restricted cash	188.3	--
Investments	1,475.6	1,555.9
Property, plant and equipment -- net	14,717.7	14,388.9
Energy risk management and trading assets	3,578.7	4,030.4
Goodwill	1,082.5	1,141.4
Assets of discontinued operations	--	3,571.4
Receivables from Williams Communications Group, Inc. (less allowance of $103.2 in 2001)	120.3	137.2
Other assets and deferred charges	939.3	964.0
Total assets	$34,988.5	$38,614.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 934.8	$ 1,424.5
Accounts payable	2,027.5	2,571.0
Accrued liabilities	1,552.0	1,767.8
Liabilities of discontinued operations	304.1	560.5
Energy risk management and trading liabilities	5,359.6	5,412.7
Guarantees and payment obligations related to Williams Communications Group, Inc.	47.7	645.6
Long-term debt due within one year	1,082.8	999.4
Total current liabilities	11,308.5	13,381.5
Long-term debt	11,896.4	8,692.7
Deferred income taxes	3,353.6	3,689.9
Liabilities and minority interests of discontinued operations	--	898.7
Energy risk management and trading liabilities	1,863.5	2,757.6
Guarantees and payment obligations related to Williams Communications Group, Inc.	--	1,120.0
Other liabilities and deferred income	1,093.8	891.2
Contingent liabilities and commitments (Note 16)		
Minority interests in consolidated subsidiaries	423.7	162.2
Preferred interests in consolidated subsidiaries	--	976.4
Stockholders' equity:		
Preferred stock, $1 per share par value, 30 million shares authorized, 1.5 million issued in 2002, none in 2001	--	--
Common stock, $1 per share par value, 960 million shares authorized, 519.9 million issued in 2002, 518.9 million issued in 2001	519.9	518.9
Capital in excess of par value	5,177.2	5,085.1
Retained earnings (deficit)	(884.3)	199.6
Accumulated other comprehensive income	33.8	345.1
Other	(30.3)	(65.0)
Less treasury stock (at cost), 3.2 million shares of common stock in 2002 and 3.4 million in 2001	(38.6)	(39.7)
Total stockholders' equity	5,049.0	6,044.0
Total liabilities and stockholders' equity	$34,988.5	$38,614.2

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)	PREFERRED STOCK	COMMON STOCK PAR VALUE	CAPITAL IN EXCESS OF (DEFICIT)	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	OTHER	TOTAL
BALANCE, DECEMBER 31, 1999	$ --	$444.5	$2,356.7	$2,807.2	$ 99.5	$(77.6)	$(45.1)	$ 5,585.2
Comprehensive income: Net income -- 2000	--	--	--	524.3	--	--	--	524.3
Other comprehensive loss: Net unrealized depreciation on marketable equity securities, net of reclassification adjustments	--	--	--	--	(47.4)	--	--	(47.4)
Foreign currency translation adjustments	--	--	--	--	(23.9)	--	--	(23.9)
Total other comprehensive loss					(71.3)			
Total comprehensive income								453.0
Cash dividends -- Common stock ($.60 per share)	--	--	--	(265.8)	--	--	--	(265.8)
Stockholders' notes issued	--	--	--	--	--	--	--	(18.0)
Stockholders' notes repaid	--	--	--	--	--	--	--	(18.0)
Stock award transactions, including tax benefit (including 3.6 million common shares)	--	3.4	113.9	--	--	.3	2.6	120.2
ESOP loan repayment	--	--	--	--	7.5	--	--	7.5
Other	--	--	3.3	--	--	--	--	3.3
BALANCE, DECEMBER 31, 2000	--	447.9	2,473.9	3,065.7	28.2	(81.2)	(42.5)	5,892.0
Comprehensive loss: Net loss -- 2001	--	--	--	(477.7)	--	--	--	(477.7)
Other comprehensive income: Net unrealized gains on cash flow hedges, net of reclassification adjustments	--	--	--	--	370.2	--	--	370.2
Net unrealized depreciation on marketable equity securities, net of reclassification adjustments	--	--	--	--	(35.3)	--	--	(35.3)
Foreign currency translation adjustments	--	--	--	--	(37.1)	--	--	(37.1)
Minimum pension liability adjustment	--	--	--	--	(2.2)	--	--	(2.2)
Total other comprehensive income					295.6			
Total comprehensive loss								(182.1)
Issuance of common stock (38 million shares)	--	38.0	1,295.4	--	--	--	--	1,333.4
Issuance of common stock for acquisition of business (29.6 million shares)	--	29.6	1,206.1	--	--	--	--	1,235.7
Cash dividends -- Common stock ($.68 per share)	--	--	--	(341.0)	--	--	--	(341.0)
Stockholders' notes issued	--	--	--	--	--	--	--	(8.8)
Stockholders' notes repaid	--	--	--	--	--	--	--	6.3
Stock award transactions, including tax benefit (including 3.6 million common shares)	--	3.4	98.6	--	--	.7	2.8	105.5
Distribution of Williams Communications Groups' common stock	--	--	--	(2,047.4)	21.3	18.0	--	(2,008.1)

Other.....
-- -- 11.1 -- -- -- -- 11.1 ------
------ -------- -------- ------- --
---- ------ --------- BALANCE,
DECEMBER 31, 2001..... --
518.9 5,085.1 199.6 345.1 (65.0)
(39.7) 6,044.0 Comprehensive loss:
Net loss -- 2002.....
-- -- -- (754.7) -- -- -- (754.7)
Other comprehensive loss: Net
unrealized losses on cash flow
hedges, net of reclassification
adjustments... -- -- -- -- (298.9)
-- -- (298.9) Net unrealized
appreciation on marketable equity
securities, net of reclassification
adjustments..... --
-- -- -- 4.6 -- -- 4.6 Foreign
currency translation
adjustments..... --
-- -- -- (.1) -- -- (.1) Minimum
pension liability
adjustment..... --
-- -- -- (16.9) -- -- (16.9) ------
--- Total other comprehensive
loss..... (311.3) --------- Total
comprehensive loss.....
(1,066.0) Issuance of 9 7/8 percent
cumulative convertible preferred
stock (1.5 million
shares)..... 271.3 -
- -- -- -- -- -- 271.3 Cash
dividends -- Common stock ($.42 per
share)..... -- -- -- (216.8) -- --
-- (216.8) Preferred stock($14.14
per
share)..... -
- -- -- (20.8) -- -- -- (20.8)
Issuance of equity of consolidated
limited partnership.....
-- -- 44.6 -- -- -- -- 44.6
Beneficial conversion option on
issuance of convertible preferred
stock (Note 13).....
-- -- 69.4 (69.4) -- -- -- --
FELINE PACS equity contract
adjustment (Note 13).....
-- -- (76.7) -- -- -- -- (76.7)
Allowance for and repayments of
stockholders' notes.....
-- -- -- -- -- 7.8 (1.3) 6.5 Stock
award transactions, including tax
benefit (including 1.2 million
common shares).....
-- 1.0 33.1 -- -- .4 2.4 36.9 ESOP
loan repayment..... --
-- -- -- -- 26.5 -- 26.5
Other.....
-- -- 21.7 (22.2) -- -- -- (.5) ---
--- ------ -------- -------- ------
- ------ ------ --------- BALANCE,
DECEMBER 31, 2002..... $271.3
$519.9 $5,177.2 $ (884.3) $ 33.8
$(30.3) $(38.6) $ 5,049.0 ======
====== ======== ======== =======
====== ====== =========

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2002	2001	2000
(MILLIONS) OPERATING ACTIVITIES:			
Income (loss) from continuing operations	$ (501.5)	$ 802.7	$ 820.4
Adjustments to reconcile to cash provided (used) by operations:			
Depreciation, depletion and amortization	775.1	628.2	520.4
Provision (benefit) for deferred income taxes	(122.1)	362.7	376.9
Payments of guarantees and payment obligations related to Williams Communications Group, Inc.	(753.9)	--	--
Provision for loss on property and other assets	455.2	157.4	57.3
Net gain on dispositions of assets	(193.6)	(91.8)	(11.5)
Provision for uncollectible accounts:			
Williams Communications Group, Inc.		268.7	188.0
Other	10.2	13.7	3.4
Accrual for interest included in RMT note payable	32.2	--	--
Amortization of deferred set-up fee and fixed rate interest on RMT note payable	110.9	--	--
Minority interest in income and preferred returns of consolidated subsidiaries	79.3	80.7	56.8
Tax benefit received and amortization of stock-based awards	32.3	48.4	36.7
Cash provided (used) by changes in current assets and liabilities:			
Restricted cash	(4.0)	--	--
Accounts and notes receivable	192.5	357.6	(1,537.7)
Inventories	81.9	269.3	(288.5)
Margin deposits	(633.4)	559.5	(671.7)
Other current assets and deferred charges	(342.0)	136.3	16.8
Accounts payable	(616.8)	(430.3)	1,264.7
Accrued liabilities	(275.3)	221.8	279.8
Changes in current energy risk management and trading assets and liabilities	1,071.4	(742.9)	(218.8)
Changes in noncurrent energy risk management and trading assets and liabilities	(442.4)	(806.1)	(485.2)
Changes in noncurrent restricted cash	(104.2)	--	--
Other, including changes in noncurrent assets and liabilities	80.0	(56.9)	104.3
Net cash provided (used) by operating activities of continuing operations	(799.5)	1,698.3	324.1
Net cash provided by operating activities of discontinued operations	257.3	152.7	259.7
Net cash provided (used) by operating activities	(542.2)	1,851.0	583.8
FINANCING ACTIVITIES:			
Proceeds from notes payable	1,613.0	1,830.0	2,190.4
Payments of notes payable	(2,724.4)	(2,631.4)	(723.9)
Proceeds from long-term debt	3,970.0	3,525.1	984.6
Payments of long-term debt	(2,596.1)	(1,663.4)	(701.9)
Proceeds from issuance of common stock	5.2	1,388.5	64.1
Proceeds from issuance of preferred stock	271.3	--	--
Dividends paid	(230.8)	(341.0)	(265.8)
Proceeds from sale of limited partner units of consolidated partnership	279.3	92.5	--
Net proceeds from issuance of preferred interests of consolidated subsidiaries	--	95.3	546.8
Retirement of preferred interest in consolidated subsidiary	(135.0)	--	--
Redemption of Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures	--	(194.0)	--
Payments/dividends to minority and preferred interests	(70.8)	(56.9)	(35.7)
Changes in restricted cash	(182.1)	--	--
Payments for debt issuance costs	(203.9)	(45.8)	(3.9)
Changes in cash overdrafts	29.4	(28.8)	(31.9)
Other -- net	(8.5)		

(.1) (.1) --------- --------- --------- Net cash provided by financing activities of continuing operations.....
16.6 1,970.0 2,022.7 Net cash provided (used) by financing activities of discontinued operations..... (143.7)
1,360.0 1,728.3 --------- --------- --------- Net cash provided (used) by financing activities..... (127.1)
3,330.0 3,751.0 --------- --------- --------- INVESTING ACTIVITIES: Property, plant and equipment: Capital expenditures.....
(1,823.8) (1,624.1) (1,169.2) Proceeds from dispositions..... 566.6 29.9
31.7 Acquisitions of businesses (primarily property, plant and equipment), net of cash acquired..... -- (1,343.1) (726.4)
Purchases of investments/advances to affiliates..... (308.7) (568.3) (181.9) Proceeds from sales of businesses.....
2,300.4 163.7 -- Proceeds from dispositions of investments and other assets.....
273.0 243.9 47.2 Proceeds received on advances to affiliates..... 75.0 95.0 -- Proceeds received on sale of claims against Williams Communications Group, Inc.
..... 180.0 -- -- Purchase of assets subsequently leased to seller..... (8.9)
(276.0) -- Other -- net..... 35.8
24.4 .7 --------- --------- --------- Net cash provided (used) by investing activities of continuing operations.....
1,289.4
(3,254.6) (1,997.9) Net cash used by investing activities of discontinued operations.....
(185.2) (1,739.5) (2,207.8) --------- --------- --------
- Net cash provided (used) by investing activities.....
1,104.2 (4,994.1) (4,205.7) --------- --------- --------- Cash of discontinued operations at spinoff.....
-- (96.5) -- --------- ------- -- --------- Increase in cash and cash equivalents.....
434.9 90.4 129.1 Cash and cash equivalents at beginning of year.....
1,301.1 1,210.7 1,081.6 --------- --------- --------- Cash and cash equivalents at end of year*.....
$ 1,736.0 $ 1,301.1 $ 1,210.7
========= ========= =========

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* Includes cash and cash equivalents of discontinued operations of $7.7 million, $42.6 million and $246.9 million for 2002, 2001 and 2000, respectively.

See accompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2002 OVERVIEW AND RECENT DEVELOPMENTS

Events over the past year and a half have significantly impacted the Company's operations and these events will have a continuing impact on the Company's operations in the future. In the first quarter of 2002, as a result of credit issues facing the Company and the assumption of payment obligations and performance on guarantees associated with Williams Communications Group, Inc. (WCG), Williams announced plans to strengthen its balance sheet and support retention of its then-current investment grade ratings. During first-quarter 2002, Williams sold Kern River Gas Transmission (Kern River). During the second quarter of 2002, the results of the Energy Marketing & Trading business were not profitable, reflecting significantly unfavorable market movements against its portfolio and a decline in origination activities. These unfavorable conditions were in large part a result of market concerns about Williams' credit and liquidity situation and limited Energy Marketing & Trading's ability to manage market risk and exercise hedging strategies as market liquidity deteriorated. During third-quarter 2002, Williams' credit ratings were lowered below investment grade. Williams was also unable to complete a renewal of its unsecured short-term bank credit facility which expired July 24, 2002. Following these events and in response to a potential liquidity shortfall, Williams sold assets in July 2002 receiving net proceeds of approximately $1.5 billion, obtained secured credit facilities totaling $1.3 billion, including the $900 million short-term payable (RMT note payable), and amended its revolving credit facility to make it secured. Also during the third and fourth quarters of 2002, Williams completed additional asset sales resulting in net cash proceeds of approximately $1 billion. Segment losses continued in the third and fourth quarters of 2002 from the Energy Marketing & Trading business reflecting the continued negative market movements against the portfolio, the absence of origination activities and the adverse affects of Williams' overall liquidity and credit ratings issues, which impact Energy Marketing & Trading's ability to enter into price risk management and hedging activities.

As of December 31, 2002, the Company has scheduled debt retirements due through first-quarter 2004 of approximately $3.8 billion, which includes certain contractual fees and deferred interest associated with an underlying debt, and anticipates significant additional asset sales to meet its liquidity needs over that period. The Company has also reduced projected levels of capital expenditures and the board of directors reduced the quarterly dividend on common stock beginning in third-quarter 2002 from the prior level of $.20 per share to $.01 per share. The Company has also announced its intentions to reduce its commitment to the Energy Marketing & Trading business, which could be realized by entering into a joint venture with a third party or through the sale of a portion or all of the marketing and trading portfolio.

On February 20, 2003, Williams outlined its planned business strategy for the next several years and believes it to be a comprehensive response to the events which have impacted the energy sector and Williams during 2002. The plan focuses on retaining a strong, but smaller, portfolio of natural-gas businesses and bolstering Williams' liquidity through more asset sales, limited levels of financing at the subsidiary level and additional reductions in its operating costs. The plan is designed to provide Williams with a clear strategy to address near-term and medium-term liquidity issues and further de-leverage the company with the objective of returning to investment grade status by 2005, while retaining businesses with favorable returns and opportunities for growth in the future. As part of this plan, Williams expects to generate proceeds, net of related debt, of nearly $4 billion from asset sales during 2003, including approximately $2.25 billion in newly announced offerings combined with those assets already under contract or in negotiations for sale. Newly announced offerings include the Texas Gas pipeline system, Williams' general partnership interest and limited partner investment in Williams Energy Partners, and certain properties and assets within Exploration & Production and Midstream Gas & Liquids. During first-quarter 2003, Williams closed the sales of the retail travel centers and the Midsouth refinery.

While the Company believes that these actions will significantly address liquidity and credit concerns through the first quarter of 2004, the resulting downsizing of the Company will have a significant impact on

the Company's future financial position and results of operations. The Company's ability to maintain liquidity and future operations could be significantly impacted by other events, including the possibility that the asset sales and reduction of the Company's commitment to its Energy Marketing & Trading business will not be accomplished as currently anticipated. The timing and amount of proceeds to be realized from the sale of assets is subject to several variables, including negotiations with prospective buyers, industry conditions, lender consents to the sale of collateral, regulatory approvals and Williams' assessment of its short and long-term liquidity requirements. The reduction of the Company's commitment to Energy Marketing & Trading activities could be affected by the willingness of buyers and/or potential partners to enter into transactions with Williams, giving consideration to the current condition of the energy trading sector and liquidity and credit constraints of Williams. As a result of these factors, the proceeds that may be realized from the sales of assets, including the trading portfolio, may be less than the carrying values at December 31, 2002, and could result in additional impairments and losses. In the event that Williams' financial condition does not improve or becomes worse, or if it fails to complete asset sales and reduce its commitment to its Energy Marketing & Trading business, Williams may have to consider other options including the possibility of seeking protection in a bankruptcy proceeding.

DESCRIPTION OF BUSINESS

Operations of The Williams Companies, Inc. (Williams) are located principally in the United States and are organized into the following reporting segments: Energy Marketing & Trading, Gas Pipeline, Exploration & Production, Midstream Gas & Liquids, Williams Energy Partners and Petroleum Services.

Energy Marketing & Trading is a national energy services provider that buys, sells and transports a full suite of energy-related commodities, including power, natural gas, crude oil, refined products and emission credits, primarily on a wholesale level.

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

Exploration & Production includes natural gas exploration, production and marketing activities primarily in the Rocky Mountain, Midwest and Gulf Coast regions of the United States and Argentina.

Midstream Gas & Liquids is comprised of natural gas gathering and processing and treating facilities in the Rocky Mountain, Midwest and Gulf Coast regions of the United States, majority-owned natural gas compression and transportation facilities in Venezuela, and assets in Canada including several natural gas liquids extraction and fractionation plants, a natural gas liquids pipeline, storage facilities, and a natural gas processing plant.

Williams Energy Partners segment includes Williams Energy Partners L.P. (a partially-owned and consolidated entity of Williams) and Williams' general partnership interests. Williams GP LLC, WEG GP LLC, Williams Energy Partners L.P. and its subsidiaries are legally separate and distinct entities from The Williams Companies, Inc. and its other subsidiaries. The assets owned by Williams Energy Partners L.P., Williams GP LLC and WEG GP LLC, are generally not available for the payment of debts owed to the creditors of Williams and its other subsidiaries. Williams Energy Partners L.P. includes a network of storage, transportation and distribution assets for crude petroleum products and ammonia and a petroleum products pipeline.

Petroleum Services includes petroleum refining and marketing in Alaska and convenience stores in Alaska. Prior year amounts for Petroleum Services also include the results of operations of convenience stores in the Midsouth which were sold in May 2001. Williams is currently pursuing the sale of the Alaska operations.

On February 20, 2003, Williams announced that it was pursuing the sales of its Texas Gas pipeline system and its general partnership interest and limited partner investment in Williams Energy Partners, and certain properties and assets within Exploration & Production and Midstream Gas & Liquids.

BASIS OF PRESENTATION

In accordance with the provisions related to discontinued operations within Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the accompanying consolidated financial statements and notes reflect the results of operations, financial position and cash flows of the following components as discontinued operations (see Note 2):

- Kern River Gas Transmission (Kern River), previously one of Gas Pipeline's segments

- Central natural gas pipeline, previously one of Gas Pipeline's segments

- Colorado soda ash mining operations, part of the previously reported International segment

- Two natural gas liquids pipeline systems, Mid-America Pipeline and Seminole Pipeline, previously part of the Midstream Gas & Liquids segment

- Refining and marketing operations in the Midsouth, including the Midsouth refinery, previously part of the Petroleum Services segment

- Retail travel centers concentrated in the Midsouth, previously part of the Petroleum Services segment

- Bio-energy operations, previously part of the Petroleum Services segment

Additionally, the results of operations and cash flows of WCG are reflected as discontinued operations in the accompanying financial statements.

Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates to the continuing operations of Williams. Williams expects that other components of its business will be classified as discontinued operations in the future as the sales of those assets occur.

Additionally, activities of certain of Williams' segments were realigned or changed due to certain transactions during 2002. These realignments include the following:

- During first-quarter 2002, management of APCO Argentina was transferred from the previously reported International segment to the Exploration & Production segment.

- On April 11, 2002, Williams Energy Partners L.P., a partially owned and consolidated entity of Williams, acquired Williams Pipe Line, an operation previously included within Petroleum Services. Accordingly, Williams Pipe Line's operations have been transferred from the Petroleum Services segment to the Williams Energy Partners segment.

- Effective July 1, 2002, management of certain operations previously conducted by Energy Marketing & Trading, International and Petroleum Services was transferred to Midstream Gas & Liquids. These operations included natural gas liquids trading, activities in Venezuela and a petrochemical plant, respectively.

- The remaining operations of the previously reported International segment have been included within Other as a result of the decrease in significance of that segment.

Any segment information in the Notes to the Consolidated Financial Statements has been restated for all prior periods presented to reflect the changes noted above.

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

In 2001, through two transactions, Williams acquired all of the outstanding stock of Barrett Resources Corporation (Barrett). On June 11, 2001, Williams acquired 50 percent of Barrett's outstanding common stock in a cash tender offer totaling approximately $1.2 billion. Williams acquired the remaining 50 percent of Barrett's outstanding common stock on August 2, 2001, through a merger by exchanging each remaining share of Barrett common stock for 1.767 shares of Williams common stock for a total of approximately 30 million shares of Williams common stock valued at $1.2 billion.

The unaudited pro forma net income (loss) for 2001 and 2000, if the purchase of 100 percent of Barrett occurred at the beginning of each of those years, was $(396.0) million and $480.9 million, respectively, or $(.76) per diluted share and $1.00 per diluted share. Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the acquisition had occurred at the beginning of each year presented or of future results of operations of the combined companies.

The estimated fair values of the significant assets acquired and liabilities assumed at August 2, 2001, the date of acquisition, were: Current assets-$127.6 million; Property, plant & equipment-$2,520.4 million; Goodwill and other assets-$1,114.5 million; Current liabilities-$171.6 million; Long-term debt-$312.1 million; Deferred income taxes-$634.7 million; and Other noncurrent liabilities-$127.1 million.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Estimates and assumptions which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include: 1) impairment assessments of long-lived assets and goodwill; 2) litigation-related contingencies; 3) valuations of energy contracts, including energy-related contracts; 4) environmental remediation obligations; 5) realization of amounts due from WCG; 6) realization of deferred income tax assets; and 7) Gas Pipeline revenues subject to refund. These estimates are discussed further throughout the accompanying notes.

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.

RESTRICTED CASH

Restricted cash within current assets consists primarily of cash collateral as required under the $900 million short-term Credit Agreement (see Note 11) and letters of credit. Restricted cash within noncurrent assets consists primarily of collateral in support of surety bonds underwritten by an insurance company, debt service reserves and letters of credit. Williams does not expect this cash to be released within the next twelve months.

The current and noncurrent restricted cash is primarily invested in short-term money market accounts with financial institutions and an insurance company as well as treasury securities. The classification of restricted cash is determined based on the expected term of the collateral requirement and not necessarily the maturity date of the underlying securities.

ACCOUNTS RECEIVABLE

Accounts receivable are carried on a gross basis, with no discounting, less the allowance for doubtful accounts. No allowance for doubtful accounts is recognized at the time the revenue, which generates the accounts receivable, is recognized. Management estimates the allowance for doubtful accounts based on existing economic conditions, the financial conditions of the customers and the amount and age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Interest income related to past due accounts receivable is recognized at the time full payment is received. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

INVENTORY VALUATION

Inventories are stated at cost, which is not in excess of market, except for certain assets held for energy risk management activities by Energy Marketing & Trading and Midstream Gas & Liquids, which are primarily stated at fair value prior to the application of Emerging Issues Task Force (EITF) Issue No. 02-3 (see Recent accounting standards). The cost of certain natural gas inventories held by Transcontinental Gas Pipe Line are determined using the last-in, first-out (LIFO) cost method; and the cost of the remaining inventories is primarily determined using the average-cost method or market, if lower.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost. The carrying value of these assets is also based on estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values. Depreciation is provided primarily on the straight-line method over estimated useful lives. Gains or losses from the ordinary sale or retirement of property, plant and equipment for regulated pipelines are credited or charged to accumulated depreciation; other gains or losses are recorded in net income (loss).

Oil and gas exploration and production activities are accounted for under the successful efforts method of accounting. Costs incurred in connection with the drilling and equipping of exploratory wells are capitalized as incurred. If proved reserves are not found, such costs are charged to expense. Other exploration costs, including lease rentals, are expensed as incurred. All costs related to development wells, including related production equipment and lease acquisition costs, are capitalized when incurred. Unproved properties are evaluated annually, or as conditions warrant, to determine any impairment in carrying value. Depreciation, depletion and amortization are provided under the units of production method.

Proved properties, including developed and undeveloped, and costs associated with probable reserves, are assessed for impairment using estimated future cash flows. Estimating future cash flows involves the use of complex judgments such as estimation of the proved and probable oil and gas reserve quantities, risk associated with the different categories of oil and gas reserves, timing of development and production, expected future commodity prices, capital expenditures and production costs.

GOODWILL

Goodwill represents the excess of cost over fair value of assets of businesses acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," approximately $1 billion of goodwill acquired subsequent to June 30, 2001, in the acquisition of Barrett Resources Corporation, was not amortized in 2001.

Beginning January 1, 2002, all goodwill is no longer amortized, but is tested annually for impairment. Application of the nonamortization provisions of SFAS No. 142 did not materially impact the comparability of the Consolidated Statement of Operations. Energy Marketing & Trading's goodwill was approximately $45 million and $106 million at December 31, 2002, and December 31, 2001, respectively (see Note 4). Exploration & Production's goodwill was approximately $1 billion at December 31, 2002 and 2001.

Beginning January 1, 2002, the impairment of goodwill and other intangible assets is measured pursuant to the guidelines of SFAS No. 142. Goodwill is evaluated for impairment by first comparing management's estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value exceeds its fair value, a computation of the implied fair value of the goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess.

When a reporting unit is sold or classified as held for sale, any goodwill of that reporting unit is included in its carrying value for purposes of determining any impairment or gain/loss on sale. If a portion of a reporting unit with goodwill is sold or classified as held for sale and that asset group represents a business, a portion of the reporting unit's goodwill is allocated to and included in the carrying value of that asset group. Except for bio-energy, none of the operations sold during 2002 or classified as held for sale at December 31, 2002 represented reporting units with goodwill or businesses within reporting units to which goodwill was required to be allocated.

Judgments and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine the estimate of the reporting unit's fair value. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements.

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.

ENERGY COMMODITY RISK MANAGEMENT AND TRADING ACTIVITIES AND REVENUES

Williams, through Energy Marketing & Trading and the natural gas liquids trading operations (reported within the Midstream Gas & Liquids segment), has energy commodity risk management and trading operations that enter into energy and energy-related contracts to provide price-risk management services to its third-party customers involving power, natural gas, refined products, natural gas liquids and crude oil. Energy contracts utilized in energy commodity risk management and trading activities are valued at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Williams adopted SFAS No. 133 effective January 1, 2001. Such adoption had no impact on the accounting for energy commodity risk management and trading activities. Prior to adopting SFAS No. 133, Energy Marketing & Trading followed the guidance in EITF No. 98-10. See Recent accounting standards section within this Note for changing accounting standards regarding recording certain energy contracts and commodity trading inventories at fair value. Energy contracts include forward contracts, futures contracts, option contracts, swap agreements, certain physical commodity inventories, short-and long-term purchase and sale commitments, which involve physical delivery of an energy commodity and energy-related contracts, such as transportation, storage, full requirements, load serving and power tolling contracts. In addition, Williams enters into interest rate swap agreements and credit default swaps to manage the interest rate and credit risk in its energy trading portfolio. These energy contracts and credit default swap agreements, with the exception of physical trading commodity inventories, are recorded in current and noncurrent energy risk management and

trading assets and energy risk management and trading liabilities in the Consolidated Balance Sheet. The classification of current versus noncurrent is based on the timing of expected future cash flows. In accordance with SFAS No. 133 and EITF No. 98-10, the net change in fair value of these contracts representing unrealized gains and losses is recognized in income currently, and recorded as revenues in the Consolidated Statement of Operations. Energy Marketing & Trading and the natural gas liquids trading operations, report their trading operations' physical sales transactions net of the related purchase costs, consistent with fair value accounting for such trading activities. The accounting for Energy Marketing & Trading's energy-related contracts requires Williams to assess whether certain of these contracts are executory service arrangements or leases pursuant to SFAS No. 13, "Accounting for Leases." As a result, Williams assesses each of its energy-related contracts and makes the determination based on the substance of each contract focusing on factors such as physical and operational control of the related asset, risks and rewards of owning, operating and maintaining the related asset and other contractual terms. See Recent accounting standards section within this Note for recent developments regarding guidance determining whether an arrangement contains a lease.

The fair values of energy and energy-related contracts are determined based on the nature of the transaction and the market in which transactions are executed. Certain transactions are executed in exchange-traded or over-the-counter markets for which quoted prices in active periods exist, while other transactions are executed where quoted market prices are not available or the contracts extend into periods for which quoted market prices are not available. Quoted market prices for varying periods in active markets are readily available for valuing forward contracts, futures contracts, swap agreements and purchase and sales transactions in the commodity markets in which Energy Marketing & Trading and the natural gas liquids trading operations transact. Market data in active periods is also available for interest rate transactions affecting the trading portfolio. For contracts or transactions that extend into periods for which actively quoted prices are not available, Energy Marketing & Trading and the natural gas trading operations estimate energy commodity prices in the illiquid periods by incorporating information obtained from commodity prices in actively quoted markets, prices in less active markets, prices reflected in current transactions and market fundamental analysis. For contracts where quoted market prices are not available, primarily transportation, storage, full requirements, load serving, transmission and power tolling contracts (energy-related contracts), Energy Marketing & Trading estimates fair value using proprietary models and other valuation techniques that reflect the best information available under the circumstances. In situations where Energy Marketing & Trading has received current information from negotiation activities with potential buyers of these contracts, the information is considered in the determination of the fair value of the contract. The valuation techniques used when estimating fair value for energy-related contracts incorporate option pricing theory, statistical and simulation analysis, present value concepts incorporating risk from uncertainty of the timing and amount of estimated cash flows and specific contractual terms. The estimates of fair value also assume liquidating the positions in an orderly manner over a reasonable period of time in a transaction between a willing buyer and seller. These valuation techniques utilize factors such as quoted energy commodity market prices, estimates of energy commodity market prices in the absence of quoted market prices, volatility factors underlying the positions, estimated correlation of energy commodity prices, contractual volumes, estimated volumes under option and other arrangements, liquidity of the market in which the contract is transacted, and a risk-free market discount rate. Fair value also reflects a risk premium that market participants would consider in their determination of fair value. Regardless of the method for which fair value is determined, the recognized fair value of all contracts also considers the risk of non-performance and credit considerations of the counterparty. The estimates of fair value are adjusted as assumptions change or as transactions become closer to settlement and enhanced estimates become available.

In some cases, Energy Marketing & Trading enters into price-risk management contracts that have forward start dates commencing upon completion of construction and development of assets to be owned and operated by third parties. Until construction commences, revenue recognition and the fair value of these contracts is limited to the amount of any guaranty or similar form of acceptable credit support that encourages

the counterparty to perform under the terms of the contract with appropriate consideration for any contractual provisions that provide for contract termination by the counterparty.

The fair value of Williams' trading portfolio is continually subject to change due to changing market conditions and changing trading portfolio positions. Determining fair value for these contracts also involves complex assumptions including estimating natural gas and power market prices in illiquid periods and markets, estimating market volatility and liquidity and correlation of natural gas and power prices, evaluating risk arising from uncertainty inherent in estimating cash flows and estimates regarding counterparty performance and credit considerations. Changes in valuation methodologies or the underlying assumptions could result in significantly different fair values.

GAS PIPELINE REVENUES

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

REVENUES, OTHER THAN GAS PIPELINE AND ENERGY COMMODITY RISK MANAGEMENT AND TRADING ACTIVITIES

Revenues generally are recorded when services have been performed or products have been delivered. A portion of Williams Energy Partners' operations is subject to FERC regulations and, accordingly, the method of recording these revenues is consistent with Gas Pipeline's method discussed above. Certain Midstream Gas & Liquids revenues are from trading activities. See the previous discussion of Energy commodity risk management and trading activities and revenues for additional information.

Additionally, revenues from the domestic production of natural gas in properties for which Exploration & Production has an interest with other producers, are recognized based on the actual volumes sold during the period. Any differences between volumes sold and entitlement volumes, based on Exploration & Production's net working interest, which are determined to be non-recoverable through remaining production, are recognized as accounts receivable or accounts payable, as appropriate. Cumulative differences between volumes sold and entitlement volumes are not significant.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, INCLUDING INTEREST RATE SWAPS

All derivatives, other than derivatives within Midstream Gas & Liquids and Energy Marketing & Trading's energy commodity risk management and trading activities which are accounted for at fair value as discussed above, are reflected on the balance sheet at their fair value and are recorded in other current assets, other assets and deferred charges, accrued liabilities and other liabilities and deferred income in the Consolidated Balance Sheet as of December 31, 2002 and 2001.

Derivative instruments held by Williams, other than those utilized in the energy risk management and trading activities, consist primarily of futures contracts, swap agreements, forward contracts and option contracts. Most of these transactions are executed in exchange-traded or over-the-counter markets for which quoted prices in active periods exist. For contracts with lives exceeding the time period for which quoted prices are available, fair value determination involves estimating commodity prices during the illiquid periods by incorporating information obtained from commodity prices in actively quoted markets, prices reflected in current transactions and market fundamental analysis.

In first-quarter 2002, Williams began managing its interest rate risk on an enterprise basis by the corporate parent. The more significant of these risks relate to its debt instruments and its energy risk

management and trading portfolio. To facilitate the management of the risk, entities within Williams may enter into derivative instruments (usually swaps) with the corporate parent. The level, term and nature of derivative instruments entered into with external parties are determined by the corporate parent. Energy Marketing & Trading has entered into intercompany interest rate swaps with the corporate parent, the effect of which is included in Energy Marketing & Trading's segment revenues and segment profit (loss) as shown in the reconciliation within the segment disclosures (Note 19). The results of interest rate swaps with external counterparties are shown as interest rate swap loss in the Consolidated Statement of Operations below operating income (loss).

The accounting for changes in the fair value of a derivative depends upon whether it has been designated in a hedging relationship and, further, on the type of hedging relationship. To qualify for designation in a hedging relationship, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to Williams' risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. If a derivative ceases to be a highly effective hedge, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized in earnings each period. Changes in the fair value of derivatives not designated in a hedging relationship are recognized in earnings each period.

For derivatives designated as a hedge of a recognized asset or liability or an unrecognized firm commitment (fair value hedges), the changes in the fair value of the derivative as well as changes in the fair value of the hedged item attributable to the hedged risk are recognized each period in earnings. If a firm commitment designated as the hedged item in a fair value hedge is terminated or otherwise no longer qualifies as the hedged item, any asset or liability previously recorded as part of the hedged item is recognized currently in earnings.

For derivatives designated as a hedge of a forecasted transaction or of the variability of cash flows related to a recognized asset or liability (cash flow hedges), the effective portion of the change in fair value of the derivative is reported in other comprehensive income and reclassified into earnings in the period in which the hedged item affects earnings. Amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings. Gains or losses deferred in accumulated other comprehensive income associated with terminated derivatives, derivatives that cease to be highly effective hedges and cash flow hedges that have been otherwise discontinued remain in accumulated other comprehensive income until the hedged item affects earnings or it is probable that the hedged item will not occur by the end of the originally specified time period or within two months thereafter. Forecasted transactions designated as the hedged item in a cash flow hedge are regularly evaluated to assess whether they continue to be probable of occurring. When it is probable the forecasted transaction will not occur, any gain or loss deferred in accumulated other comprehensive income is recognized in earnings at that time.

On January 1, 2001, Williams recorded a cumulative effect of an accounting change associated with the adoption of SFAS No. 133, as amended, to record all derivatives at fair value. The cumulative effect of the accounting change was not material to net income (loss), but resulted in a $95 million reduction of other comprehensive income (net of income tax benefits of $59 million) related to derivatives which hedge the variable cash flows of certain forecasted energy commodity transactions.

With the adoption of SFAS No. 133 on January 1, 2001, the accounting for certain aspects of derivative instruments and hedging activities was different in periods prior to the adoption of SFAS No. 133. Prior to 2001, Williams entered into energy derivative financial instruments and derivative commodity instruments (primarily futures contracts, option contracts and swap agreements) to hedge against market price fluctuations of certain commodity inventories and sales and purchase commitments. Certain of these instruments were not required to be recorded on the balance sheet; there was not a distinction between cash flow and fair value hedges and no ineffectiveness was required to be recorded currently in earnings. Unrealized and realized gains and losses on those hedge contracts were deferred and recognized in income in the same manner as the

hedged item. No unrealized gains or losses were required to be reported in other comprehensive income. These contracts were initially and regularly evaluated to determine that there was high correlation between changes in the fair value of the hedge contract and fair value of the hedged item. In instances where the anticipated correlation of price movements did not occur, hedge accounting was terminated and future changes in the value of the instruments were recognized as gains or losses. If the hedged item of the underlying transaction was sold or settled, the instrument was recognized into income (loss). Williams entered into interest-rate swap agreements to modify the interest characteristics of its long-term debt. These agreements were designated with all or a portion of the principal balance and term of specific debt obligations. These agreements involved 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 was accrued and recognized as an adjustment of interest accrued. Gains and losses from terminations of interest-rate swap agreements were deferred and amortized as an adjustment of the interest expense on the outstanding debt over the remaining original term of the terminated swap agreement. In the event the designated debt was extinguished, gains and losses from terminations of interest-rate swap agreements were recognized into income (loss).

IMPAIRMENT OF LONG-LIVED ASSETS

Williams evaluates the long-lived assets of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. Beginning January 1, 2002, the impairment evaluation of tangible long-lived assets is measured pursuant to the guidelines of SFAS No. 144. When an indicator of impairment has occurred, management's estimate of undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether an impairment has occurred. A probability-weighted approach is applied to consider the likelihood of different cash flow assumptions and possible outcomes including a sale in the near term or hold for the remaining estimated useful life. If an impairment of the carrying value has occurred, the amount of the impairment recognized in the financial statements is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

For assets identified to be disposed of in the future and considered held for sale in accordance with SFAS No. 144, the carrying value of these assets is compared to the estimated fair value less the cost to sell to determine if recognition of an impairment is required. Until the assets are disposed of, the estimated fair value, which includes estimated cash flows from operations until the assumed date of sale, is redetermined when related events or circumstances change.

Judgments and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of impairment to recognize. Additionally, management's judgment is used to determine the probability of sale with respect to assets considered for disposal pursuant to Williams' announced strategy of selling assets as a significant source of liquidity. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements.

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 are based on the average interest rate on debt. Interest capitalized on internally generated funds, as permitted by FERC rules, is included in non-operating other income (expense) -- net.

EMPLOYEE STOCK-BASED AWARDS

Employee stock-based awards are accounted for under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Fixed-plan common stock options generally do not result in compensation expense because the exercise price of the stock options equals the market price of the underlying stock on the date of grant. The plans are described more fully in Note 14. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

YEARS ENDED DECEMBER 31,	2002	2001	2000
(DOLLARS IN MILLIONS) Net income (loss), as reported	$(754.7)	$(477.7)	$ 524.3
Add: Stock-based employee compensation expense included in the Consolidated Statement of Operations, net of related tax effects	19.1	13.6	6.8
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(34.5)	(24.7)	(149.7)
Pro forma net income (loss)	$(770.1)	$(488.8)	$ 381.4
Earnings (loss) per share: Basic-as reported	$ (1.63)	$ (.96)	$ 1.18
Basic-pro forma	$ (1.66)	$ (.98)	$ .86
Diluted-as reported	$ (1.63)	$ (.95)	$ 1.17
Diluted-pro forma	$ (1.66)	$ (.98)	$ .85

Pro forma amounts for 2002 include compensation expense from certain Williams awards made in 1999 and compensation expense from Williams awards made in 2002 and 2001.

Pro forma amounts for 2001 include compensation expense from certain Williams awards made in 1999 and compensation expense from Williams awards made in 2001.

Pro forma amounts for 2000 include compensation expense from certain Williams awards made in 1999 and the total compensation expense from Williams awards made in 2000, as these awards fully vested in 2000 as a result of the accelerated vesting provisions. Pro forma amounts for 2000 include $36.7 million for Williams awards and $106.3 million related to discontinued operations. Since compensation expense from stock options is recognized over the future years' vesting period for pro forma disclosure purposes and additional awards are generally made each year, pro forma amounts may not be representative of future years' amounts.

INCOME TAXES

Williams includes the operations of its subsidiaries in its consolidated 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. Management's judgment and income tax assumptions are used to determine the levels, if any, of valuation allowances associated with deferred tax assets.

EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are based on the sum of the weighted average number of common shares outstanding and issuable restricted and vested deferred shares. Diluted earnings (loss) per share include any dilutive effect of stock options, unvested deferred shares and, for applicable periods presented, convertible preferred stock.

FOREIGN CURRENCY TRANSLATION

The functional currency of certain of Williams' continuing foreign operations is the local currency for the applicable foreign subsidiary or equity method investee. These foreign currencies include the Canadian dollar, British pound and Euro. Assets and liabilities of certain foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations and Williams' share of the results of operations of its equity affiliates are translated into the U.S. dollar at the average exchange rates in effect during the applicable period. The resulting cumulative translation adjustment is recorded as a separate component of other comprehensive income (loss).

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

ISSUANCE OF EQUITY OF CONSOLIDATED SUBSIDIARY

Sales of equity, common stock or limited partnership units by a consolidated subsidiary are accounted for as capital transactions with the adjustment to capital in excess of par value. No gain or loss is recognized on these transactions.

SECURITIZATIONS AND TRANSFERS OF FINANCIAL INSTRUMENTS

Through July 2002, Williams had agreements to sell, on an ongoing basis, certain of its trade accounts receivable through revolving securitization structures and retained servicing responsibilities as well as a subordinate interest in the transferred receivables. These agreements expired in July 2002 and were not renewed. Williams accounted for the securitization of trade accounts receivable in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a result, the related receivables were removed from the Consolidated Balance Sheet and a retained interest was recorded for the amount of receivables sold in excess of cash received.

Williams determined the fair value of its retained interests based on the present value of future expected cash flows using management's best estimates of various factors, including credit loss experience and discount rates commensurate with the risks involved. These assumptions were updated periodically based on actual results, thus the estimated credit loss and discount rates utilized were materially consistent with historical performance. The fair value of the servicing responsibility was estimated based on internal costs, which approximate market. Costs associated with the sale of receivables are included in nonoperating other income (expense) -- net in the Consolidated Statement of Operations.

RECENT ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and amends SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, and that the associated asset

retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002 with the impact of adoption to be reported as a cumulative effect of change in accounting principle.

Williams adopted the new rules on asset retirement obligations on January 1, 2003. As required by the new rules, Williams recorded liabilities equal to the present value of expected future asset retirement obligations at January 1, 2003. The obligations related to producing wells, offshore platforms and underground storage caverns. The liabilities are partially offset by increases in net assets, net of accumulated depreciation, recorded as if the provisions of the Statement had been in effect at the date the obligation was incurred. As a result of the adoption of SFAS No. 143, Williams recorded a long-term liability of $33 million; property, plant and equipment, net of accumulated depreciation, of $15 million and a cumulative effect of a change in accounting principle of $5 million (net of $3 million of taxes). Williams also recorded a $10 million regulatory asset for retirement costs expected to be recovered through regulated rates. In connection with adoption of SFAS No. 143, Williams changed its method of accounting to include salvage value of equipment related to producing wells in the calculation of depreciation, resulting in a $9 million reduction in accumulated depreciation and a cumulative effect of change in accounting principle of $6 million (net of $3 million of taxes) in 2003.

Williams has not recorded liabilities for pipeline transmission assets, processing and refining assets, and gas gathering systems. A reasonable estimate of the fair value of the retirement obligations for these assets cannot be made as the remaining life of these assets is not currently determinable.

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," requires that gains and losses from extinguishment of debt only be classified as extraordinary items in the event that they meet the criteria of APB Opinion No. 30. SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," established accounting requirements for the effects of transition to the Motor Carriers Act of 1980 and is no longer required now that the transitions have been completed. Finally, the amendments to SFAS No. 13 require certain lease modifications that have economic effects which are similar to sale-leaseback transactions be accounted for as sale-leaseback transactions. The provisions of this Statement related to the rescission of SFAS No. 4 are to be applied in fiscal years beginning after May 15, 2002, while the provisions related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of the Statement are effective for financial statements issued on or after May 15, 2002. There was no initial impact of SFAS No. 145 on Williams' results of operations and financial position. However, in subsequent reporting periods, any gains and losses from debt extinguishments will not be accounted for as extraordinary items.

The FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under this Statement, a liability for a cost associated with an exit or disposal activity is recognized at fair value when the liability is incurred rather than at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002; hence, initial adoption of this Statement on January 1, 2003, did not have any impact on Williams' results of operations or financial position.

The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," which is effective for fiscal years ending after December 15, 2002. SFAS No. 148 amends SFAS No. 123 to permit two additional transition methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic method under APB No. 25. The

prospective method of transition under SFAS No. 123 is an option to the entities that adopt the recognition provisions under this statement in a fiscal year beginning before December 15, 2003. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements concerning the method of accounting used for stock-based employee compensation and the effects of that method on reported results of operations. Under SFAS No. 148, pro forma disclosures will be required in a specific tabular format in the "Summary of Significant Accounting Policies." Williams has applied the disclosure requirements of this statement effective December 31, 2002. The adoption had no effect on Williams' consolidated financial position or results of operations. Williams continues to account for its stock-based compensation plans under APB Opinion No. 25. See Employee stock-based awards.

The FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation requires the fair value of guarantees issued or modified after December 31, 2002, be initially recognized by the guarantor at the inception of the guarantee, and expands the disclosure requirements for guarantees. Initial adoption of this Interpretation did not have any impact on Williams' results of operations or financial position. The expanded disclosure requirements have been presented in the Notes to Consolidated Financial Statements.

The FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." The Interpretation defines a variable interest entity (VIE) as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The investments or other interests that will absorb portions of the VIE's expected losses or receive portions of the VIE's expected residual returns are called variable interests. Variable interests may include, but are not limited to, equity interests, debt instruments, beneficial interests, derivative instruments and guarantees. The Interpretation requires an entity to consolidate a VIE if that entity will absorb, through either a single variable interest or combination of variable interests, a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. If no party will absorb a majority of the expected losses or expected residual returns, no party will consolidate the VIE. The Interpretation must be applied to all VIE's created after January 31, 2003 and to existing VIE's for periods beginning after June 15, 2003. The assets, liabilities and non-controlling interests of a VIE consolidated as a result of this Interpretation should be measured and recorded at their carrying amount at the effective date of the Interpretation. Any difference between the net consolidated amount and the amount of any previously recognized interest in the newly consolidated entity shall be recognized as the cumulative effect of a change in accounting principle. Williams has completed a preliminary review of its investments and contractual arrangements to identify variable interest entities to meet the 2002 disclosure requirements of the Interpretation and has presented such disclosures in the Notes to Consolidated Financial Statements. Williams has not completed its full evaluation but currently believes that the effect of adoption of the Interpretation will not be material to the consolidated financial statements.

On October 25, 2002, the EITF reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." This Issue rescinds EITF Issue No. 98-10, the impact of which is to preclude fair value accounting for energy trading contracts that are not derivatives pursuant to SFAS No. 133 and commodity trading inventories. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are held for trading purposes. The consensus is applicable for fiscal periods beginning after December 15, 2002, except for physical trading commodity inventories purchased after October 25, 2002 which may not be reported at fair value. Williams will initially apply the consensus effective January 1, 2003 and will report the initial application as a cumulative effect of a change in accounting principle. The effect of initially applying the consensus will reduce net income by approximately $750 million to $800 million on an after tax basis. Physical trading commodity inventories at December 31, 2002 that were purchased prior to October 25, 2002 were reported at fair value at December 31, 2002 and

included in the effect of initially applying the consensus. The change results primarily from power tolling load serving, transportation and storage contracts not meeting the definition of a derivative and no longer being reported at fair value. These contracts will be accounted for under an accrual model. Physical trading commodity inventories will be stated at cost, not to be in excess of market.

The accounting for Energy Marketing & Trading's energy-related contracts, which include contracts such as transportation, storage, load serving and tolling agreements, requires Williams to assess whether certain of these contracts are executory service arrangements or leases pursuant to SFAS No. 13. On January 23, 2003, the EITF reached a tentative consensus on Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," and directed the Working Group considering this Issue to further address certain matters, including transition. The March 14, 2003 report of the Working Group indicates the Working Group supports a prospective transition of this Issue where the consensus would be applied to arrangements consummated or substantively modified after the date of the final consensus. Williams is currently reviewing the impact of the tentative consensus on its energy-related contracts. Williams' preliminary review indicates that certain tolling agreements could be leases under the tentative consensus. If the EITF did not adopt a prospective transition and applied the consensus to existing arrangements there could be a significant impact to Williams' financial position and results of operations.

NOTE 2. DISCONTINUED OPERATIONS

SUMMARIZED RESULTS OF DISCONTINUED OPERATIONS

Summarized results of discontinued operations for the years ended December 31, 2002, 2001, and 2000 are as follows:

	2002	2001	2000
	(MILLIONS)		
2002 TRANSACTIONS			
Revenues	$3,793.2	$ 4,511.0	$3,219.9
Income (loss) from operations:			
Income before income taxes	$ 115.0	$ 238.0	$ 233.4
Impairment and net losses on sales	(512.6)	(184.7)	--
Benefit (provision) for income taxes	144.4	(20.6)	(88.4)
Income (loss) from discontinued operations	$ (253.2)	$ 32.7	$ 145.0
WCG			
Revenues	$ --	$ 329.5*	$ 818.8
Loss from operations:			
Loss before income taxes	$ --	$ (271.3)*	$ (252.4)
Estimated before tax loss on disposal of WCG's Solutions segment	--	--	(323.9)
Estimated losses attributable to probable performance on WCG guarantee obligations	--	(1,839.2)	--
Benefit for income taxes	--	797.4	156.8
Cumulative effect of change in accounting principle	--	--	(21.6)
Loss from discontinued operations	$ --	$(1,313.1)	$ (441.1)
Total net loss from discontinued operations	$ (253.2)	$(1,280.4)	$ (296.1)

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* Represents revenues and results of operations from January 1, 2001 through April 23, 2001.

SUMMARIZED ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS

Summarized assets and liabilities of discontinued operations as of December 31, 2002 and 2001, are as follows:

2002	2001		
		(MILLIONS)	
$441.6	$ 800.3	Property, plant and equipment -- net	520.5
	3,330.3	Other noncurrent assets	19.2
	241.1	Total noncurrent assets	539.7
	3,571.4	Total assets	
$981.3	$4,371.7	Long-term debt due within one year	$ 68.6
			37.4
		Other current liabilities	
	217.3		523.1
		Total current liabilities	285.9
	560.5	Long-term debt	
	8.5		808.0
		Other noncurrent liabilities	9.7
	90.7	Total noncurrent liabilities	18.2
	898.7	Total liabilities	
	$304.1		$1,459.2

The December 31, 2002 amounts include the assets and liabilities of the soda ash operations, the Midsouth refinery and related assets, the travel centers, and the bio-energy facilities as these had been approved for sale by Williams' board of directors although the sales were not yet complete. Because the sales are expected to close within twelve months, the noncurrent assets and liabilities of discontinued operations have been included in the current section of the Consolidated Balance Sheet as assets and liabilities held for sale at December 31, 2002. Therefore, the total assets of $981.3 million and the total liabilities of $304.1 million are recorded as current assets and current liabilities of discontinued operations in the Consolidated Balance Sheet at December 31, 2002. For 2001, the noncurrent assets and liabilities for these assets were not reclassified to current assets and liabilities in the Consolidated Balance Sheet, but are included in the assets and liabilities of discontinued operations.

2002 TRANSACTIONS

As previously discussed, Williams began the process in 2002 of selling assets and/or businesses to address liquidity issues. In accordance with the provisions related to discontinued operations within SFAS No. 144, the results of operations (including any impairments, gains or losses), financial position and cash flows for the following assets and/or businesses, which have been sold or approved for sale, have been reflected in the consolidated financial statements and notes as discontinued operations:

Kern River

On March 27, 2002, Williams completed the sale of its Kern River pipeline for $450 million in cash and the assumption by the purchaser of $510 million in debt. As part of the agreement, $32.5 million of the purchase price was contingent upon Kern River receiving a certificate from the FERC to construct and operate a future expansion. This certificate was received in July 2002 and the contingent payment plus interest was recognized as income from discontinued operations in third-quarter 2002. Included as a component of

impairments and net losses on sales from discontinued operations (included in the preceding table) is a pre-tax loss of $6.4 million for the year ended December 31, 2002. Kern River was a segment within Gas Pipeline.

Central

During third-quarter 2002, Williams' board of directors approved an agreement to sell Central natural gas pipeline, for $380 million in cash and the assumption by the purchaser of $175 million in debt. The sale closed November 15, 2002. The sale agreement resulted from efforts to market this asset through a reserve price auction process that was initiated during second-quarter 2002. Included as a component of impairments and net losses on sales (included in the preceding table) is a pre-tax loss of $91.3 million for the year ended December 31, 2002. Central was a segment within Gas Pipeline.

Soda ash operations

In March 2002, Williams announced its intentions to sell its soda ash mining facility located in Colorado. During third-quarter 2002, Williams' board of directors approved a plan authorizing management to negotiate and facilitate a sale of its interest in the soda ash operations pursuant to terms of a proposed sales agreement. As a result of the board of directors' approval and management's expectation of consummation of a sale, these operations met the criteria within SFAS No. 144 to be reported as held for sale at December 31, 2002. The soda ash facility was previously written-down by $170 million in fourth-quarter 2001 to an estimated fair value at December 31, 2001. In April 2002, Williams initiated a reserve-auction process. As this process and negotiations with interested parties progressed through 2002, new information regarding estimated fair value became available. As a result, additional impairment charges totaling $133.5 million were recognized in 2002. The impairment charges are recorded as a component of impairments and net losses on sales (included in the preceding table), and are reflective of management's estimate of fair value associated with revised terms of its negotiations to sell the operations. The soda ash operations were part of the previously reported International segment.

Mid-America and Seminole Pipelines

On August 1, 2002, Williams completed the sale of its 98 percent interest in Mid-America Pipeline and 98 percent of its 80 percent ownership interest in Seminole Pipeline for $1.2 billion. The sale generated net cash proceeds of $1.15 billion. Included as a component of impairments and net losses on sales (included in the preceding table) is a pre-tax gain of $301.7 million for the year ended December 31, 2002. These assets were part of the Midstream Gas & Liquids segment. A performance guarantee of $50 million for Seminole Pipeline remained in effect at December 31, 2002. This guarantee was terminated in February 2003.

Midsouth refinery and related assets

During the second quarter of 2002, management announced its intention to sell its refining operations. On November 26, 2002 and pursuant to board of director approval, Williams announced it had reached an agreement to sell its refinery and other related operations located in Memphis, Tennessee. Impairment charges totaling $240.8 million were recorded during 2002 to reduce the carrying cost to management's estimate of fair market value based on information available through the reserve auction process and sales agreement negotiations. These impairments are recorded as components of impairments and net losses on sales (included in the preceding table). The sale closed on March 4, 2003. These operations were part of the Petroleum Services segment.

Williams travel centers

The travel centers had been identified as a business that does not fit into the new core focus and were marketed for sale through a reserve auction process. During the fourth quarter 2002 and pursuant to board of

director approval, Williams announced that it had signed a definitive agreement for the sale of the travel centers. Impairment charges and liability accruals totaling $146.6 million were recorded during 2002 to reduce the carrying cost to management's estimate of fair market value based on information available through the reserve auction process and sales agreement negotiations. In 2001, Williams also recorded $14.7 million of impairment and loss accruals relating to the travel centers. These impairments are recorded as components of impairments and net losses on sales from discontinued operations (included in the preceding table). The sale closed on February 27, 2003. These operations were part of the Petroleum Services segment.

Bio-energy facilities

Williams' bio-energy operations have been identified as assets not related to the new more narrowly focused business. During fourth-quarter 2002, Williams' board of directors approved a plan authorizing management to negotiate and facilitate a sale pursuant to terms of a proposed sales agreement. As a result of the board of directors' approval and management's expectation of consummation of a sale with the year, these operations met the criteria within SFAS No. 144 to be held for sale at December 31, 2002. On February 20, 2003, Williams announced it had signed a definitive agreement to sell these operations to a new company formed by Morgan Stanley Capital Partners. Impairment charges totaling $195.7 million, including $23 million related to goodwill, were recorded in 2002 to reduce the carrying cost to management's estimate of fair market value based on information available through a reserve auction process and sales agreement negotiations. These impairments are recorded as components of impairments and net losses on sales (included in the preceding table). These operations were part of the Petroleum Services segment.

WCG

Spinoff and related information

On March 30, 2001, Williams' board of directors approved a tax-free spinoff of WCG to Williams' shareholders. Williams distributed 398.5 million shares, or approximately 95 percent of the WCG common stock held by Williams, to holders of record on April 9, 2001, of Williams' common stock. Distribution of .822399 of a share of WCG common stock for each share of Williams common stock occurred on April 23, 2001. In accordance with APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions," the results of operations, financial position and cash flows for WCG have been reflected in the accompanying consolidated financial statements and notes as discontinued operations.

Williams, prior to the spinoff and in an effort to strengthen WCG's capital structure, entered into an agreement under which Williams contributed an outstanding promissory note from WCG of approximately $975 million and certain other assets, including the Williams Technology Center (Technology Center) and other ancillary assets under construction and a commitment to complete the construction. In return, Williams received newly issued common shares of WCG. The WCG common stock distribution was recorded as a dividend and resulted in a decrease to consolidated stockholders' equity of approximately $2 billion, which included an increase to accumulated other comprehensive income of approximately $21.3 million. The WCG shares retained by Williams had a carrying value of $95.9 million at the spinoff date.

In addition, prior to the spinoff, Williams provided indirect credit support for $1.4 billion of WCG's Note Trust Notes. On March 5, 2002, Williams received the requisite approvals on its consent solicitation to amend the terms of the WCG Note Trust Notes. The amendment, among other things, eliminated acceleration of the WCG Note Trust Notes due to a WCG bankruptcy or from a Williams credit rating downgrade. The amendment also affirmed Williams' obligation for all payments due with respect to the WCG Note Trust Notes, which mature in March, 2004, and allows Williams to fund such payments from any available sources. See 2002 developments and accounting below for an update.

Williams also provided a guarantee of WCG's obligations under a 1998 asset defeasance program (ADP) transaction in which WCG entered into a lease agreement covering a portion of its fiber-optic network. WCG had an option to purchase the covered network assets during the lease term at an amount approximating lessor's cost of $750 million. See 2002 developments and accounting below for an update.

2001 post spinoff and accounting

In third-quarter 2001, Williams purchased the Technology Center and three corporate aircraft from WCG for $276 million, which represents the approximate actual cost of construction of the Technology Center and the acquisition costs of the ancillary assets and aircraft. Williams then entered into long-term lease arrangements under which WCG was the sole lessee of the Technology Center and aircraft.

Disclosures and announcements by WCG, prior to the filing of Williams 2001 Annual Report on Form 10-K on March 7, 2002, including WCG's announcement that it might seek to reorganize under the U.S. Bankruptcy Code, resulted in Williams concluding that it was probable that it would not fully realize the $375 million of receivables from WCG at December 31, 2001 nor recover its investment in WCG common stock. The receivables included a $106 million deferred payment for services provided to WCG prior to the spinoff and $269 million from the long term lease to WCG of the Technology Center and aircraft. In addition, Williams determined that it was probable that it would be required to perform under the $2.21 billion of guarantees and payment obligations, including the indirect credit support for $1.4 billion of WCG's Note Trust Notes and the guarantee of WCG's obligations under the ADP transaction. Other events that affected Williams' assessment included the credit downgrades of WCG, the bankruptcy of a significant competitor announced on January 28, 2002, and public statements by WCG regarding an ongoing comprehensive review of its bank secured credit arrangements. As a result of these factors, Williams, using the best information available prior to March 7, 2002 and under the circumstances, developed an estimated range of loss related to its total WCG exposure. Management utilized the assistance of external legal counsel and an external financial and restructuring advisor in making estimates related to its guarantees and payment obligations and ultimate recovery of the contractual amounts receivable from WCG. At that time, management believed that no loss within the range was more probable than another. Accordingly, Williams recorded the $2.05 billion minimum amount of the range of loss which is reported in the Consolidated Statement of Operations as a $1.84 billion pre-tax charge to discontinued operations and a $213 million pre-tax charge to continuing operations.

The charge to discontinued operations in 2001 of $1.84 billion includes $1.77 billion minimum amount of the estimated range of loss from performance on $2.21 billion of guarantees and payment obligations, interest of $58 million on the WCG Note Trust Notes assumed by Williams and other expenses. With the exception of the interest on the WCG Note Trust Notes and other expenses, Williams assumed for purposes of this estimated loss that it would become an unsecured creditor of WCG for all or part of the amounts paid under the guarantees and payment obligations. However, it was probable that Williams would not be able to recover a significant portion of these unsecured claims. The estimated loss from the performance of the guarantees and payment obligations was based on the overall estimate of recoveries on amounts owed Williams as discussed below. Due to the amendment of the WCG Note Trust Notes discussed above, $1.1 billion of the accrued loss was classified as a long-term liability in the Consolidated Balance Sheet at December 31, 2001.

The charge to continuing operations in 2001 of $213 million includes estimated losses from an assessment of the recoverability of carrying amounts of the $106 million deferred payment for services provided to WCG, the $269 million minimum lease payment receivable from WCG, and the remaining $25 million investment in WCG common stock. In third-quarter 2001, Williams recognized a $70.9 million loss related to the write-down of its investment in WCG common stock due to the decline in value which was determined to be other than temporary. A provision of $85 million on the deferred payment was based on the overall estimate of recoveries on amounts receivable using the same assumptions on collectability as discussed below. A provision of $103 million on the minimum lease payments receivable was based on an estimate of the fair value of the

leased assets. The $25 million write-off of the WCG stock investment was based on management's assessment of realization as a result of WCG's balance sheet restructuring program.

The estimated range of loss assumed that Williams, as a creditor of WCG, would recover only a portion of its unsecured claims against WCG. Such claims included a $2.21 billion receivable from performance on guarantees and payment obligations and a $106 million deferred payment for services provided to WCG. With the assistance of external legal counsel and an external financial and restructuring advisor, and considering the best information available at that time and under the circumstances, management developed a range of loss on these receivables with a minimum loss of 80 percent on claims in a bankruptcy of WCG. Estimating the range of loss as a creditor involves making complex judgments and assumptions about uncertain outcomes. The actual loss differed from the 2001 recorded loss as Williams recognized additional losses in 2002.

The minimum amount of loss in the range was estimated based on recoveries from a successful reorganization process under Chapter 11 of the U.S. Bankruptcy Code. To estimate recoveries of the unsecured creditors, Williams estimated an enterprise value of WCG using a present value analysis and reduced the enterprise value by the level of secured debt which may exist in WCG's restructured balance sheet. In its estimate of WCG's enterprise value, Williams considered a range of cash flow estimates based on information from WCG and from other external sources. Future cash flow projections were valued using discount rates ranging from 17 percent to 25 percent. The range of cash flows was based on different scenarios related to the growth, if any, of WCG's revenues and the impact that a bankruptcy may have on revenue growth. The range of discount rates considered WCG's assumed restructured capital structure and the market return that equity investors may require to invest in a telecommunications business operating in the current distressed industry environment. The range of loss also considered recoveries based on transaction values from recent telecommunications restructurings and from a liquidation of WCG's assets.

At December 31, 2001, Williams had financial exposure from WCG of $375 million of receivables for which allowances totaling $188 million were established in 2001 and $2.21 billion of guarantees and payment obligations for which a total accrued loss of $1.77 billion was recorded in 2001.

2002 developments and accounting

In 2002, Williams acquired all of the WCG Note Trust Notes by exchanging $1.4 billion of Williams Senior Unsecured 9.25 percent Notes due March 2004. WCG was indirectly obligated to reimburse Williams for any payments Williams is required to make in connection with the WCG Note Trust Notes.

On March 29, 2002, Williams funded the purchase price of $754 million related to WCG's March 8, 2002 exercise of its option to purchase the covered network assets under the ADP transaction. Williams then became entitled to an unsecured note from WCG for the same amount.

On April 22, 2002, WCG filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. WCG's Chapter 11 Plan of Reorganization (Plan) was confirmed by the United States Bankruptcy Court for the Southern District of New York (Court) on September 30, 2002. On October 15, 2002, WCG consummated the Plan. The Plan includes (1) mutual releases, effective October 15, 2002, between WCG (and all of its affiliates and each of their present and former directors, officers, employees and agents), the Official Creditors Committee and Williams (and all of its affiliates and each of their present and former directors, officers, employees and agents), which forever bar causes of action against Williams that are based in whole or in part on any act, omission, event, condition or thing in existence or that occurred in whole or in part prior to October 15, 2002, and arising out of or relating in any way to WCG or its present or former assets; (2) a channeling injunction, effective October 15, 2002, which enjoins the holders of unsecured claims against WCG from taking any action to assert, seek or obtain a recovery from Williams; (3) the sale by Williams to Leucadia National Corporation (Leucadia) for $180 million in cash of Williams' claims against WCG related to the WCG Note Trust Notes, the funding of the WCG purchase option for the covered network assets and

the deferred payment for services and (4) the sale by Williams to WCG of the Technology Center for (a) a seven and one-half year promissory note in the principal amount of $100 million with interest at 7 percent (Long Term Note), and (b) a four year promissory note (which may be pre-paid without penalty) with a face amount of $74.4 million and an original principal amount of $44.8 million (Short Term Note), both of which are secured by a mortgage on the Technology Center and certain other collateral. Interest on the principal amount of the Short Term Note is capitalized on December 31 of each year beginning in 2003 and accrues at the following rates: 10 percent interest from October 15, 2002 to December 31, 2003; 12 percent interest from January 1, 2004 to December 31, 2004; 14 percent interest from January 1, 2005 to December 31, 2005 and 16 percent interest from January 1, 2006 to December 29, 2006. The sale of certain of Williams' claims against WCG to Leucadia for $180 million in cash and the sale by Williams to WCG of the Technology Center were completed in 2002. The Plan does not extinguish or eliminate claims that WCG shareholders have made against Williams and its directors and officers. For information relating to litigation involving the distribution of WCG shares and claims that WCG shareholders have made against Williams and its directors and officers see Note 16.

At December 31, 2002, Williams has a $121.5 million receivable (original principal amount of $144.8 million) from WCG for the promissory notes relating to the sale of the Technology Center pursuant to the Plan. The notes were initially recorded at fair value based on contractual cash flows and an estimated discount rate considering the creditworthiness of WCG, the amount and timing of the cash flows and Williams' security in the Technology Center and certain other collateral. The fourth quarter 2002 sale of certain of Williams' claims against WCG to Leucadia resulted in the elimination of $2.26 billion of receivables, and the associated $2.08 billion allowance, from Williams' Consolidated Balance Sheet. In 2002, Williams recorded in continuing operations additional pre-tax charges of $268.7 million related to the recovery and settlement of these receivables and claims.

Williams has provided guarantees in the event of nonpayment by WCG on certain lease performance obligations of WCG that extend through 2042 and have a maximum potential exposure of approximately $53 million. Williams' exposure declines systematically throughout the remaining term of WCG's obligations. The carrying value of these guarantees was approximately $48 million at December 31, 2002 and are recorded as liabilities.

OTHER WCG-RELATED INFORMATION

Williams has received a private letter ruling from the Internal Revenue Service (IRS) stating that the distribution of WCG common stock associated with the 2001 spin-off would be tax-free to Williams and its stockholders. Although private letter rulings are generally binding on the IRS, Williams will not be able to rely on this ruling if any of the factual representations or assumptions that were made to obtain the ruling are, or become, incorrect or untrue in any material respect. However, Williams is not aware of any facts or circumstances that would cause any of the representations or assumptions to be incorrect or untrue in any material respect. The distribution could also become taxable to Williams, but not Williams shareholders, under the Internal Revenue Code (IRC) in the event that Williams' or WCG's subsequent business combinations were deemed to be part of a plan contemplated at the time of distribution and would constitute a total cumulative change of more than 50 percent of the equity interest in either company.

Williams, with respect to shares of WCG's common stock that Williams retained, committed to the IRS to dispose of all of the WCG common stock that it retained as soon as market conditions allow, but in any event not longer than five years after the spinoff. As part of a separation agreement, but subject to an additional favorable ruling by the IRS that such a limitation is not inconsistent with any ruling issued to Williams regarding the tax-free treatment of the spinoff, Williams agreed not to dispose of the retained WCG shares for three years from the date of distribution and to notify WCG of an intent to dispose of such shares. However, on February 28, 2002, Williams filed with the IRS a request to withdraw its request for a ruling that

the agreement between Williams and WCG that Williams would not transfer any retained WCG stock for a three year period from the spinoff would not be inconsistent with the favorable tax-free treatment ruling issued to Williams. Williams represented in the withdrawal request that it had abandoned its intent to make the lock-up effective, thereby making the ruling request moot. WCG common stock held by Williams was included in the WCG equity interests cancelled and discharged in accordance with the Plan.

NOTE 3. INVESTING ACTIVITIES

Investing income (loss) for the years ended December 31, 2002, 2001 and 2000, is as follows:

	2002	2001	2000
Equity earnings (losses)*	$ 72.0	$ 22.7	$21.6
Income (loss) from investments*	42.1	4.2	.8
Write-down of investment in WCG stock	--	(95.9)	--
Loss provision for WCG receivables (see Note 2)	(268.7)		
Interest income and other	44.9	88.4	66.7
Total	$(109.7)	$(168.6)	$89.1

- ---

* Items also included in segment profit.

Equity earnings for the year ended December 31, 2002, include a benefit of $27.4 million, reflecting a contractual construction completion fee received by an equity affiliate of Williams whose operations are accounted for under the equity method of accounting. This equity affiliate served as the general contractor on the Gulfstream pipeline project for Gulfstream Natural Gas System (Gulfstream), an interstate natural gas pipeline subject to FERC regulations and an equity affiliate of Williams. The fee paid by Gulfstream, associated with the early completion during second-quarter of the construction of Gulfstream's pipeline, was capitalized by Gulfstream as property, plant and equipment and is included in Gulfstream's rate base to be recovered in future revenues.

Income (loss) from investments for the year ended December 31, 2002, includes the following:

- $58.5 million gain on sale of Williams' investment in AB Mazeikiu Nafta, a Lithuanian oil refinery, pipeline and terminal complex, which was included in the previously reported International segment

- $12.3 million write-down of Gas Pipeline's investment in a pipeline project which was cancelled in 2002

- $10.4 million net write-down pursuant to the sale of Williams' equity interest in Alliance Pipeline, a Canadian and U.S. gas pipeline, which was included in the Gas Pipeline segment

- $8.7 million gain on sale of Williams' general partner equity interest in Northern Border Partners, L.P., which was included in the Gas Pipeline segment

Income (loss) from investments for the year ended December 31, 2001, includes the following:

- $27.5 million gain on the sale of Williams' limited partnership interest in Northern Border Partners, L.P., which was included in the Gas Pipeline segment

- $23.3 million of write-downs of certain investments which were included in the Energy Marketing & Trading segment

The $95.9 million write-down of the WCG investment in 2001 resulted from a decline in the value of the WCG common stock which was determined to be other than temporary.

Investments at December 31, 2002 and 2001, are as follows:

2002	2001			(MILLIONS)
		Equity method:		
		Gulfstream Natural Gas System, LLC -- 50%	$ 734.4	$ 467.8
		Alliance Pipeline -- 14.6% in 2001	--	186.8
		Longhorn Partners Pipeline, L.P. -- 32.1%	89.3	105.1
		Discovery Pipeline -- 50%	75.3	70.2
		ACCROVEN -- 49.3%	60.4	57.1
		Alliance Aux Sable -- 14.6%	54.8	53.9
		AB Mazeikiu Nafta -- 33% in 2001	--	39.1
		Other	177.8	191.0
			1,192.0	1,171.0
		Cost method:		
		Gulf Liquids Holdings, LLC	--	92.2
		Algar Telecom S.A. -- common and preferred stock	52.8	52.8
		Asian Infrastructure Fund	27.0	36.3
		Indonesian Toll Road	23.7	23.7
		Other	61.1	64.4
			164.6	269.4
		Advances to affiliates and other	119.0	115.5
			$1,475.6	$1,555.9

As previously noted, investments in Alliance Pipeline and AB Mazeikiu Nafta were sold during 2002. During 2002, Williams consolidated Gulf Liquids Holdings, LLC due to changes in 2002. Advances to affiliates at December 31, 2001 include a $75 million loan to AB Mazeikiu Nafta, which was sold in third-quarter 2002. At December 31, 2002, advances to affiliates are primarily related to notes and interest receivable from Longhorn Partners Pipeline, L.P. (Longhorn) which was held by Petroleum Services.

Dividends and distributions received from companies carried on the equity basis were $81 million, $51 million and $21 million in 2002, 2001 and 2000, respectively. The $27.4 million construction completion fee described previously is included in the 2002 distributions.

At December 31, 2002, commitments for additional investments in Gulfstream and certain international cost investments are $48.6 million. Williams, Williams Gas Pipeline Company, L.L.C. and/or Williams Production Holdings LLC have guaranteed commercial letters of credit totaling $16.9 million on behalf of ACCROVEN. These expire in January 2004, have no carrying value and are fully collateralized with cash.

Certain of the entities in which Williams invests continue to be reviewed to determine if they are variable interest entities under FASB Interpretation No. 46, which will be adopted for existing entities in the third quarter of 2003. These entities are Gulfstream, Longhorn Partners Pipeline, L.P. and Discovery Pipeline. Gulfstream is a joint venture that constructed and operates a natural gas pipeline extending from Alabama through the Gulf of Mexico and into Florida. Gulfstream recognized net income of approximately $61.7 million on $28.5 million of revenues in 2002 and holds $1.5 billion of total assets at December 31, 2002. The net income total includes $51.2 million of AFUDC income. Williams has a commitment to provide an additional $19.3 million investment in Gulfstream. Longhorn is a joint venture that is currently developing a pipeline to transport gasoline, diesel and jet fuel from Gulf Coast refineries to terminals in the Permian Basin and the

El Paso gateway market. Due to continued start-up activities related to its development of the pipeline, Longhorn did not recognize revenue in 2002 but had $495 million of total assets at December 31, 2002. Williams holds a receivable from Longhorn of approximately $138.8 million at December 31, 2002. Discovery Pipeline (Discovery) is a joint venture gas gathering and processing system in southeast Louisiana and offshore Gulf of Mexico. Discovery recognized net income of approximately $4.7 million on $83.2 million of revenue in 2002 and holds $432 million of total assets at December 31, 2002. In addition to its investment, Williams has provided a guarantee in the event of nonperformance on 50 percent of Discovery's debt obligation, or approximately $126.9 million at December 31, 2002. Performance under the guarantee generally would occur upon a failure of payment by the financed entity or certain events of default related to the guarantor. These events of default primarily relate to bankruptcy and/or insolvency of the guarantor. The guarantee expires at the end of 2003, and no amounts have been accrued as of December 31, 2002.

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

Financial position at December 31, 2002 and 2001, is as follows:

	2002	2001
	(MILLIONS)	
Current assets	$ 244.1	$ 199.1
Noncurrent assets	3,739.6	3,031.6
Current liabilities	256.7	252.3
Noncurrent liabilities	813.0	917.3

Results of operations for the years ended December 31, 2002, 2001 and 2000, are as follows:

	2002	2001	2000
	(MILLIONS)		
Gross revenue	$621.7	$588.2	$322.7
Operating profit	148.6	54.0	85.1
Net income	177.4	22.2	33.9

NOTE 4. ASSET SALES, IMPAIRMENTS AND OTHER ACCRUALS

Significant gains or losses from asset sales, impairments and other accruals included in other (income) expense -- net within segment costs and expenses for the years ended December 31, 2002, 2001 and 2000, are as follows:

(GAINS) LOSSES	2002	2001	2000
(MILLIONS)			
ENERGY MARKETING & TRADING			
Guarantee loss accruals and write-offs	$ 56.2	$ --	$47.5
Impairment of Worthington generation facility	44.7	--	--
Loss accruals and impairment of other power related assets	82.6	--	16.3
Impairment of goodwill	61.1	--	--
Impairment of plant for terminated expansion	--	13.3	--
GAS PIPELINE			
Loss accrual for litigation and claims	--	18.3	--
EXPLORATION & PRODUCTION			
Gain on sale of certain interests in gas producing properties in Wyoming	(120.3)	--	--
Gain on sale of certain interests in gas producing properties in Anadarko Basin	(21.4)	--	--
MIDSTREAM GAS & LIQUIDS			
Impairment of Canadian assets	115.0	--	--
Impairment of south Texas assets	--	13.8	--
PETROLEUM SERVICES			
Impairment of Alaska assets	18.4	--	--
Gain on sale of certain convenience stores	--	(75.3)	--
Impairment of end-to-end mobile computing systems business	--	12.1	11.9

The guarantee loss accruals and write-offs within Energy Marketing & Trading of $56.2 million in 2002 includes accruals for commitments for certain assets that were previously planned to be used in power projects, write-offs associated with a terminated power plant project and a $13.2 million reversal of loss accruals related to the wind-down of its mezzanine lending business. The impairment of the Worthington generation facility was recorded pursuant to the sale of the facility, which closed in first-quarter 2003. The loss accruals and impairments of other power related assets were recorded pursuant to reducing activities associated with the distributive power generation business. The impairment of goodwill includes a $57.5 million goodwill impairment loss in second-quarter 2002 reflecting a decline in the fair value from deteriorating market conditions in the merchant energy sector in which it operates and Energy Marketing & Trading's resulting announcement in June 2002 to scale back its own energy marketing and risk management business. The fair value of Energy Marketing & Trading used to calculate the goodwill impairment loss was based on the estimated fair value of the trading portfolio inclusive of the fair value of contracts with affiliates, which are not reflected at fair value in the financial statements. The fair value of these contracts was estimated using a discounted cash flow model with natural gas pricing assumptions based on current market information. The remaining goodwill was evaluated for impairment at the end of 2002 and an additional impairment of $3.0 million was required based on management's estimate of the fair value of Energy Marketing & Trading at December 31, 2002.

Approximately $38 million of the Canadian asset impairment reflects a reduction of carrying cost to management's estimate of fair market value, determined primarily from information available from efforts to sell these assets. The balance is associated with assets whose carrying costs were determined not fully recoverable and reduced to estimated fair value.

NOTE 5. PROVISION (BENEFIT) FOR INCOME TAXES

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

2002 2001 2000 ------- ------ ------ (MILLIONS)
Current:
Federal.....
$(126.7) $211.2 $138.8
State.....
27.4 22.7 21.6
Foreign.....
26.4 13.0 4.2 ------- ------ ------ (72.9) 246.9 164.6
Deferred:
Federal.....
(98.5) 306.4 320.8
State.....
(49.3) 38.6 58.8
Foreign.....
25.7 17.7 (2.7) ------- ------ ------ (122.1) 362.7
376.9 ------- ------ ------ Total provision
(benefit)..... $(195.0) $609.6
$541.5 ======= ====== ======

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

2002 2001 2000 ------- ------ ------
(MILLIONS) Provision (benefit) at statutory
rate..... $(243.8) $494.4
$476.7 Increases (reductions) in taxes
resulting from: State income taxes (net of
federal benefit)..... (14.2) 39.8 52.3
Foreign operations --
net..... 94.7 12.2
(2.1) Change in valuation allowance (federal
only)..... (119.1) 44.5 -- Non-
deductible impairment of
goodwill..... 21.7 -- -- Income
tax (credits)
recapture..... 26.8 --
(5.7) Other --
net.....
38.9 18.7 20.3 ------- ------ ------ Provision
(benefit) for income
taxes..... $(195.0) $609.6
$541.5 ======= ====== ======

Significant components of deferred tax liabilities and assets as of December 31, 2002 and 2001, are as follows:

	2002	2001
(MILLIONS)		
Deferred tax liabilities:		
Property, plant and equipment	$2,223.5	$3,075.1
Energy risk management and trading -- net	582.7	1,023.1
Investments	568.0	510.2
Other	168.9	170.6
Total deferred tax liabilities	3,543.1	4,779.0
Deferred tax assets:		
Guarantee obligations related to WCG	16.9	742.5
Minimum tax credits	151.7	249.0
Accrued liabilities	314.5	245.4
Investments	12.5	173.3
Receivables	8.2	63.1
Loss carryovers	216.2	73.5
Rate refunds	3.4	35.7
Other	78.5	120.5
Total deferred tax assets	801.9	1,703.0
Valuation allowance	43.2	173.3
Net deferred tax assets	758.7	1,529.7
Overall net deferred tax liabilities	$2,784.4	$3,249.3

Cash payments for income taxes, net of refunds were $36 million, $87 million and $112 million in 2002, 2001 and 2000, respectively.

Valuation allowances were established during 2001 for deferred tax assets from basis differences in investments for which the ultimate realization of the tax asset was dependent on future capital gains. The recording of the investment in the retained shares of WCG after the spinoff (see Note 2) resulted in a $129 million tax asset for which a valuation allowance of $129 million was established. The remaining $44 million of the tax asset, for which a valuation allowance was established, resulted from the financial impairment of certain investments during 2001 (see Note 3). These valuation allowances were reduced during 2002 as a result of capital gains generated during the year.

The impact of foreign operations on the effective tax rate increased during 2002 due to the recognition of U.S. tax on foreign dividend distributions and recording of a financial impairment on certain foreign assets for which a valuation allowance was established.

Federal net operating loss carryovers of $480 million at the end of 2002 are expected to be utilized by Williams prior to expiration in 2012 through 2022. Capital loss carryovers of $67 million at the end of 2002 are not expected to be utilized by Williams prior to expiration in 2007; therefore, a valuation allowance of $26 million was established.

NOTE 6. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per common share are computed for the years ended December 31, 2002, 2001 and 2000, as follows:

	2002	2001	2000
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS; SHARES IN THOUSANDS)		
Income (loss) from continuing operations	$ (501.5)	$ 802.7	$ 820.4
Convertible preferred stock dividends (see Note 13)	(90.1)	--	--
Income (loss) from continuing operations available to common stockholders for basic and diluted earnings per share	$ (591.6)	$ 802.7	$ 820.4
Basic weighted-average shares	516,793	496,935	444,416
Effect of dilutive securities: Stock options	--	3,632	4,904
Diluted weighted-average shares	516,793	500,567	449,320
Earnings (loss) per share from continuing operations:			
Basic	$ (1.14)	$ 1.62	$ 1.85
Diluted	$ (1.14)	$ 1.61	$ 1.83

For the year ended December 31, 2002, diluted earnings (loss) per share is the same as the basic calculation. The inclusion of any stock options, convertible preferred stock and unvested deferred stock would be antidilutive as Williams reported a loss from continuing operations for this period. As a result, for the year ended December 31, 2002, approximately 666 thousand weighted-average stock options, approximately 11.3 million weighted-average shares related to the assumed conversion of the 9 7/8 percent cumulative convertible preferred stock and approximately 3.6 million weighted-average unvested deferred shares, that otherwise would have been included, have been excluded from the computation of diluted earnings per common share.

Additionally, approximately 38.7 million, 15.3 million and 7.2 million options to purchase shares of common stock with weighted-average exercise prices of $19.90, $36.12 and $43.11, respectively, were outstanding on December 31, 2002, 2001 and 2000, respectively, but have been excluded from the computation of diluted earnings per share. Inclusion of these shares would have been antidilutive, as the exercise prices of the options exceeded the average market prices of the common shares for the respective years.

NOTE 7. EMPLOYEE BENEFIT PLANS

The following table presents the changes in benefit obligations and plan assets for pension benefits and other postretirement benefits for the years indicated. It also presents a reconciliation of the funded status of these benefits to the amount recorded in the Consolidated Balance Sheet at December 31 of each year indicated. Prior year amounts have been restated to exclude those benefit plans where it is anticipated that Williams will no longer serve as sponsor related to those operations reported as discontinued operations (see Note 1). Changes in the obligations or assets of continuing plans associated with the transfer of such

obligations or assets in a sale or planned sale reflected as discontinued operations have been reflected as divestitures in the following tables.

	OTHER POSTRETIREMENT BENEFITS			
	PENSION BENEFITS			
	2002	2001	2002	2001
	(MILLIONS)			
Change in benefit obligation:				
Benefit obligations at beginning of year	$ 994.2	$ 907.2	$ 489.0	$ 466.8
Service cost	37.8	36.1	7.1	6.9
Interest cost	67.5	69.5	31.8	29.5
Plan participants' contributions	--	--	3.9	2.7
Curtailment	(.8)	--	--	--
Settlement benefits paid	(31.6)	--	--	--
Benefits paid	(117.8)	(62.6)	(26.3)	(23.8)
Divestitures	(3.3)	(2.3)	(27.0)	--
Special termination benefit cost	33.0	--	1.5	--
Actuarial (gain) loss	(72.5)	46.3	(69.5)	6.9
Benefit obligation at end of year	906.5	994.2	410.5	489.0
Change in plan assets:				
Fair value of plan assets at beginning of year	866.4	959.0	247.6	254.2
Actual return on plan assets	(112.2)	(79.9)	(34.9)	(14.4)
Divestitures	--	(11.8)	(20.2)	--
Employer contributions	98.3	61.7	23.8	28.9
Plan participants' contributions	--	--	3.9	2.7
Benefits paid	(117.8)	(62.6)	(26.3)	(23.8)
Settlement benefits paid	(31.6)	--	--	--
Fair value of plan assets at end of year	703.1	866.4	193.9	247.6
Funded status	(203.4)	(127.8)	(216.6)	(241.4)
Unrecognized net actuarial loss	353.1	254.0	14.3	37.9
Unrecognized prior service credit	(11.9)	(15.4)	(1.5)	(1.3)
Unrecognized transition obligation	--	--	28.2	44.8
Prepaid (accrued) benefit cost	$ 137.8	$ 110.8	$(175.6)	$(160.0)

Amounts recognized in the Consolidated Balance Sheet consist of:

Prepaid benefit cost	$200.6	$135.1	$ --	$ --
Accrued benefit cost	(91.6)	(28.2)	(175.6)	(160.0)
Intangible asset	--	1.4	--	--
Accumulated other comprehensive income (before tax)	28.8	2.5	--	--
Prepaid (accrued) benefit cost	$137.8	$110.8	$(175.6)	$(160.0)

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

PENSION BENEFITS	2002	2001	2000
	(MILLIONS)		
Components of net periodic pension expense:			
Service cost	$ 37.8	$ 36.1	$ 33.2
Interest cost	67.5	69.5	67.4
Expected return on plan assets	(77.6)	(96.5)	(94.1)
Amortization of transition asset	--	(1.1)	(1.2)
Amortization of prior service credit	(2.8)	(2.6)	(2.6)
Recognized net actuarial loss	4.0	.7	.2
Regulatory asset amortization (deferral)	(8.4)	5.3	5.1
Settlement/curtailment expense	9.4	--	--
Special termination benefit cost	33.0	--	11.6
Net periodic pension expense	$ 62.9	$ 11.4	$ 19.6

OTHER POSTRETIREMENT BENEFITS	2002	2001	2000
	(MILLIONS)		
Components of net periodic postretirement benefit expense:			
Service cost	$ 7.1	$ 6.9	$ 7.5
Interest cost	31.8	29.5	33.1
Expected return on plan assets	(18.9)	(22.6)	(17.3)
Amortization of transition obligation	4.1	4.1	4.1
Amortization of prior service cost	.2	.1	.2
Recognized net actuarial loss (gain)	-	(2.6)	(.9)
Regulatory asset amortization	3.7	14.7	8.7
Settlement/curtailment expense	13.5	--	--
Special termination benefit cost	1.5	--	1.4
Net periodic postretirement benefit expense	$ 43.0	$ 30.1	$ 36.8

The projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $392.7 million and $186.3 million, respectively, as of December 31, 2002, and $891.8 million and $743.7 million, respectively, as of December 31, 2001. The accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $260.3 million and $169.9 million, respectively, as of December 31, 2002. The accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets was $28.2 million as of December 31, 2001. There were no assets for these plans as of December 31, 2001.

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

	OTHER POSTRETIREMENT BENEFITS		BENEFITS	
	2002	2001	2002	2001
Discount rate	7%	7.5%	7%	7.5%
Expected return on plan assets	8.5	10	8.5	10
Expected return on plan assets (net of effective tax rate)	N/A	N/A	7	8.2
Rate of compensation increase	5	5	N/A	N/A

The annual assumed rate of increase in the health care cost trend rate for 2003 is 12 percent, and systematically decreases to 5 percent by 2016.

The various nonpension postretirement benefit plans which Williams sponsors provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for these plans anticipates future cost-sharing changes to the written plans that are consistent with Williams' expressed intent to increase the retiree contribution rate generally in line with health care cost increases.

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

	(MILLIONS)	
	1 POINT INCREASE	1 POINT DECREASE
Effect on total of service and interest cost components	$ 5.6	$ (4.6)
Effect on postretirement benefit obligation	54.5	(44.5)

The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 2002 and 2001, is $57.5 million and $56 million, respectively, and is expected to be recovered through rates over approximately 11 years.

Williams maintains various defined-contribution plans. Williams recognized costs related to continuing operations of $53 million in 2002, $35 million in 2001 and $29 million in 2000 for these plans. In 2002, these costs included the cost related to additional contributions to an employee stock ownership plan resulting from the retirement of related external debt.

NOTE 8. INVENTORIES

Inventories at December 31, 2002 and 2001, are as follows:

2002	2001						
		(MILLIONS)					
Raw materials:							
Crude oil		$ 18.3	$ 31.0				
Finished goods:							
Refined products		73.6	111.0				
Natural gas liquids		115.6	142.6				
General merchandise		4.4	5.4				
		193.6	259.0				
Materials and supplies		105.8	117.1				
Natural gas in underground storage		125.4	136.4				
		$443.1	$543.5				

As of December 31, 2002 and 2001, approximately 43 percent and 52 percent of inventories, respectively, were stated at fair value. Inventories, primarily related to energy risk management and trading activities, stated at fair value at December 31, 2002 and 2001, included refined products of $23.1 million and $90.8 million, respectively; natural gas in underground storage of $76.2 million and $65.3 million, respectively; and natural gas liquids of $90.7 million and $97.9 million, respectively. Inventories determined using the LIFO cost method were approximately six percent of inventories at both December 31, 2002 and 2001. The remaining inventories were primarily determined using the average-cost method.

During 2002, lower-of-cost or market reductions of approximately $18.2 million were recognized with respect to certain power-related inventories included in materials and supplies.

EITF No. 02-3, issued October 25, 2002, does not permit mark-to-market accounting for inventory purchased subsequent to that date. Inventories purchased up to that date are permitted to apply mark-to-market accounting until EITF No. 02-3 is adopted. As of December 31, 2002, Williams had between $30 million and $50 million of marked-to-market inventory that will be included in a January 1, 2003 cumulative effect of change in accounting principle upon adoption of EITF No. 02-3 (see Recent accounting standards in Note 1).

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2002 and 2001, is as follows:

	2002	2001
(MILLIONS) Cost:		
Energy Marketing & Trading	$ 420.9	$ 362.6
Gas Pipeline	8,152.5	7,760.1
Exploration & Production	3,417.0	3,348.0
Midstream Gas & Liquids	5,181.4	4,868.2
Williams Energy Partners	1,348.1	1,304.8
Petroleum Services	291.0	506.2
Other	228.8	285.4
	19,039.7	18,435.3
Accumulated depreciation, depletion and amortization	(4,322.0)	(4,046.4)
	$14,717.7	$14,388.9

Depreciation, depletion and amortization expense for property, plant and equipment was $770.9 million, $622.2 million and $511 million, respectively, in 2002, 2001 and 2000.

Included in gross property, plant and equipment at December 31, 2002 and 2001, is approximately $1 billion and $940 million, respectively, of construction in progress which is not yet subject to depreciation. In addition, property of Exploration & Production includes approximately $774 million and $839 million at December 31, 2002 and 2001, respectively, of capitalized costs from the Barrett acquisition related to properties with probable reserves not yet subject to depletion.

Commitments for construction and acquisition of property, plant and equipment are approximately $448 million at December 31, 2002.

Included in net property, plant and equipment is approximately $1.6 billion and $1.7 billion at December 31, 2002 and 2001, respectively, related to amounts in excess of the original cost of the regulated facilities within Gas Pipeline as a result of Williams' and prior acquisitions. This amount is being amortized over the estimated remaining useful lives of these assets at the date of acquisition. Current FERC policy does not permit recovery through rates for amounts in excess of original cost of construction.

NOTE 10. 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 approximately $59 million and $30 million at December 31, 2002 and 2001, respectively.

Accrued liabilities at December 31, 2002 and 2001, are as follows:

	2002	2001
	(MILLIONS)	
Interest	$ 307.9	$ 209.0
Accrued liabilities related to the RMT note payable	237.0	--
Employee costs	215.3	350.6
Deposits received from customers relating to energy risk management and trading and hedging activities	141.2	265.5
Taxes other than income taxes	127.9	106.8
Income taxes	63.3	105.7
Derivative liability	53.2	37.7
Transportation and exchange gas payable	52.3	62.3
Deferred revenue	45.9	87.9
Other	308.0	542.3
	$1,552.0	$1,767.8

NOTE 11. DEBT, LEASES AND BANKING ARRANGEMENTS

NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt at December 31, 2002 and 2001, is as follows:

	WEIGHTED-AVERAGE INTEREST RATE(1)	DECEMBER 31, 2002	2001
		(MILLIONS)	
Notes payable:			
Secured(2)	5.8%	$ 934.8	$ --
Unsecured notes payable		--	1,424.5
Total notes payable		$ 934.8	$1,424.5
Long-term debt:			
Secured long-term debt			
Revolving credit loans	7.6%	$ 81.0	$ --
Debentures, 9.9%, payable 2020		9.9	28.7
Notes, 7.7%-9.45%, payable through 2022		8.3	558.8
Notes, adjustable rate, payable through 2007		5.7	183.2
Other, payable 2003		6.7	20.9
Unsecured long-term debt			
Revolving credit loans		--	53.7
Commercial paper(3)		--	300.0
Debentures, 6.25%-10.25%, payable through 2031		7.4	1,548.2
Notes, 6.125%-9.25%, payable through 2032(4)		7.8	9,500.5
Notes, adjustable rate, payable through 2004		5.7	759.9
Other, payable through 2006		5.2	158.1
Capital leases, payable through 2005		6.6	139.9
		12,979.2	9,692.1
Long-term debt due within one year		(1,082.8)	(999.4)
Total long-term debt		$11,896.4	$8,692.7

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(1) At December 31, 2002.

(2) Interest rate for $921.8 million is based on the Eurodollar rate plus 4 percent per annum. The principal balance includes interest accruing to the note at a fixed rate of 14 percent compounded quarterly.

(3) 2001 included $300 million of commercial paper which was classified as noncurrent based on Williams' intent and ability to refinance on a long-term basis.

(4) Includes $1.1 billion of 6.5 percent notes, payable 2007 subject to remarketing in 2004 (FELINE PACS). If a remarketing is unsuccessful in 2004 and a second remarketing in February 2005 is unsuccessful as defined in the offering document of the FELINE PACS, then Williams could exercise its right to foreclose on the notes in order to satisfy the obligation of the holders of the equity forward contracts requiring the holder to purchase Williams common stock (see Note 13).

Notes payable at December 31, 2002, includes a $921.8 million secured note (RMT note payable), which is discussed in detail below. In addition, Williams has entered into a short-term credit agreement secured by the assets of a gas processing plant in Colorado within Exploration & Production with $13 million outstanding at December 31, 2002. Notes payable at December 31, 2001, included $1.1 billion of commercial paper and $300 million of other various short-term credit agreements with a weighted-average interest rate of 3.33 percent.

During third-quarter 2002, Williams' credit ratings were lowered below investment grade and Williams was unable to complete a renewal of its unsecured short-term-credit facility. As a result, Williams amended its revolving credit facility to make it secured, obtained additional secured credit facilities and amended other outstanding debt agreements. The following is a discussion of the terms of these arrangements.

REVOLVING CREDIT FACILITIES

Under the terms of Williams' amended revolving credit agreement, Northwest Pipeline and Transcontinental Gas Pipe Line have access to $400 million and Texas Gas Transmission has access to $200 million, while Williams (Parent) has access to all unborrowed amounts. Interest rates vary based on LIBOR plus an applicable margin (which varies with Williams' senior unsecured credit ratings). As Williams completes asset sales, the commitments from participating banks in the revolving credit facility will be initially reduced to $400 million. After 1) the commitments are reduced to $400 million, 2) certain pre-existing debt with a balance of $448.2 million at December 31, 2002, is paid off and pre-existing letters of credit totaling $55.8 million at December 31, 2002, are cash collateralized and 3) and in some cases, the letter of credit facility (discussed below) is collateralized, the commitments may be further reduced to zero as a result of additional asset sales. As of December 31, 2002, the revolving credit facility commitment has been reduced from $700 million to $463 million and no amounts were outstanding under this agreement. Subsequent to December 31, 2002, as a result of asset sales in first-quarter 2003, the revolving credit facility commitment has been further reduced to $400 million as of March 2003.

Under the amended terms of the revolving credit facility, the company is no longer required to make a "no material adverse change" representation prior to obtaining borrowings on the facility. Significant new covenants under the agreement include: (i) restrictions on the creation of new subsidiaries, (ii) additional restrictions on pledging assets to other creditors, (iii) restrictions on the disposition of assets, (iv) a covenant that the ratio of interest expense plus cash flow to interest expense be greater than 1.5 to 1, (v) a limit on dividends on common stock paid by Williams in any quarter of $6.25 million, (vi) certain restrictions on declaration or payment of dividends on preferred stock issued after July 30, 2002, (vii) a limit on investments in others of $50 million annually, (viii) a $50 million limit on additional debt incurred by subsidiaries other than Transcontinental Gas Pipe Line, Texas Gas, Northwest Pipeline or Williams Energy Partners L.P. and (ix) a modified consolidated debt to consolidated net worth plus consolidated debt financial covenant to increase the threshold to 70 percent through December 30, 2002, 68 percent from December 30, 2002 through March 30, 2003 and 65 percent after March 30, 2003. Consolidated net worth is defined as total assets plus all non-cash losses resulting from the write-down or disposition of the Trading Book less total liabilities and minority interests in consolidated subsidiaries plus certain minority interests and exceptions as defined in the debt agreements, and the $1.1 billion FELINE PACS. Debt is defined as 1) all debt, other than non-recourse debt and the $1.1 billion FELINE PACS, 2) Williams' guarantees as defined in the agreements, 3) capital leases, 4) payments necessary to exercise a purchase option with respect to property encumbered by a Synthetic Lease as defined in the agreements, 5) obligations under any Financing Transaction as defined in the agreements, and 6) liabilities from deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business not overdue by more than 60 days). Williams' ratio of consolidated debt to consolidated net worth plus consolidated debt, as defined in Williams' amended revolving credit facility, at December 31, 2002, was 65.2 percent. The ratio of interest expense plus cash flow to interest expense as defined in the agreements was 2.2. Failure to meet any of these covenants could become an event

of default and could result in acceleration of amounts due under this facility and other company debt obligations with similar covenants, or for which there are certain provisions for cross-default in place.

The amended revolving credit facility expires July 2005 and is secured by substantially all of Williams' Midstream Gas & Liquids assets and the equity of substantially all of the Midstream Gas & Liquids subsidiaries and the subsidiaries which own the refinery assets. It is also guaranteed by many of Williams' subsidiaries, except for Transcontinental Gas Pipe Line, Texas Gas, Northwest Pipeline and Williams Energy Partners L.P.

In addition to the revolving credit facility discussed above, $81 million included in the previous table is outstanding under the terms of a separate $83 million revolving credit facility secured by certain olefin processing assets in Louisiana within Midstream Gas & Liquids. Williams Energy Partners L.P. also has an $85 million unsecured revolving credit facility with no amounts outstanding at December 31, 2002 and $49.5 million at December 31, 2001.

SHORT-TERM CREDIT AGREEMENT -- $900 MILLION

Williams Production RMT Company (RMT), a wholly owned subsidiary, entered into a $900 million short-term Credit Agreement dated July 31, 2002, with certain lenders including a subsidiary of Lehman Brothers, Inc., a related party to Williams. The loan, reported in notes payable in the Consolidated Balance Sheet, is secured by substantially all of the assets of RMT and the capital stock of Williams Production Holdings LLC (Holdings) (parent of RMT), RMT and certain RMT subsidiaries. It is also guaranteed by Williams, Holdings and certain RMT subsidiaries. The assets of RMT are comprised primarily of the assets of the former Barrett Resources Corporation acquired in 2001, which were primarily natural gas properties in the Rocky Mountain region. The loan matures on July 25, 2003, and bears interest payable quarterly at the Eurodollar rate plus 4 percent per annum (5.76 percent at December 31, 2002), plus additional interest of 14 percent per annum compounded quarterly, which is accrued and added to the principal balance. The principal balance at December 31, 2002, was $921.8 million.

RMT must also pay a deferred set-up fee. The amount of the fee is dependant upon whether a majority of the fair market value of RMT's assets or a majority of its capital stock is sold (company sale) on or before the maturity date, regardless of whether the loan obligations have been repaid. If a company sale has occurred, the amount of such fee would be the greater of (x) 15 percent of the loan principal amount, and (y) 15 percent to 21 percent, depending on the timing of the company sale, of the difference between (A) the purchase price of such company sale, including the amount of any liabilities assumed by the purchaser, up to $2.5 billion, and (B) the sum of (1) the principal amount of the outstanding loans, plus (2) outstanding debt of RMT and its subsidiaries, plus (3) accrued and unpaid interest on the loans to the date of repayment. If a company sale has not occurred, the fee would be 15 percent of the loan amount. However, if a company sale occurs within three months after the maturity date, then RMT must also pay the positive difference, if any, between the fee that would have been paid had such company sale occurred prior to the maturity date and the actual fee paid on the maturity date.

Significant covenants on Holdings, RMT and certain RMT subsidiaries under the loan agreement include: (i) an interest coverage ratio computed on a consolidated RMT basis of greater than 1.5 to 1, (ii) a fixed charge coverage ratio computed on a consolidated RMT basis of greater than 1.15 to 1, (iii) a limitation on restricted payments, (iv) a limitation on capital expenditures in excess of $300 million and (v) a limitation on intercompany indebtedness.

Under the RMT Credit Agreements, Williams must provide liquidity projections on a weekly basis until the maturity date. Each projection covers a period extending 12 months from the report date. Williams must maintain actual and projected parent liquidity (a) at any time from the closing date (July 31, 2002) through the 180th day thereafter (January 27, 2003), of $600 million; (b) at any time thereafter through and including

the maturity date, of $750 million; and (c) for liquidity projections provided during the term of the loan, projected liquidity after the maturity date, of $200 million. If the parent liquidity requirement is not met, RMT must be sold within 75 days. The loan is also required to be prepaid with the net cash proceeds of any sales of RMT's assets, and, in the event of a company sale, the loan is required to be prepaid in full. A prepayment or acceleration of the loan requires RMT to pay to the lenders (i) a make-whole amount, and (ii) the deferred set-up fee set forth above. A partial prepayment of the loan requires RMT to pay a pro rata portion of the make-whole amount and deferred set-up fee.

LETTER OF CREDIT FACILITY -- $400 MILLION

The $400 million letter of credit facility expires July 2003 and is secured by substantially all of Williams' Midstream Gas & Liquids assets and the equity of substantially all of the Midstream Gas & Liquids subsidiaries and the subsidiaries which own the refinery assets. It is also guaranteed by many of Williams' subsidiaries, except for Transcontinental Gas Pipe Line, Texas Gas, Northwest Pipeline and Williams Energy Partners L.P. Letters of credit totaling $396.8 million have been issued by the participating financial institutions under this facility at December 31, 2002. Significant covenants under the terms of this facility are the same as previously described within Revolving credit facilities.

AMENDMENTS TO OTHER OUTSTANDING DEBT AGREEMENTS

An additional $159 million of preexisting public securities were also ratably secured in accordance with the indentures covering those securities with the same assets used to secure the revolving credit facility and the $400 million letter of credit facility.

During 2002, the terms of the Snow Goose Associates, L.L.C. (Snow Goose) $560 million priority return structure and the terms of the Piceance Production Holdings LLC (Piceance) $100 million priority return structure, both previously classified as preferred interest in consolidated subsidiaries, were amended. These amendments resulted in new payment terms that changed the nature of the transactions; hence, the remaining outstanding preferred interests of $224 million and $78.5 million, respectively, are classified as debt at December 31, 2002. See Note 12 for further information.

The terms of various operating lease agreements were also amended. These leases are secured by the related leased assets and are now reflected as capital leases totaling $207 million, of which $67 million is included in liabilities of discontinued operations on the Consolidated Balance Sheet at December 31, 2002. See Leases-Lessee below for further discussion.

The terms of the amended Piceance and lease agreements described above, three amended term loan agreements with $448.2 million outstanding at December 31, 2002, and pre-existing letters of credit with $55.8 million outstanding at December 31, 2002, require prepayment of amounts outstanding and posting of cash collateral as Williams completes asset sales.

Credit facilities and letters of credit referred to above along with Snow Goose agreements are guaranteed by at least one of the following: Williams (Parent), Williams Gas Pipeline Company, L.L.C. and/or Holdings. These guarantees expire as the corresponding principal balances are repaid in 2003 through 2006. The total guaranteed under these agreements was $1.1 billion as of December 31, 2002.

OTHER

Pursuant to completion of a consent solicitation during first-quarter 2002 with WCG Note Trust Note holders, Williams recorded $1.4 billion of long-term debt obligations. In July 2002, Williams acquired substantially all of the WCG Note Trust Notes by exchanging $1.4 billion of Williams Senior Unsecured 9.25 percent notes due March 2004. In November 2002, Williams acquired the remaining outstanding WCG Note Trust Notes (see Note 2).

In May 2002, Energy Marketing & Trading entered into an agreement which transferred the rights to certain receivables in exchange for cash. Due to the structure of the agreement, Energy Marketing & Trading accounted for this transaction as debt collateralized by the claims. The $78.7 million of debt is classified as current.

OTHER ISSUANCES AND RETIREMENTS

In addition to the items previously discussed, significant issuances and retirements of long-term debt, including capital leases, and excluding amounts under revolving credit agreements, for the year ended December 31, 2002 are as follows:

PRINCIPAL ISSUE/TERMS DUE DATE AMOUNT - ---------- -- ------- ---------- (MILLIONS) Issuances of long-term debt in 2002: 6.5% notes (see Note 13)..... 2007 $1,100.0 8.125% notes..... 2012 650.0 8.75% notes..... 2032 850.0 8.875% notes (Transcontinental Gas Pipe Line)..... 2012 325.0 7.67% senior secured notes (Williams Energy Partners L.P.)..... 2007 264.0 7.93% senior secured notes (Williams Energy Partners L.P.)..... 2007 38.0 Adjustable rate senior secured notes (Williams Energy Partners L.P.)..... 2007 178.0 Retirements/prepayments of long-term debt in 2002: 6.125% notes(1)..... 2012 $ 240.0 6.2% notes..... 2002 350.0 6.5% notes..... 2002 150.0 8.875% notes (Transcontinental Gas Pipe Line)..... 2002 125.0 Adjustable rate note (Transcontinental Gas Pipe Line)..... 2002 150.0 Preferred interest (Castle Associates L.P., see Note 12)..... 2002 200.0 Various notes, 5.1% -- 9.45%..... 2002-2003 208.2 Various notes, adjustable rate..... 2002-2005 240.3

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(1) Paid due to being subject to redemption at par in 2002.

On March 4,2003, Northwest Pipeline completed an offering of $175 million of 8.125 percent senior notes due 2010.

Terms of certain subsidiaries' borrowing arrangements with lenders limit the transfer of funds to Williams (Parent). At December 31, 2002, approximately $526 million of net assets of consolidated subsidiaries was restricted. In addition, certain equity method investees' borrowing arrangements and foreign government regulations limit the amount of dividends or distributions to Williams. Restricted net assets of equity method investees was approximately $156 million at December 31, 2002.

Aggregate minimum maturities of long-term debt, excluding capital leases, for each of the next five years are as follows:

(MILLIONS)
2003	$1,083
2004	1,832
2005	1,364(1)
2006	1,057
2007	855

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(1) Includes $1.1 billion of 6.5 percent notes due 2007 (FELINE PACS) due to the remarketing provisions previously described, that have the potential of Williams reacquiring the notes in 2005 through a foreclosure on its security interest in the notes.

Cash payments for interest (net of amounts capitalized) were as follows: 2002 -- $905 million; 2001 -- $572 million; and 2000 -- $581 million.

LEASES-LESSEE

Future minimum annual rentals under noncancelable operating leases as of December 31, 2002, are payable as follows:

(MILLIONS)
2003	$ 33.6
2004	21.9
2005	18.0
2006	11.3
2007	9.4
Thereafter	27.4
Total	$121.6

Total rent expense was $102 million in 2002, $91 million in 2001, and $95 million in 2000.

In July 2002, Williams amended the terms of an operating lease with a special-purpose entity owned by third parties through which Williams leases an offshore oil and gas pipeline and an onshore gas processing plant. The amended terms caused the lease to be reclassified as a capital lease within the Midstream Gas & Liquids segment under the criteria established in SFAS No. 13. The lease is secured by leased assets with a net book value of $174.3 million as of December 31, 2002. The lease term includes a five-year base term with an optional five-year renewal upon the mutual agreement of the lessor and lessee.

Williams provides a residual value guarantee on the leased assets. Williams also has an option to purchase the leased assets during the lease term at an amount approximating the lessors' cost. In the event that Williams does not exercise its purchase option, Williams expects the fair market value of the covered assets to substantially offset Williams' obligation under the residual value guarantee.

As a result of the adoption of FASB Interpretation No. 46 in 2003, the special-purpose entity lessor will be included in the 2003 consolidated financial statements of Williams. The impact of the consolidation is not expected to be material.

At December 31, 2002, gross property, plant and equipment recorded under the capital lease was $178.5 million.

Future minimum capital lease payments as of December 31, 2002 are:

	(MILLIONS)
2003	$ 9.0
2004	9.0
2005	148.1
Total minimum capital lease payments	166.1
Less: Amount representing interest at 6.4%	26.2
Present value of net minimum capital lease payments	$139.9

NOTE 12. PREFERRED INTERESTS IN CONSOLIDATED SUBSIDIARIES

In 2001 and 2002 Williams owned the controlling interest in various entities formed in separate transactions that resulted in the sale of a non-controlling preferred ownership interest in one entity in each transaction to an outside investor. The assets and liabilities of each of these entities are included in the Consolidated Balance Sheet. For 2001, the preferred ownership interest in each entity is reflected in the preferred interest in consolidated subsidiaries caption of the Consolidated Balance Sheet. As a result of changes to the underlying agreements in 2002, any remaining outside preferred ownership interest at December 31, 2002, is reflected within debt. The outside investors in these entities are unconsolidated special purpose entities formed solely for the purpose of purchasing the preferred ownership interest in the respective entity and are capitalized with no less than three-percent equity from an independent third party. Each outside investor is entitled to a priority return paid from the operating results of the entity in which they have an investment. Williams has the option to acquire each outside investor's interest in each entity for an amount approximating the fair value of their ownership interest. Absent the occurrence of certain events, the purchase option can be exercised at any time prior to the expiration of the initial priority return period.

In addition to financial support in favor of these entities, Williams provides the outside investor in each entity with certain assurances that the entities involved in each transaction will maintain certain financial ratios and follow various restrictive covenants similar to, but in some cases broader than those found in Williams' credit agreements. A violation of any restrictive covenant, a default by Williams on its debt obligations, a failure to make priority distributions, or a failure to negotiate new priority return structures prior to the end of the initial priority return structure period, could ultimately result in an election by the outside investor in the impacted entity to liquidate the assets of that entity. A liquidation could result in a demand of repayment on any Williams obligation as well as the sale of other assets owned or secured by the entity in order to generate proceeds to return the investor's capital account balance. Williams can prevent liquidation of each entity through the exercise of the option to purchase the outside investor's preferred ownership interest.

SNOW GOOSE ASSOCIATES, L.L.C.

In December 2000, Williams formed two separate legal entities, Snow Goose Associates, L.L.C. (Snow Goose) and Arctic Fox Assets, L.L.C. (Arctic Fox) for the purpose of generating funds to invest in certain Canadian energy-related assets. An outside investor contributed $560 million in exchange for the non-controlling preferred interest in Snow Goose. The investor in Snow Goose is entitled to quarterly priority distributions, representing an adjustable rate structure. The initial priority return period was set to expire in December 2005.

During first-quarter 2002, the terms of the priority return were amended. Significant terms of the amendment include elimination of covenants regarding Williams' credit ratings, modifications of certain Canadian interest coverage covenants and a requirement to amortize the outside investor's preferred interest with equal principal payments due each quarter and the final payment in April 2003. In addition, Williams provided a financial guarantee of the Arctic Fox note payable to Snow Goose which, in turn, is the source of the priority returns. Based on the terms of the amendment, the remaining balance due of $224 million is classified as long-term debt due within one year on Williams' Consolidated Balance Sheet at December 31, 2002. Priority returns prior to this amendment are included in preferred returns and minority interest in income of consolidated subsidiaries in the Consolidated Statement of Operations.

Significant covenants, other than those noted previously, include: (i) an obligation of Williams Energy (Canada), Inc. to have earnings before interest, taxes, depreciation and amortization each quarter that are at least three times greater than the interest due on its loan from Arctic Fox for the quarter; (ii) an obligation of Williams Energy (Canada), Inc. to have total debt that is less than 50 percent of its total capitalization; (iii) an obligation of Arctic Fox to have assets with a book value that is at least two times larger than the unrecovered capital of the outside investor in Snow Goose; and (iv) an obligation of Arctic Fox to have cash

flow each quarter that is at least three times greater than amounts payable to the outside investor in Snow Goose for that quarter.

PICEANCE PRODUCTION HOLDINGS LLC

In December 2001, Williams formed Piceance and Rulison Production Company LLC (Rulison) in a series of transactions that resulted in the sale of a non-controlling preferred interest in Piceance to an outside investor for $100 million. At December 31, 2002, the outside investor amount was $78.5 million. Williams used the proceeds of the sale for general corporate purposes. The assets of Piceance include fixed-price overriding royalty interests in certain oil and gas properties owned by a Williams subsidiary as well as a $135 million note from Rulison. The outside investor is entitled to quarterly priority distributions beginning in January 2002, based upon an adjustable rate structure currently approximating 2.9 percent in addition to participation in a portion of the operating results of Piceance. The initial priority return structure is currently scheduled to expire in December 2006.

Piceance must satisfy certain financial covenants beyond those found in Williams' standard credit agreements, including a requirement that it have assets with a value of at least 1.35 times the investor's capital account, and a requirement that at the end of each fiscal quarter, Piceance's profits for the year to date be at least 1.2 times the investor's priority return.

Williams is allowed to access the excess cash flow of Piceance and Rulison between distribution periods through demand loans. Following Williams' credit ratings decline to levels below BBB- by Standard & Poor's and Baa3 by Moody's Investors Service or below BB+ by Standard & Poor's or below Ba1 by Moody's Investors Service, Williams is now prevented from using demand loans, and therefore excess cash will be retained between distribution periods. Also, the existing demand loans were repaid by Williams and replaced by other permitted assets. These ratings triggers do not force an acceleration.

Failure to satisfy the terms of the agreements would entitle the investor to deliver a transfer notice declaring the occurrence of a transfer event. In such case, unless the Williams subsidiary that is a member of Piceance exercises its purchase option, the managing member interest will automatically be transferred to the investor ten days following the transfer event. Upon a transfer event, the managing member can elect to liquidate and wind-up Piceance.

WILLIAMS RISK HOLDINGS L.L.C.

During 1998, Williams formed Williams Risk Holdings L.L.C. (Holdings) in a series of transactions that resulted in the sale of a non-controlling preferred interest in Holdings to an outside investor for $135 million. Williams used the proceeds from the sale for general corporate purposes. The outside investor in Holdings is not a special purpose entity. The outside investor was entitled to monthly preferred distributions based upon an adjustable rate structure of approximately 5.9 percent at December 31, 2001, in addition to participation in a portion of the operating results of Holdings. The initial priority return structure of Holdings was scheduled to expire in September 2003. In July 2002, the downgrade of Williams' senior unsecured rating below BB by Standard & Poor's or Ba1 by Moody's Investors Service, resulted in an early retirement of substantially all the outside investors' ownership interest. However, the structure remains in place.

CASTLE ASSOCIATES L.P.

In December 1998, Williams formed Castle Associates L.P. (Castle) through a series of transactions that resulted in the sale of a non-controlling preferred interest in Castle to an outside investor for $200 million. Williams used the proceeds of the sale for general corporate purposes. At December 31, 2001, the assets of Castle included approximately $145 million in loans from Williams payable upon demand (demand loans), a $125 million loan from a Williams subsidiary secured by operating assets and a Williams guarantee due in

December 2003, $60 million in third-party receivables guaranteed by Williams, and approximately $204 million in other various assets. While no event of default arose from a downgrade of Williams' unsecured credit rating below Baa3 by Moody's Investors Service and below BBB- by Standard & Poor's, Williams no longer is able to substitute demand loans for existing assets. The outside investor was entitled to quarterly priority distributions based upon an adjustable rate structure, in addition to a portion of the participation in the operating results of Castle. Williams purchased the outside investors interest in December 2002.

NOTE 13. STOCKHOLDERS' EQUITY

Concurrent with the sale of Kern River to MidAmerican Energy Holdings Company (MEHC), Williams issued approximately 1.5 million shares of 9 7/8 percent cumulative convertible preferred stock to MEHC for $275 million. The terms of the preferred stock allow the holder to convert, at any time, one share of preferred stock into 10 shares of Williams common stock at $18.75 per share. Preferred shares have a liquidation preference equal to the stated value of $187.50 per share plus any dividends accumulated and unpaid. Dividends on the preferred stock are payable quarterly. Preferred dividends for the year ended December 31, 2002, include $69.4 million associated with the accounting for a preferred security that contains a conversion option that is beneficial to the purchaser at the time the security was issued. This is accounted for as a noncash dividend (reduction to retained earnings) and results from the conversion price being less than the market price of Williams common stock on the date the preferred stock was issued. The reduction in retained earnings was offset by an increase in capital in excess of par value.

In January 2002, Williams issued $1.1 billion of 6.5 percent notes payable 2007 which are subject to remarketing in 2004. Attached to these notes is an equity forward contract requiring the holder to purchase Williams common stock at the end of three years. The note and equity forward contract are bundled as units, called FELINE PACS, and were sold in a public offering for $25 per unit. At the end of three years, the holder is required to purchase for $25, one share of Williams common stock provided the average price of Williams common stock does not exceed $41.25 per share for a 20 trading day period prior to settlement. If the average price over that period exceeds $41.25 per share, the number of shares issued in exchange for $25 will be equal to one share multiplied by the quotient of $41.25 divided by the average price over that period. The holder of the equity forward contract can settle the contract early in the event Williams is involved in a merger in which at least 30 percent of the proceeds received by Williams shareholders is cash. In this event the holder will be entitled to pay the purchase price and receive the kind and amount of securities they would have received had they settled the equity forward contract immediately prior to the acquisition. In addition to the 6.5 percent interest payment on the notes, Williams also makes a contract adjustment payment related to the equity forward contract of 2.5 percent annually during the three year term of the contract. The present value of the total of the contract adjustment payments at the date the FELINE PACS were issued was $76.7 million and was recorded as a liability and a reduction to capital in excess of par at that time.

In January 2001, Williams issued approximately 38 million shares of common stock in a public offering at $36.125 per share. The impact of this issuance resulted in increases of approximately $38 million to common stock and $1.3 billion to capital in excess of par value.

Williams maintains a Stockholder Rights Plan under which each outstanding share of Williams common stock has one-third of a preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of $140 (subject to adjustment), one two-hundredth of a share of Series A 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 a substantial amount of Williams common stock. The rights, which until exercised do not have voting rights, expire in 2006 and may be redeemed at a price of $.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a

person becomes the owner of more than 15 percent of Williams common stock or the board of directors determines that a person is an Adverse Person, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, Williams common stock having a value equal to two times the exercise price of the right. In the event Williams is engaged in a merger, business combination or 50 percent or more of Williams' assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

NOTE 14. STOCK-BASED COMPENSATION

Williams has several plans that provide or have provided for common-stock-based awards to employees and to non-employee directors. Effective May 16, 2002, Williams' shareholders approved a new plan that will provide common-stock-based awards going forward to both employees and non-employee directors. Options outstanding in all prior plans remain in those plans with their respective terms and provisions. The new plan permits the granting of various types of awards including, but not limited to, stock options, restricted stock and deferred stock. Awards may be granted for no consideration other than prior and future services or based on certain financial performance targets being achieved. The purchase price per share for stock options may not be less than the market price of the underlying stock on the date of grant. Stock options generally become exercisable after three years from the date of the grant and can be subject to accelerated vesting if certain future stock prices or if specific financial performance targets are achieved. Stock options expire 10 years after grant. At December 31, 2002, 57.8 million shares of Williams common stock were reserved for issuance pursuant to existing and future stock awards, of which 14.8 million shares were available for future grants (18.2 million at December 31, 2001).

The prior plans, from which no further grants are expected, permitted the granting of various types of awards including, but not limited to, stock options, stock appreciation rights, restricted stock and deferred stock. Awards were granted for no consideration other than prior and future services or based on certain financial performance targets being achieved. The purchase price per share for stock options and the grant price for stock appreciation rights were not less than the market price of the underlying stock on the date of grant. Stock options under these prior plans generally became exercisable in one-third increments each year from the anniversary of the grant or after three or five years, subject to accelerated vesting if certain future stock prices or if specific financial performance targets are achieved. Stock options under the prior plans expire 10 years after grant.

Prior to November 14, 2001, the stock option loan programs for the Williams 1996 Stock Plan, Williams 1990 Stock Plan, Williams 1988 Stock Option Plan for Non-Employee Directors and Williams 1985 Stock Option Plan allowed Williams to loan money to participants to exercise stock options using stock certificates as collateral. Effective November 14, 2001, Williams no longer issues new loans under the stock option loan programs. Current loan holders were offered a one-time opportunity in January 2002 to refinance outstanding loans at a market rate of interest commensurate with the borrower's credit standing. The refinancing is in the form of a full recourse note, interest payable annually in cash, and loan maturity of no later than December 31, 2005. The loan will remain in force until maturity in the event of the employee's termination. Williams continues to hold the collateral shares and can review the borrower's financial position at any time. The variable rate of interest on the loans of participants who elected new terms was determined at the signing of the promissory note and is based on 1.75 percent plus the current three-month London Interbank Offered Rate (LIBOR). The rate is subject to change every three months beginning with the first three-month anniversary of the promissory note.

If a current loan holder did not elect to refinance, the loans remain outstanding under the original terms with no refinancing at maturity. Under the original terms of the loan, the interest rate is based on the

minimum applicable federal rates required to avoid imputed income, interest payments are due annually, the principal is due at the end of either a three-or five-year loan term, and if the participant leaves Williams during the loan period, they are required to pay the loan balance and any accrued interest within 30 days of termination. The total amount of loans outstanding at December 31, 2002 and 2001, was approximately $30.3 million (net of a $5 million allowance) and $38.1 million, respectively.

The following summary reflects stock option activity for Williams common stock and related information for 2002, 2001 and 2000:

	2002		2001		2000	
	OPTIONS (MILLIONS)	WEIGHTED- AVERAGE EXERCISE PRICE	OPTIONS (MILLIONS)	WEIGHTED- AVERAGE EXERCISE PRICE	OPTIONS (MILLIONS)	WEIGHTED- AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	25.6	$28.23	23.1	$28.63	22.8	$25.03
Granted	15.8	6.64	4.8	37.45	3.8	45.87
Exercised	(.5)	11.77	(3.3)	18.47	(3.3)	23.12
Barrett option conversions	--	--	2.0	21.57	--	--
Adjustment for WCG spinoff(1)	--	--	2.1	--	--	--
Canceled	(2.1)	26.31	(3.1)	32.35	(.2)	38.19
Outstanding -- end of year	38.8	$19.85	25.6	$28.23	23.1	$28.63
Exercisable -- end of year	21.7	$27.42	20.0	$26.41	22.1	$28.24

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(1) Effective with the spinoff of WCG on April 23, 2001, the number of unexercised Williams stock options and the exercise price were adjusted to preserve the intrinsic value of the stock options that existed prior to the spinoff.

The following summary provides information about Williams stock options outstanding and exercisable at December 31, 2002:

STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS (MILLIONS)	WEIGHTED- AVERAGE EXERCISE PRICE	OPTIONS (MILLIONS)	WEIGHTED- AVERAGE EXERCISE PRICE
$1.35 to $5.40	11.1	$ 2.79	9.2 years	.2 $ 2.58
$6.71 to $15.39	4.4	12.48	2.5 years	4.4 12.48
$15.51 to $15.86	4.0	15.85	8.7 years	.3 15.85
$15.89 to $25.14	4.8			

20.62 3.6 years 4.8 20.62
$26.79 to
$42.52..... 14.5
36.06 5.9 years 12.0 36.34 ---
- ----
Total.....
38.8 19.85 6.5 years 21.7
27.42 ==== ====

The estimated fair value at date of grant of options for Williams common stock granted in 2002, 2001 and 2000, using the Black-Scholes option pricing model, is as follows:

	2002	2001	2000
Weighted-average grant date fair value of options for Williams common stock granted during the year	$2.77	$10.93	$15.44
Assumptions:			
Dividend yield	1%	1.9%	1.5%
Volatility	56%	35%	31%
Risk-free interest rate	3.6%	4.8%	6.5%
Expected life (years)	5.0	5.0	5.0

Pro forma net income (loss) and earnings per share, assuming Williams had applied the fair-value method of SFAS No. 123, "Accounting for Stock-Based Compensation" in measuring compensation cost beginning with 1997 employee stock-based awards is disclosed under Employee stock-based awards in Note 1.

Williams granted deferred shares of approximately 2,738,000 in 2002, 1,423,000 in 2001 and 332,000 in 2000. Deferred shares are valued at the date of award, and the weighted-average grant date fair value of the shares granted was $12.26 in 2002, $40.84 in 2001 and $39.13 in 2000. Approximately $31 million, $22 million and $11 million was recognized as expense for deferred shares of Williams in 2002, 2001 and 2000, respectively. Expense related to deferred shares is recognized in the performance year or over the vesting period, depending on the terms of the awards. Williams issued approximately 499,000 in 2002, 260,000 in 2001 and 140,000 in 2000, of the deferred shares previously granted.

NOTE 15. FINANCIAL INSTRUMENTS, DERIVATIVES, INCLUDING ENERGY TRADING ACTIVITIES, AND CONCENTRATION OF CREDIT RISK

FINANCIAL INSTRUMENTS FAIR VALUE

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, restricted cash and notes payable: The carrying amounts reported in the balance sheet approximate fair value due to the short-term maturity of these instruments with the exception of the RMT note payable for which Williams used the expertise of outside investment banking firms to assist with the estimate of fair value.

Retained interest in accounts receivable sold to SPEs: The carrying amounts reported in the balance sheet for December 31, 2001 approximate fair value. Fair value was based on the present value of future expected cash flows using management's best estimates of various factors, including credit loss experience and discount rates commensurate with the risks involved.

Notes and other noncurrent receivables, margin deposits and deposits received from customers relating to energy trading and hedging activities: The carrying amounts reported in the balance sheet approximate fair value as these instruments have interest rates approximating market or maturities of less than three years.

Investment in WCG: The carrying amount reflects write-downs of the WCG investment to zero (see Note 2). Fair value at December 31, 2001 was calculated based on the year-end closing price of WCG common stock.

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, 2002 and 2001, 73 percent and 81 percent, respectively, of Williams' long-term debt was publicly traded. Williams used the expertise of outside investment banking firms to assist with the estimate of the fair value of long-term debt.

Energy derivatives and other energy-related contracts: Derivatives and other energy-related contracts utilized in trading activities include forward contracts, futures contracts, option contracts, swap agreements, physical commodity inventories, short- and long-term purchase and sale commitments, (which involve physical delivery of an energy commodity) and energy-related contracts, such as transportation, storage, full requirements, load serving, transmission and power tolling contracts. In addition, Williams enters into interest-rate swap agreements and credit default swaps to manage the interest rate and credit risk in its energy trading portfolio. Fair value of energy contracts is determined based on the nature of the transaction and the market in which transactions are executed. Certain transactions are executed in exchange-traded or over-the-counter markets for which quoted prices in active periods exist, while other transactions are executed where quoted market prices are not available or the contracts extend into periods for which quoted market prices are not available. See Note 1 regarding Energy commodity risk management and trading activities and revenues and Derivative instruments and hedging activities including interest rate swaps for further discussion about determining fair value for energy contracts.

Foreign currency hedges: Fair value is determined by discounting estimated future cash flows using forward foreign exchange rates derived from the year-end forward exchange curve. Fair value was calculated by the financial institution that is counterparty to the agreement.

Interest-rate derivatives: 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 derivatives.

Carrying amounts and fair values of Williams' financial instruments and energy risk management and trading activities

2002		2001	
CARRYING (LIABILITY) AMOUNT	FAIR VALUE	CARRYING ASSET AMOUNT	FAIR VALUE
(MILLIONS)			
Financial instruments:			
Cash and cash equivalents	$ 1,728.3	$ 1,728.3	$ 1,258.5	$ 1,258.5
Restricted cash (current and noncurrent)	291.1	291.1	--	--
Retained interest in accounts receivable sold to SPEs	--	--	205.0	205.0
Notes and other noncurrent receivables	165.3	165.3	39.6	39.6
Investments -- cost and advances to affiliates	269.9 (a)	376.6 (a)		
Investment in WCG	--	--	--	--
	49.8			
Notes payable	(934.8)	(1,001.6)	(1,424.5)	(1,424.5)
Long-term debt, including current portion	(12,839.3)	(9,316.8)	(9,692.1)	(9,847.3)
Margin deposits	804.8	804.8	171.4	171.4
Deposits received from customers relating to energy risk management and trading and hedging activities	(141.2)	(141.2)	(265.5)	(265.5)
Guarantees		65.7 (b)		1,785.6(c) (b)
Energy derivatives and other energy-related contracts:				
Energy risk management and trading activities:				
Assets	8,855.2	8,855.2	10,431.5	10,431.5
Liabilities	(7,223.1)	(7,223.1)	(8,170.3)	(8,170.3)
Energy commodity cash flow and fair-value hedges:				
Assets(d)	82.0	82.0	488.9	488.9
Liabilities	(32.7)	(32.7)	(28.1)	(28.1)
Other energy commodity derivatives:				
Assets	46.4	46.4	--	--
Liabilities(e)	(19.7)	(19.7)	(11.8)	(11.8)
Foreign currency hedges	24.0	24.0	16.9	16.9
Interest -- rate derivatives	(27.9)	(27.9)		
	(f)	(f)		

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(a) These investments and long-term receivables due from affiliated companies are primarily in non-publicly traded companies for which it is not practicable to estimate fair value.

(b) It is not practicable to estimate the fair value of these financial instruments because of their unusual nature and unique characteristics.

(c) Includes $1.1 billion related to the WCG Note Trust Notes and $600 million related to the WCG fiber optic network lease guarantee.

(d) Includes $20.0 million and $7.6 million of assets related to discontinued operations in 2002 and 2001, respectively.

(e) Includes $(19.7) million and $(11.8) million of liabilities related to discontinued operations in 2002 and 2001, respectively.

(f) At December 31, 2001, Williams had interest rate swaps to mitigate its interest rate risk in its energy trading portfolio which were included in energy risk management and trading assets and liabilities.

GUARANTEES

In addition to the guarantees and payment obligations discussed elsewhere in these footnotes (see Notes 2, 3 and 16), Williams has issued guarantees and other similar arrangements with off-balance sheet risk as discussed below.

In 2001, Williams sold its investment in Ferrellgas Partners L.P. senior common units (Ferrellgas units). As part of the sale, Williams became party to a put agreement whereby the purchaser's lenders can unilaterally require Williams to repurchase the units upon nonpayment by the purchaser of its term loan due to its lender or failure or default by Williams under any of its debt obligations greater than $60 million. The maximum potential obligation under the put agreement at December 31, 2002, was $91.5 million. Williams' contingent obligation decreases as purchaser's payments are made to the lender. Collateral and other recourse provisions include the outstanding Ferrellgas units and a guarantee from Ferrellgas Partners L.P. to cover any shortfall from the sale of the Ferrellgas units at less than face value. The proceeds from the liquidation of the Ferrellgas units combined with the Ferrellgas Partners' guarantee should be sufficient to cover any required payment by Williams. The put agreement expires December 30, 2005. There have been no events of default and the purchaser has performed as required under payment terms with the lender. No amounts have been accrued for this contingent obligation as management believes it is not probable that Williams would be required to perform under this obligation.

In connection with the 1993 public offering of units in the Williams Coal Seam Gas Royalty Trust (Royalty Trust), Exploration & Production entered a gas purchase contract for the purchase of the natural gas in which the Royalty Trust holds a net profits interest. Under this agreement, Exploration & Production guarantees a minimum purchase price that the Royalty Trust will realize in the calculation of its net profits interest. Exploration and Production has an annual option to discontinue this minimum purchase price guarantee and pay solely based on an index price. The maximum potential future exposure associated with this guarantee is not determinable because it is dependent upon natural gas prices and production volumes. No amounts have been accrued for this contingent obligation, as the index price continues to exceed the minimum purchase price.

In connection with the 1987 sale of certain real estate assets associated with its Tulsa headquarters, Williams guaranteed 70 percent of the principal and interest payments through 2007 on revenue bonds issued by the purchaser to finance those assets. In the event that future operating results from these assets are not sufficient to make the principal and interest payments, Williams is required to fund that short-fall. The maximum potential future payments under this guarantee are $8.6 million, all of which is accrued at December 31, 2002.

In connection with the construction of a joint venture pipeline project, Williams guaranteed 50 percent of the joint venture's project financing. Williams' maximum potential liability under this guarantee is $9.7 million at December 31, 2002. This guarantee expires March 2005 and no amounts have been accrued at December 31, 2002.

Williams provided credit support to a crude oil trading joint venture in the form of performance guarantees for the benefit of the trading counterparties. These guarantees, which would have required Williams to make payments in the event of nonperformance by the joint venture under the crude oil purchase and sale contracts, expired or were terminated in early 2003. Although the maximum potential future payments would vary based on commodity prices, Williams' guarantees were capped at a total of $338 million. This joint venture is no longer active and no amounts were accrued for these guarantees at December 31, 2002.

OTHER FINANCIAL INSTRUMENTS

Through July 25, 2002 Williams, through wholly owned bankruptcy remote subsidiaries, sold certain trade accounts receivable to special purpose entities (SPEs) in a securitization structure requiring annual renewal. Williams acted as the servicing agent for the sold receivables and received a servicing fee approximating the fair value of such services. At December 31, 2001, approximately $625 million of accounts receivable that would otherwise be Williams' receivables were sold to the SPEs in exchange for $420 million in cash and a $205 million subordinated retained interest in the accounts receivable sold to the SPEs. For 2002 and 2001, Williams received cash proceeds from the SPEs of approximately $4.7 billion and $12.8 billion, respectively. The sales of these receivables resulted in a charge to results of operations of approximately $4 million and $17 million in 2002 and 2001, respectively. The retained interest in accounts receivable sold to the SPEs was subject to credit risk to the extent that these receivables were not collected. On July 25, 2002, these agreements expired and were not renewed. See Concentration of credit risk below.

DERIVATIVES AND ENERGY-RELATED CONTRACTS

Energy risk management and trading activities

Williams, through Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment), has energy commodity risk management and trading operations that enter into energy and energy-related contracts to provide price-risk management services associated with the energy industry to its customers, including power, natural gas, refined products, natural gas liquids and crude oil. Contracts utilized in energy commodity risk management and trading activities include forward contracts, futures contracts, option contracts, swap agreements, physical commodity inventories, short- and long-term purchase and sale commitments which involve physical delivery of an energy commodity and energy-related contracts, including transportation, storage, full requirements, load serving, transmission and power tolling contracts. In addition, Energy Marketing & Trading enters into interest rate swap agreements and credit default swaps to manage the interest rate and credit risk in its energy portfolio. During 2002, Williams began managing its interest rate risk, including the interest rate and credit risk in Energy Marketing & Trading's energy portfolio, on an enterprise basis by the corporate parent. Energy Marketing & Trading also directly entered into third-party interest rate futures agreements to mitigate interest rate risk. These futures are included within energy risk management and trading assets and liabilities. See Note 1 for a description of the accounting valuation for these energy commodity risk management and trading activities. The net gain or (loss) recognized in revenues from the price-risk management and trading activities was a $(109) million net loss in 2002 and net gains of $1,696 million and $1,285.1 million in 2001 and 2000, respectively.

Futures contracts 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. Exchange-traded or over-the-counter markets providing quoted prices in active periods are available and other market indicators where quoted prices are not available exist for the futures contracts entered into by Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment). The fair value of these contracts is based on quoted prices.

Swap agreements call for Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment), to make payments to (or receive payments from) counterparties based upon the differential between a fixed and variable price or variable prices of energy commodities for different locations. Forward contracts and purchase and sale commitments with fixed volumes which involve physical delivery of energy commodities, contain both fixed and variable pricing terms. Swap agreements, forward contracts and purchase and sale commitments with fixed volumes are valued based on prices of the underlying energy commodities over the contract life and contractual or notional volumes with the resulting expected future cash flows discounted to a present value using a risk-free market interest rate.

Certain of Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) purchase and sale commitments, which involve physical delivery of energy commodities, contain optionality clauses or other arrangements that result in varying volumes. In addition, Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) buy and sell physical and financial option contracts which give the buyer the right to exercise the option and receive the difference between a predetermined strike price and a market price at the date of exercise. These contracts are valued based on option pricing models considering prices of the underlying energy commodities over the contract life, volatility of the commodity prices, contractual volumes, estimated volumes under option and other arrangements and a risk-free market interest rate.

Energy-related contracts include transportation, storage, full requirements, load serving, transmission and power tolling contracts. Transportation and transmission contracts provide Energy Marketing & Trading the right, but not the obligation, to transport/transmit physical quantities of natural gas or refined products or electricity from one location to another on a daily basis. The payment or settlement required typically has a fixed component paid regardless of whether the transportation/transmission capacity is used and a variable payment component for shipments actually made during the month. Storage contracts provide Energy Marketing & Trading the right, but not the obligation, to store physical quantities of gas. Energy Marketing & Trading enters full requirements arrangements which are structured to manage natural gas and power supply requirements, service load growth, manage unplanned outages and other scenarios. Load serving agreements require Energy Marketing & Trading to procure energy supplies for its customers necessary to meet their load or energy needs. Power tolling contracts provide Energy Marketing & Trading the right, but not the obligation, to call on the counterparty to convert natural gas to electricity at a predefined heat conversion rate. Energy Marketing & Trading supplies the natural gas to the power plants and markets the electricity output. In exchange for this right, Energy Marketing & Trading pays a monthly fixed fee and a variable fee based on usage.

Fair value of these energy-related contracts is estimated using valuation techniques that incorporate option pricing theory, statistical and simulation analysis, present value concepts incorporating risk from uncertainty of the timing and amount of estimated cash flows and specific contractual terms. These valuation techniques utilize factors such as quoted energy commodity market prices, estimates of energy commodity market prices in the absence of quoted market prices, volatility factors underlying the positions, estimated correlation of energy commodity prices, contractual volumes, estimated volumes under option and other arrangements, the liquidity of the market in which the contract is transacted and a risk-free market discount rate. Fair value also reflects a risk premium that market participants would consider in their determination of fair value. In situations where Energy Marketing & Trading has received current information from negotiation activities with potential buyers of these contracts that they believe to be representative of the market, the information is considered in the determination of the fair value of the contract.

Interest-rate swap and futures agreements, including those with the parent, are used to manage the interest rate risk in the energy trading portfolio. Under these swap agreements, Energy Marketing & Trading pays a fixed rate and receives a variable rate on the notional amount of the agreements. Financial futures contracts are commitments to either purchase or sell a financial instrument, such as a Eurodollar deposit, U.S. Treasury bond or U.S. Treasury note, at a future date for a specified price and are generally settled in cash, but may be settled through delivery of the underlying instrument. The fair value of these contracts is determined by discounting estimated future cash flows using forward interest rates derived from interest rate yield curves. Credit default swaps are used to manage counterparty credit exposure in the energy trading portfolio. Under these agreements, Energy Marketing & Trading pays a fixed rate premium for a notional amount of risk coverage associated with certain credit events. The covered credit events are bankruptcy, obligation acceleration, failure to pay and restructuring. The fair value of these agreements is based on current pricing received from the counterparties.

The valuation of the contracts entered into by Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) also considers factors such as the liquidity of the market in which the contract is transacted, uncertainty regarding the ability to liquidate the position considering market factors applicable at the date of such valuation and risk of non-performance and credit considerations of the counterparty. For contracts or transactions that extend into periods for which actively quoted prices are not available, Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) estimate energy commodity prices in the illiquid periods by incorporating information obtained from commodity prices in actively quoted markets, prices reflected in current transactions and market fundamental analysis.

Determining fair value for contracts also involves complex assumptions including estimating natural gas and power market prices in illiquid periods and markets, estimating market volatility and liquidity and correlation of natural gas and power prices, evaluating risk from uncertainty inherent in estimating cash flows and estimates regarding counterparty performance and credit considerations.

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) has the risk of loss as a result of counterparties not performing pursuant to the terms of their contractual obligations. Risk of loss can result from credit considerations and the regulatory environment of the counterparty. Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) attempts to minimize credit-risk exposure to trading counterparties and brokers through formal credit policies, consideration of credit ratings from public rating agencies, monitoring procedures, master netting agreements and collateral support under certain circumstances.

The concentration of counterparties within the energy and energy trading industry impacts Williams' overall exposure to credit risk in that these counterparties are similarly influenced by changes in the economy and regulatory issues.

The gross forward contract credit exposure from energy trading and price-risk management activities for Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) as of December 31, 2002 and 2001 is summarized below.

2002		2001	
INVESTMENT GRADE(A)	TOTAL	INVESTMENT GRADE(A)	TOTAL
(MILLIONS)			
Gas and electric utilities	$2,326.4	$3,255.1	$4,253.9
Energy marketers and traders	$ 4,924.5	2,371.7	3,661.1
Financial institutions	5,353.5	5,766.2	1,006.8
	1,007.0	249.8	341.7
Other	1,176.4	1,182.4	16.4
	47.3		
Total	$6,881.3	9,105.6	$9,873.6
	11,079.7		
Credit reserves	(250.4)	(648.2)	
Gross credit exposure from price-risk management activities(b)	$8,855.2	$10,431.5	

Energy Marketing & Trading and the natural gas liquids trading operations (reported in the Midstream Gas & Liquids segment) assess their credit exposure on a net basis when appropriate and contractually allowed. The net forward credit exposure from energy trading and price-risk management activities as of December 31, 2002 and 2001 is summarized below.

2002		2001	
INVESTMENT GRADE(A)	TOTAL	INVESTMENT GRADE(A)	TOTAL
(MILLIONS)			
Gas and electric utilities	$1,290.1	$2,648.5	$2,310.8
Energy marketers and traders	$2,867.6	163.6	183.2
Financial institutions	607.4	730.0	201.1
	201.1	397.6	401.4
Other	44.6	50.8	242.7
	362.4		
Total	$1,699.4	3,083.6	$3,558.5
	4,361.4		
Credit reserves	(250.4)	(648.2)	
Net credit exposure from price-risk management activities(b)	$2,833.2	$3,713.2	

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(a) "Investment Grade" is primarily determined using publicly available credit ratings along with consideration of cash, standby letters of credit, parent company guarantees and property interests, including oil and gas reserves. Included in "Investment Grade" are counterparties with a minimum Standard & Poor's or Moody's Investor's Service rating of BBB- or Baa3, respectively.

(b) One counterparty within the California power market represents greater than ten percent of assets from energy risk management and trading activities and is included in "investment grade." Standard & Poor's or Moody's Investor's Service does not rate this counterparty. However, recent bond issuances by this counterparty have been rated as investment grade by the various rating agencies. This counterparty has been included in the "investment grade" column based upon contractual credit requirements in the event of assignment or novation.

Energy commodity cash flow hedges

Williams is also exposed to market risk from changes in energy commodity prices within Exploration & Production and Petroleum Services and the non-trading operations of Energy Marketing & Trading and Midstream Gas & Liquids. Williams utilizes derivatives to manage its exposure to the variability in expected future cash flows attributable to commodity price risk associated with forecasted purchases and sales of natural gas, refined products, crude oil, electricity, ethanol and corn. These derivatives have been designated as cash flow hedges.

Williams produces, buys and sells natural gas and crude oil at different locations throughout the United States. To reduce exposure to a decrease in revenues or an increase in costs from fluctuations in natural gas and crude oil market prices, Williams enters into natural gas and crude oil futures contracts and swap agreements to fix the price of anticipated sales and purchases of natural gas and crude oil.

Williams' refineries purchase crude oil for processing and sell the refined products. To reduce the exposure to increasing costs of crude oil and/or decreasing refined product sales prices due to changes in market prices, Williams enters into crude oil and refined products futures contracts and swap agreements to lock in the prices of anticipated purchases of crude oil and sales of refined products. There were no forecasted transactions hedged subsequent to December 31, 2002 related to the Midsouth refinery. Additionally, hedge accounting related to the Alaska refinery was discontinued when forecasted transactions were no longer probable because of the refinery's anticipated sale in 2003.

Williams' electric generation facilities utilize natural gas in the production of electricity. To reduce the exposure to increasing costs of natural gas due to changes in market prices, Williams enters into natural gas futures contracts and swap agreements to fix the prices of anticipated purchases of natural gas. To reduce the exposure to decreasing revenues from electricity sales, Williams enters into fixed-price forward physical contracts to fix the prices of anticipated sales of electric production. Hedge accounting was discontinued for one of the electric generation facilities due to the sale of the facility which closed in February 2003.

Derivative gains or losses from these cash flow hedges are deferred in other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted purchases or sales affect earnings. To match the underlying transaction being hedged, derivative gains or losses associated with anticipated purchases are recognized in costs and operating expenses and amounts associated with anticipated sales are recognized in revenues in the Consolidated Statement of Operations. Approximately $.5 million of losses and $.7 million of gains from hedge ineffectiveness are included in revenues and costs and operating expenses, respectively, in the Consolidated Statement of Operations during 2002. Approximately $1 million of gains from hedge ineffectiveness is included in revenues in the Consolidated Statement of Operations during 2001. Hedge accounting was discontinued and net gains of $43 million were reclassified out of accumulated other comprehensive income and recognized in the Consolidated Statement of Operations during 2002 as a result of it becoming probable that certain forecasted transactions would not occur. No hedges were discontinued during 2001 as a result of it becoming probable that the forecasted transaction will not occur. For 2002 and 2001, there were no derivative gains or losses excluded from the assessment of hedge effectiveness. There are approximately $83 million and $142 million of pre-tax gains related to terminated derivatives included in accumulated other comprehensive income at December 31, 2002 and 2001, respectively. The 2002 amounts will be recognized into net income as the hedged transactions occur. As of December 31, 2002, Williams had hedged future cash flows associated with anticipated energy commodity purchases and sales for up to 13 years, and, based on recorded values at December 31, 2002, approximately $42 million of net gains (net of income tax provision of $26 million) will be reclassified into earnings within the next year offsetting net losses that will be realized in earnings from previous unfavorable market movements associated with the underlying hedged transactions.

Energy commodity fair-value hedges

Williams' refineries carry inventories of crude oil and refined products. Williams enters into crude oil and refined products futures contracts and swap agreements to reduce the market exposure of these inventories from changing energy commodity prices. These derivatives have been designated as fair-value hedges. Derivative gains and losses from these fair-value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. Gains and losses related to hedges of inventory are recognized in costs and operating expenses in the Consolidated Statement of Operations. Approximately $8 million and $5 million of net gains from hedge ineffectiveness was recognized in costs and operating expenses in the Consolidated Statement of Operations during 2002 and 2001, respectively. There were no derivative gains or losses excluded from the assessment of hedge effectiveness. During third-quarter 2002, Williams discontinued the fair value hedges related to refined products. Fair value hedges for crude oil will continue until the completion of the Midsouth refinery sale.

Other energy commodity derivatives

Williams' operations associated with crude oil refining and refined products marketing also include derivative transactions (primarily forward contracts, futures contracts, swap agreements and option contracts) which are not designated as hedges. The forward contracts are for the procurement of crude oil and refined products supply for operational purposes, while the other derivatives manage certain risks associated with market fluctuations in crude oil and refined product prices related to refined products marketing. The net change in fair value of these derivatives, representing unrealized gains and losses, is recognized in earnings currently as revenues or costs and operating expenses in the Consolidated Statement of Operations. As a result of the completion of the sale of the Midsouth refinery during first-quarter 2003, these derivatives have been discontinued.

Williams' operations associated with the production of natural gas enter into basis swap agreements fixing the price differential between the Rocky Mountain natural gas prices and Gulf Coast natural gas prices as part of their overall natural gas price risk management program to reduce risk of declining natural gas prices in basins with limited pipeline capacity to other markets. Certain of these basis swaps do not qualify for hedge accounting treatment under SFAS No. 133; hence, the net change in fair value of these derivatives representing unrealized gains and losses is recognized in earnings currently as revenues in the Consolidated Statement of Operations.

Foreign currency hedges

Williams has a Canadian-dollar-denominated note receivable that is exposed to foreign-currency risk. To protect against variability in the cash flows from the repayment of the note receivable associated with changes in foreign currency exchange rates, Williams entered into a forward contract to fix the U.S. dollar principal cash flows from this note. This derivative was designated as a cash flow hedge and was expected to be highly effective over the period of the hedge. Hedge accounting was discontinued effective October 1, 2002 because the hedge is no longer expected to be highly effective. Gains and losses from the change in fair value of the derivative prior to October 1, 2002, are deferred in other comprehensive income (loss) and reclassified to other income (expense) -- net below operating income when the Canadian-dollar-denominated note receivable impacts earnings as it is translated into U.S. dollars. There were no derivative gains or losses recorded in the Consolidated Statement of Operations from hedge ineffectiveness or from amounts excluded from the assessment of hedge effectiveness, and no foreign currency hedges were discontinued during 2002 or 2001 as a result of it becoming probable that the forecasted transaction will not occur. The $2.4 million of net losses (net of income tax benefits of $1.5 million) deferred in other comprehensive income (loss) at December 31, 2002, will be reclassified into earnings during 2003 as the note receivable impacts earnings.

Interest-rate derivatives

Williams enters into interest-rate swap agreements to manage its exposure to interest rates and modify the interest characteristics of its long-term debt. These agreements are designated with specific debt obligations, and involve the exchange of amounts based on the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional amount. Interest-rate swaps in place during 2001 effectively modified Williams' exposure to interest rates by converting a portion of Williams' fixed rate debt to a variable rate. These derivatives were designated as fair value hedges and were perfectly effective. As a result, there was no current impact to earnings due to hedge ineffectiveness or due to the exclusion of a component of a derivative from the assessment of effectiveness. The change in fair value of the derivatives and the adjustments to the carrying amount of the underlying hedged debt were recorded as equal and offsetting gains and losses in other income (expense) -- net below operating income in the Consolidated Statement of Operations. There are no interest-rate derivatives designated as fair value hedges at December 31, 2002 or 2001.

During 2002 Williams began managing its interest rate risk on an enterprise basis by the corporate parent. The more significant of these risks relate to its debt instrument as stated above, and its energy risk management and trading portfolio. To facilitate the management of the risk, entities within Williams may enter into derivative instruments (usually swaps) with the corporate parent. The corporate parent determines the level, term and nature of derivative instruments entered into with external parties. At December 31, 2002, these external derivative instruments did not qualify for hedge accounting per SFAS No. 133 and therefore are marked to market, the effect of which is shown as interest rate swap loss in the Consolidated Statement of Operations below operating income. At December 31, 2002, the loss totaled approximately $124.2 million.

CONCENTRATION OF CREDIT RISK

Williams' cash equivalents consist of high-quality securities placed with various major financial institutions with credit ratings at or above AA by Standard & Poor's or Aa by Moody's Investor's Service. Williams' investment policy limits its credit exposure to any one issuer/obligor.

The following table summarizes concentration of receivables, net of allowances, by product or service at December 31, 2002 and 2001:

	2002	2001
(MILLIONS)		
Receivables by product or service:		
Sale or transportation of natural gas and related products	$ 915.6	$ 326.6
Power sales and related services	1,009.1	1,445.3
Sale or transportation of petroleum products	408.4	598.8
Retained interest in accounts receivable sold to SPEs	--	205.0
Income taxes receivable	152.0	--
Other	39.3	186.7
Total	$2,524.4	$2,762.4

Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the eastern, northwestern and midwestern United States. Power customers include the California Independent System Operator (ISO), the California Department of Water Resources, other power marketers and utilities located throughout the majority of the United States. Petroleum products customers include wholesale, commercial, governmental, industrial and individual consumers and independent dealers located primarily in Alaska and the Gulf Coast region of the United States. Collection of the retained

interest in accounts receivable sold to the SPEs was dependent on the collection of the receivables. The accounts receivable sold to SPEs were primarily for the sale or transportation of natural gas and related products or services and the sale of petroleum products in the United States. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

As of December 31, 2002, approximately $230 million of certain power receivables from the ISO and the California Power Exchange have not been paid (compared to $388 million at December 31, 2001). Williams believes that it has appropriately reflected the collection and credit risk associated with receivables and trading assets in its statement of position and results of operations at December 31, 2002. Also approximately 5,400 megawatts of Energy Marketing & Trading's tolling portfolio are subject to agreements with subsidiaries of the AES Corporation. The ability of Energy Marketing & Trading to realize future estimated fair values may be significantly affected by the ability of such parties to perform as contractually required.

Additionally, one counterparty has disputed a settlement amount related to the liquidation of a trading position with Energy Marketing & Trading. The amount of settlement is in excess of $100 million payable to Energy Marketing & Trading. The matter is being arbitrated.

NOTE 16. CONTINGENT LIABILITIES AND COMMITMENTS

RATE AND REGULATORY MATTERS AND RELATED LITIGATION

Williams' interstate pipeline subsidiaries have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. The natural gas pipeline subsidiaries have accrued approximately $9 million for potential refund as of December 31, 2002.

Williams Energy Marketing & Trading Company (Energy Marketing & Trading) subsidiaries are engaged in power marketing in various geographic areas, including California. Prices charged for power by Williams and other traders and generators in California and other western states have been challenged in various proceedings including those before the FERC. In December 2002, the FERC issued an order which provided that, for the period between October 2, 2000 and December 31, 2002, the FERC may order refunds from Williams and other similarly situated companies if the FERC finds that the wholesale markets in California are unable to produce competitive, just and reasonable prices or that market power or other individual seller conduct is exercised to produce an unjust and unreasonable rate. On November 20, 2002, pursuant to an order from the 9th Circuit, FERC issued an order permitting the California parties to conduct additional discovery into market manipulation by sellers in the California markets. The California parties sought this discovery in order to potentially expand the scope of the refunds. The California parties had until March 3, 2003, to submit evidence on market manipulation. Williams and other sellers will also submit comments to the additional evidence. The judge issued his findings in the refund case on December 12, 2002. Under these findings, Williams' refund obligation to the California ISO is $192 million, excluding emissions costs and interest. The judge found that Williams' refund obligation to the California PX is $21.5 million, excluding interest. However, the judge found that the ISO owes Williams $246.8 million, excluding interest, and that the PX owes Williams $31.7 million, excluding interest, and $2.9 million in charge backs. The judge's findings do not include the $18 million in emissions costs that the judge found Williams is entitled to use as an offset to refund liability, and the judge's refund amounts are not based on final mitigated market clearing prices. FERC has not acted on the proposed change to the gas methodology.

In an order issued June 19, 2001, the FERC implemented a revised price mitigation and market monitoring plan for wholesale power sales by all suppliers of electricity, including Williams, in spot markets for a region that includes California and ten other western states (the "Western Systems Coordinating Council," or "WSCC"). In general, the plan, which was in effect from June 20, 2001 through September 30, 2002, established a market clearing price for spot sales in all hours of the day that was based on the bid of the

highest-cost gas-fired California generating unit that was needed to serve the Independent System Operator's (ISO's) load. When generation operating reserves fell below seven percent in California (a "reserve deficiency period"), absent cost-based justification for a higher price, the maximum price that Williams may charge for wholesale spot sales in the WSCC was the market clearing price. When generation operating reserves rise to seven percent or above in California, absent cost-based justification for a higher price, Williams' maximum price was limited to 85 percent of the highest hourly price that was in effect during the most recent reserve deficiency period. This methodology initially resulted in a maximum price of $92 per megawatt hour during non-emergency periods and $108 per megawatt hour during emergency periods, and these maximum prices remained unchanged throughout summer and fall 2001. Revisions to the plan for the post-September 30, 2002, period were provided on July 17, 2002, as discussed below.

On December 19, 2001, the FERC reaffirmed its June 19 order with certain clarifications and modifications. It also altered the price mitigation methodology for spot market transactions for the WSCC market for the winter 2001 season and set the period maximum price at $108 per megawatt hour through April 30, 2002. Under the order, this price would be subject to being recalculated when the average gas price rises by a minimum factor of ten percent effective for the following trading day, but in no event would the maximum price drop below $108 per megawatt hour. The FERC also upheld a ten percent addition to the price applicable to sales into California to reflect credit risk. On July 9, 2002, the ISO's operating reserve levels dropped below seven percent for a full operating hour, during which the ISO declared a Stage 1 System Emergency resulting in a new Market Clearing Price cap of $57.14/MWh under the FERC's rules. On July 11, 2002, the FERC issued an order that the existing price mitigation formula be replaced with a hard price cap of $91.87/MWh for spot markets operated in the West (which is the level of price mitigation that existed prior to the July 9, 2002 events that reduced the cap), to be effective July 12, 2002. The cap expired September 30, 2002, but the cap was later extended by FERC to October 30, 2002.

On July 17, 2002, the FERC issued its first order on the California ISO's proposed market redesign. Key elements of the order include (1) maintaining indefinitely the current must-offer obligation across the West; (2) the adoption of Automatic Mitigation Procedures (AMP) to identify and limit excessive bids and local market power within California, (bids less than $91.87/MWh will not be subject to AMP); (3) a West-wide spot market bid cap of $250/MWh, beginning October 1, 2002, and continuing indefinitely; (4) required the ISO to expedite the following market design elements and requiring them to be filed by October 21, 2002: (a) creation of an integrated day-ahead market; (b) ancillary services market reforms; and (c) hour-ahead and real-time market reforms; and (5) the development of locational marginal pricing (LMP). The FERC reaffirmed these elements in an order issued October 9, 2002, with the following clarification: (a) generators may bid above the ISO cap, but their bids cannot set the market clearing price and they will be subject to justification and refund, (b) if the market clearing price is projected to be above $91.87 per MWh in any zone, automatic mitigation will be triggered in all zones, (c) the 10 percent creditworthiness adder will be removed effective October 31, 2002. On January 17, 2003, FERC clarified that bids below $91.87 per MWh are not entitled to a safe harbor from mitigation, and where a seller is subject to the must-offer obligation but fails to submit a bid, the ISO may impose a proxy bid. On October 31, 2002, FERC found that the ISO has not explained how it will treat generators that are running at minimum load and dispatched for instructed energy. On December 2, 2002, the ISO proposed to pay for energy at minimum load the uninstructed energy price even when a unit is dispatched for instructed energy. Williams protested on January 2, 2003, arguing that the ISO's proposal fails to keep sellers whole.

The California Public Utilities Commission (CPUC) filed a complaint with the FERC on February 25, 2002, seeking to void or, alternatively, reform a number of the long-term power purchase contracts entered into between the State of California and several suppliers in 2001, including Energy Marketing & Trading. The CPUC alleges that the contracts are tainted with the exercise of market power and significantly exceed "just and reasonable" prices. The California Electricity Oversight Board (CEOB) made a similar filing on February 27, 2002. The FERC set the complaint for hearing on April 25, 2002, but held the hearing in

abeyance pending settlement discussions before a FERC judge. The FERC also ordered that the higher public interest test will apply to the contracts. The FERC commented that the state has a very heavy burden to carry in proving its case. On July 17, 2002, the FERC denied rehearing of the April 25, 2002, order that set for hearing California's challenges to the long-term contracts entered into between the state and several suppliers, including Energy Marketing & Trading. The settlement discussions noted above have resulted in Williams entering into a settlement agreement with the State of California and other non-Federal parties that includes renegotiated long-term energy contracts. These contracts are made up of block energy sales, dispatchable products and a gas contract. The original contract contained only block energy sales. The settlement does not extend to criminal matters or matters of willful fraud, but will resolve civil complaints brought by the California Attorney General against Williams that are discussed below and the State of California's refund claims that are discussed above. Pursuant to the settlement, Williams also will provide consideration of $147 million over eight years and six gas powered electric turbines. In addition, the settlement is intended to resolve ongoing investigations by the States of California, Oregon and Washington. The settlement was reduced to writing and executed on November 11, 2002. The settlement closed on December 31, 2002, after FERC issued an order granting Williams' motion for partial dismissal from the refund proceedings. The dismissal affects Williams' refund obligations to the settling parties, but not to other parties, such as investor-owned utilities. Pursuant to the settlement, the CPUC and CEOB filed on January 13, 2003, a motion to withdraw their complaints against Williams regarding the original block energy sales contract. Private class action plaintiffs also executed the settlement. Various court filings and approvals are necessary to make the settlement effective as to plaintiffs and to terminate the class actions as to Williams.

On May 2, 2002, PacifiCorp filed a complaint against Energy Marketing & Trading seeking relief from rates contained in three separate confirmation agreements between PacifiCorp and Energy Marketing & Trading (known as the Summer 2002 90-Day Contracts). PacifiCorp filed similar complaints against three other suppliers. PacifiCorp alleges that the rates contained in the contracts are unjust and unreasonable. Energy Marking & Trading filed its answer on May 22, 2002, requesting that the FERC reject the complaint and deny the relief sought. On June 28, 2002, the FERC set PacifiCorp's complaints for hearing, but held the hearing in abeyance pending the outcome of settlement judge proceedings. If the case goes to hearing, the FERC stated that PacifiCorp will bear a heavy burden of proving that the extraordinary remedy of contract modification is justified. The FERC set a refund effective date of July 1, 2002. The hearing was conducted December 13 through December 20, 2002, at FERC. The judge issued an initial decision on February 27, 2003 dismissing the complaints. Williams expects this decision to be appealed to the FERC.

Certain entities have also asked the FERC to revoke Williams' authority to sell power from California-based generating units at market-based rates, to limit Williams to cost-based rates for future sales from such units and to order refunds of excessive rates, with interest, retroactive to May 1, 2000, and possibly earlier.

On March 14, 2001, the FERC issued a Show Cause Order directing Energy Marketing & Trading and AES Southland, Inc. to show cause why they should not be found to have engaged in violations of the Federal Power Act and various agreements, and they were directed to make refunds in the aggregate of approximately $10.8 million, and have certain conditions placed on Williams' market-based rate authority for sales from specific generating facilities in California for a limited period. On April 30, 2001, the FERC issued an Order approving a settlement of this proceeding. The settlement terminated the proceeding without making any findings of wrongdoing by Williams. Pursuant to the settlement, Williams agreed to refund $8 million to the ISO by crediting such amount against outstanding invoices. Williams also agreed to prospective conditions on its authority to make bulk power sales at market-based rates for certain limited facilities under which it has call rights for a one-year period. Williams also has been informed that the facts underlying this proceeding are also under investigation by a California Grand Jury. As a result of federal court orders, FERC released the data it obtained from Williams that gave rise to the show cause order.

On September 27, 2001, the FERC issued a Notice of Proposed Rulemaking (NOPR) proposing to adopt uniform standards of conduct for transmission providers. The proposed rules define transmission providers as interstate natural gas pipelines and public utilities that own, operate or control electric transmission facilities. The proposed standards would regulate the conduct of transmission providers with their energy affiliates. The FERC proposes to define energy affiliates broadly to include any transmission provider affiliate that engages in or is involved in transmission (gas or electric) transactions, or manages or controls transmission capacity, or buys, sells, trades or administers natural gas or electric energy or engages in financial transactions relating to the sale or transmission of natural gas or electricity. Current rules affecting Williams regulate the conduct of Williams' natural gas pipelines and their natural gas marketing affiliates. The FERC invited interested parties to comment on the NOPR. On April 25, 2002, the FERC issued its staff analysis of the NOPR and the comments received. The staff analysis proposes redefining the definition of energy affiliates to exclude affiliated transmission providers. On May 21, 2002, the FERC held a public conference concerning the NOPR and the FERC invited the submission of additional comments. If adopted, these new standards would require the adoption of new compliance measures by certain Williams subsidiaries.

On December 11, 2002, the FERC staff informed Transco of a number of issues the FERC staff identified during the course of a formal, nonpublic investigation into the relationship between Transco and its marketing affiliate, Energy Marketing & Trading. The FERC staff asserted that Energy Marketing & Trading personnel had access to Transco data bases and other information, and that Transco had failed to accurately post certain information on its electronic bulletin board. Williams, Transco and Energy Marketing & Trading did not agree with all of the FERC staff's allegations and furthermore believe that Energy Marketing & Trading did not profit from the alleged activities. Nevertheless, in order to avoid protracted litigation, on March 13, 2003, Williams, Transco and Energy Marketing & Trading executed a settlement of this matter with the FERC staff. An Order approving the settlement was issued by the FERC on March 17, 2003. Pursuant to the terms of the settlement agreement, Transco will pay a civil penalty in the amount of $20 million, beginning with a payment of $4 million within thirty (30) days of the date the FERC Order approving the settlement becomes final. If no requests for rehearing are filed, the first payment would be due by May 16, 2003, and $4 million payments on or before the first, second, third and fourth anniversaries of the first payment. As a result of the settlement agreement, effective December 31, 2002, Transco recorded a charge to income and established a liability of $17 million on a discounted basis to reflect the future payments to be made over the next four years. In addition, Transco will provide notice to its merchant sales service customers that it will be terminating such services when it is able to do so under the terms of any applicable contracts and FERC certificates authorizing such services. Most of these sales are made through a Firm Sales (FS) program, and under this program Transco must provide two-year advance notice of termination. Therefore, Transco will notify the FS customers of its intention to terminate the FS service effective April 1, 2005. As part of the settlement, Energy Marketing & Trading has agreed, subject to certain exceptions, that it will not enter into new transportation agreements that would increase the transportation capacity it holds on certain affiliated interstate gas pipelines, including Transco. Finally, Transco and certain affiliates have agreed to the terms of a compliance plan designed to ensure future compliance with the provisions of the settlement agreement and the FERC's rules governing the relationship of Transco and Energy Marketing & Trading.

On July 17, 2002, the FERC issued a Notice of Inquiry to seek comments on its negotiated rate policies and practices. The FERC states that it is undertaking a review of the recourse rate as a viable alternative and safeguard against the exercise of market power of interstate gas pipelines, as well as the entire spectrum of issues related to its negotiated rate program. The FERC requested that interested parties respond to various questions related to the FERC's negotiated rate policies and practices. Williams' Gas Pipeline companies have negotiated rates under the FERC's existing negotiated rate programs and participated in comments filed in this proceeding by Williams in support of the FERC's existing negotiated rate program.

On August 1, 2002, the FERC issued a NOPR that proposes restrictions on various types of cash management program employed by companies in the energy industry, such as Williams and its subsidiaries. In

addition to stricter guidelines regarding the accounting for and documentation of cash management or cash pooling programs, the FERC proposal, if made final, would preclude public utilities, natural gas companies and oil pipeline companies from participating in such programs unless the parent company and its FERC-regulated affiliate maintain investment-grade credit ratings and that the FERC-regulated affiliate maintain stockholders equity of at least 30 percent of total capitalization. Williams' and its regulated gas pipelines' current credit ratings are not investment grade. Williams participated in comments in this proceeding on August 28, 2002, by the Interstate Natural Gas Association of America. On September 25, 2002, the FERC convened a technical conference to discuss the issues raised in the comments filed by parties in this proceeding.

On February 13, 2002, the FERC issued an Order Directing Staff Investigation commencing a proceeding titled Fact-Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices. Through the investigation, the FERC intends to determine whether "any entity, including Enron Corporation (Enron) (through any of its affiliates or subsidiaries), manipulated short-term prices for electric energy or natural gas in the West or otherwise exercised undue influence over wholesale electric prices in the West, since January 1, 2000, resulting in potentially unjust and unreasonable rates in long-term power sales contracts subsequently entered into by sellers in the West." This investigation does not constitute a Federal Power Act complaint, rather, the results of the investigation will be used by the FERC in any existing or subsequent Federal Power Act or Natural Gas Act complaint. The FERC Staff is directed to complete the investigation as soon as "is practicable." Williams, through many of its subsidiaries, is a major supplier of natural gas and power in the West and, as such, anticipates being the subject of certain aspects of the investigation. Williams is cooperating with all data requests received in this proceeding. On May 8, 2002, Williams received an additional set of data requests from the FERC related to a disclosure by Enron of certain trading practices in which it may have been engaged in the California market. On May 21, and May 22, 2002, the FERC supplemented the request inquiring as to "wash" or "round trip" transactions. Williams responded on May 22, 2002, May 31, 2002, and June 5, 2002, to the data requests. On June 4, 2002, the FERC issued an order to Williams to show cause why its market-based rate authority should not be revoked as the FERC found that certain of Williams' responses related to the Enron trading practices constituted a failure to cooperate with the staff's investigation. Williams subsequently supplemented its responses to address the show cause order. On July 26, 2002, Williams received a letter from the FERC informing Williams that it had reviewed all of Williams' supplemental responses and concluded that Williams responded to the initial May 8, 2002 request.

In response to an article appearing in the New York Times on June 2, 2002, containing allegations by a former Williams employee that it had attempted to "corner" the natural gas market in California, and at Williams' invitation, the FERC is conducting an investigation into these allegations. Also, the Commodity Futures Trading Commission (CFTC) and the U.S. Department of Justice (DOJ) are conducting an investigation regarding gas and power trading and have requested information from Williams in connection with this investigation.

Williams disclosed on October 25, 2002, that certain of its gas traders had reported inaccurate information to a trade publication that published gas price indices. On November 8, 2002, Williams received a subpoena from a federal grand jury in Northern California seeking documents related to Williams' involvement in California markets, including its reporting to trade publications for both gas and power transactions. Williams is in the process of completing its response to the subpoena. The CFTC's and the DOJ's investigations into this matter are continuing.

On May 31, 2002, Williams received a request from the Securities and Exchange Commission (SEC) to voluntarily produce documents and information regarding "round-trip" trades for gas or power from January 1, 2000, to the present in the United States. On June 24, 2002, the SEC made an additional request for information including a request that Williams address the amount of Williams' credit, prudency and/or other reserves associated with its energy trading activities and the methods used to determine or calculate these

reserves. The June 24, 2002, request also requested Williams' volumes, revenues, and earnings from its energy trading activities in the Western U.S. market. Williams has responded to the SEC's requests.

On July 3, 2002, the ISO announced fines against several energy producers including Williams, for failure to deliver electricity in 2001 as required. The ISO fined Williams $25.5 million, which will be offset against Williams' claims for payment from the ISO. Williams believes the vast majority of fines are not justified and has challenged the fines pursuant to the FERC -- approved process contained in the ISO tariff.

On December 3, 2002, an administrative law judge at the FERC issued an initial decision in Transcontinental Gas Pipe Line Corporation's general rate case which, among other things, rejects the recovery of the costs of Transco's Mobile Bay expansion project from its shippers on a "rolled-in" basis and finds that incremental pricing for the Mobile Bay expansion project is just and reasonable. The initial decision does not address the issue of the effective date for the change to incremental pricing, although Transco's rates reflecting recovery of the Mobile Bay expansion project costs on a "rolled-in" basis have been in effect since September 1, 2001. The administrative law judge's initial decision is subject to review by the FERC. Energy Marketing & Trading holds long-term transportation capacity on the Mobile Bay expansion project. If the FERC adopts the decision of the administrative law judge on the pricing of the Mobile Bay expansion project and also requires that the decision be implemented effective September 1, 2001, Energy Marketing & Trading could be subject to surcharges of approximately $22 million for prior periods, in addition to increased costs going forward.

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, 2002, these subsidiaries had accrued liabilities totaling approximately $31 million for these costs.

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

Transcontinental Gas Pipe Line and Texas Gas have identified polychlorinated biphenyl contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line and Texas Gas 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 Texas Gas and Transcontinental Gas Pipe Line. Texas Gas and Transcontinental Gas Pipe Line likewise had accrued liabilities for these costs which are included in the $31 million liability mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors.

In addition to its Gas Pipelines, Williams and its subsidiaries, including those reported in discontinued operations, also accrue environmental remediation costs for its natural gas gathering and processing facilities, petroleum products pipelines, retail petroleum and refining operations and for certain facilities related to

former propane marketing operations primarily related to soil and groundwater contamination. In addition, Williams owns a discontinued petroleum refining facility that is being evaluated for potential remediation efforts. At December 31, 2002, Williams and its subsidiaries, including those reported in discontinued operations, had accrued liabilities totaling approximately $52 million for these costs. Williams and its subsidiaries, including those reported in discontinued operations, accrue receivables related to environmental remediation costs based upon an estimate of amounts that will be reimbursed from state funds for certain expenses associated with underground storage tank problems and repairs. At December 31, 2002, Williams and its subsidiaries, including those reported in discontinued operations, had accrued receivables totaling $1 million.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. At December 31, 2002, Williams had approximately $9 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.

On July 2, 2001, the EPA issued an information request asking for information on oil releases and discharges in any amount from Williams' pipelines, pipeline systems, and pipeline facilities used in the movement of oil or petroleum products, during the period from July 1, 1998 through July 2, 2001. In November 2001, Williams furnished its response.

In 2002, Williams Refining & Marketing, LLC (Williams Refining) submitted to the EPA a self-disclosure letter indicating noncompliance with the EPA's benzene waste "NESHAP" regulations. This unintentional noncompliance had occurred due to a regulatory interpretation that resulted in under-counting the total annual benzene level at the Memphis refinery. Also in 2002, the EPA conducted an all-media audit of the Memphis refinery. The EPA anticipates releasing a report of its audit findings in mid-2003. The EPA will likely assess a penalty on Williams Refining due to the benzene waste NESHAP issue, but the amount of any such penalty is not known. On March 4, 2003, Williams completed the sale of the Memphis refinery, and Williams is obligated to indemnify the purchaser for any such penalty.

OTHER LEGAL MATTERS

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. Transcontinental Gas Pipe Line, through its agent Williams Energy Marketing & Trading, continues to purchase gas under contracts which extend, in some cases, through the life of the associated gas reserves. Certain of these contracts contain royalty indemnification provisions which have no carrying value. Producers have received and may receive other demands, which could result in claims pursuant to royalty indemnification provisions. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the agreement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Consequently, the potential maximum future payments under such indemnification provisions cannot be determined.

As a result of the settlements, Transcontinental Gas Pipe Line has been sued by certain producers seeking indemnification from Transcontinental Gas Pipe Line. In one of the cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay a producer damages of $23.3 million including $3.8 million in attorneys' fees. In addition, through December 31, 2001, post-judgment interest was approximately $10.5 million. Transcontinental Gas Pipe Line's appeals were denied by the Texas Court of Appeals for the First District of Texas, and on April 2, 2001, the company filed an appeal to the Texas Supreme Court. On February 21, 2002, the Texas Supreme Court denied Transcontinental Gas Pipe Line's

petition for review. As a result, Transcontinental Gas Pipe Line recorded a pre-tax charge to income for the year ended December 31, 2001, in the amount of $37 million ($18 million was included in Gas Pipeline's segment profit and $19 million in interest accrued) representing management's estimate of the effect of this ruling. Transcontinental Gas Pipe Line filed a motion for rehearing which was denied, thereby concluding this matter. In May 2002, Transcontinental Gas Pipe Line paid the producer the amount of the judgment and accrued interest. Transcontinental Gas Pipe Line is currently defending two lawsuits in which producers have asserted damages, including interest calculated through December 31, 2002, of approximately $18 million. 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 FERC Order 528.

On June 8, 2001, fourteen Williams entities were named as defendants in a nationwide class action lawsuit which has been pending against other defendants, generally pipeline and gathering companies, for more than one year. The plaintiffs allege that the defendants, including the Williams defendants, have engaged in mismeasurement techniques that distort the heating content of natural gas, resulting in an alleged underpayment of royalties to the class of producer plaintiffs. In September 2001, the plaintiffs voluntarily dismissed two of the fourteen Williams entities named as defendants in the lawsuit. In January 2002, most of the Williams defendants, along with a group of Coordinating Defendants, filed a motion to dismiss for lack of personal jurisdiction. On August 19, 2002, the defendants' motion to dismiss on nonjurisdictional grounds was denied. On September 17, 2002, the plaintiffs filed a motion for class certification. The Williams entities joined with other defendants in contesting certification of the class and this issue with the personal jurisdiction motion remain pending.

In 1998, the DOJ informed Williams that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against Williams and certain of its wholly owned subsidiaries. In connection with its sale of Kern River, the Company agreed to indemnify the purchaser for any liability relating to this claim, including legal fees. The maximum amount of future payments that Williams could potentially be required to pay under this indemnification depends upon the ultimate resolution of the claim and cannot currently be determined. No amounts have been accrued for this indemnification. Grynberg has also filed claims against approximately 300 other energy companies and alleged that the defendants violated the False Claims Act in connection with the measurement, royalty valuation and purchase of hydrocarbons. The relief sought was an unspecified amount of royalties allegedly not paid to the federal government, treble damages, a civil penalty, attorneys' fees, and costs. On April 9, 1999, the DOJ announced that it was declining to intervene in any of the Grynberg qui tam cases, including the action filed against the Williams entities in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred all of the Grynberg qui tam cases, including those filed against Williams, to the United States District Court for the District of Wyoming for pre-trial purposes. On October 9, 2002, the court granted a motion to dismiss Grynberg's royalty valuation claims. Grynberg's measurement claims remain pending against Williams and the other defendants.

On August 6, 2002, Jack J. Grynberg, and Celeste C. Grynberg, Trustee on Behalf of the Rachel Susan Grynberg Trust, and the Stephen Mark Grynberg Trust, served The Williams Companies and Williams Production RMT Company with a complaint in the District Court in and for the City of Denver, State of Colorado. The complaint alleges that the defendants have used mismeasurement techniques that distort the BTU heating content of natural gas, resulting in the alleged underpayment of royalties to Grynberg and other independent natural gas producers. The complaint also alleges that defendants inappropriately took deductions from the gross value of their natural gas and made other royalty valuation errors. Theories for relief include breach of contract, breach of implied covenant of good faith and fair dealing, anticipatory repudiation, declaratory relief, equitable accounting, civil theft, deceptive trade practices, negligent misrepresentation, deceit based on fraud, conversion, breach of fiduciary duty, and violations of the state racketeering statute. Plaintiff is seeking actual damages of between $2 million and $20 million based on interest rate variations, and punitive damages in the amount of approximately $1.4 million dollars. On October 7, 2002, the Williams

defendants filed a motion to stay the proceedings in this case based on the pendency of the False Claims Act litigation discussed in the preceding paragraph.

Williams and certain of its subsidiaries are named as defendants in various putative, nationwide class actions brought on behalf of all landowners on whose property the plaintiffs have alleged WCG installed fiber-optic cable without the permission of the landowners. Williams and its subsidiaries were dismissed from all of the cases, except one. The parties in the only remaining case in which Williams or its subsidiaries are named as defendants have agreed on the settlement documents, which provide that Williams and its subsidiaries will be dismissed with prejudice before consummating the settlement. Williams is awaiting return of the executed documents and the dismissal. The settlement does not obligate Williams or its subsidiaries to pay any monies to the remaining plaintiff.

In November 2000, class actions were filed in San Diego, California Superior Court by Pamela Gordon and Ruth Hendricks on behalf of San Diego rate payers against California power generators and traders including Williams Energy Services Company and Energy Marketing & Trading, subsidiaries of Williams. Three municipal water districts also filed a similar action on their own behalf. Other class actions have been filed on behalf of the people of California and on behalf of commercial restaurants in San Francisco Superior Court. These lawsuits result from the increase in wholesale power prices in California that began in the summer of 2000. Williams is also a defendant in other litigation arising out of California energy issues. The suits claim that the defendants acted to manipulate prices in violation of the California antitrust and unfair business practices statutes and other state and federal laws. Plaintiffs are seeking injunctive relief as well as restitution, disgorgement, appointment of a receiver, and damages, including treble damages. These cases have all been administratively consolidated in San Diego County Superior Court. As part of a comprehensive settlement with the State of California and other parties, Williams and the lead plaintiffs in these suits have resolved the claims. While the settlement is final as to the State of California, the San Diego Superior Court must still approve it as to the plaintiff ratepayers.

On May 2, 2001, the Lieutenant Governor of the State of California and Assemblywoman Barbara Matthews, acting in their individual capacities as members of the general public, filed suit against five companies and fourteen executive officers, including Energy Marketing & Trading and Williams' then current officers Keith Bailey, Chairman and CEO of Williams, Steve Malcolm, President and CEO of Williams Energy Services and an Executive Vice President of Williams, and Bill Hobbs, Senior Vice President of Williams Energy Marketing & Trading, in Los Angeles Superior State Court alleging State Antitrust and Fraudulent and Unfair Business Act Violations and seeking injunctive and declaratory relief, civil fines, treble damages and other relief, all in an unspecified amount. This case is being administratively consolidated with the other class actions in San Diego Superior Court. As part of a comprehensive settlement with the State of California and other parties, Williams and the lead plaintiffs in these suits have resolved the claims. While the settlement is final as to the State of California, the San Diego Superior Court must still approve it as to the plaintiffs in this suit.

On October 5, 2001, a suit was filed on behalf of California taxpayers and electric ratepayers in the Superior Court for the County of San Francisco against the Governor of California and 22 other defendants consisting of other state officials, utilities and generators, including Energy Marketing & Trading. The suit alleges that the long-term power contracts entered into by the state with generators are illegal and unenforceable on the basis of fraud, mistake, breach of duty, conflict of interest, failure to comply with law, commercial impossibility and change in circumstances. Remedies sought include rescission, reformation, injunction, and recovery of funds. Private plaintiffs have also brought five similar cases against Williams and others on similar grounds. These suits have all been removed to federal court, and plaintiffs are seeking to remand the cases to state court. In January, 2003, the federal district court granted the plaintiffs' motion to remand the case to San Diego Superior Court, but on February 20, 2003, the United States Court of Appeals for the Ninth Circuit, on its own motion, stayed the remand order pending its review of an appeal of the

remand order by certain defendants. As part of a comprehensive settlement with the State of California and other parties, Williams and the lead plaintiffs in these suits have resolved the claims. While the settlement is final as to the State of California, once the jurisdictional issue is resolved, either the San Diego Superior Court or the United States District Court for the Southern District of California must still approve the settlement as to the plaintiff ratepayers and taxpayers.

On March 11, 2002, the California Attorney General filed a civil complaint in San Francisco Superior Court against Williams and three other sellers of electricity alleging unfair competition relating to sales of ancillary power services between 1998 and 2000. The complaint seeks restitution, disgorgement and civil penalties of approximately $150 million in total. This case has been removed to federal court. On April 9, 2002, the California Attorney General filed a civil complaint in San Francisco Superior Court against Williams and three other sellers of electricity alleging unfair and unlawful business practices related to charges for electricity during and after 2000. The maximum penalty for each violation is $2,500 and the complaint seeks a total fine in excess of $1 billion. These cases have been removed to federal court. Motions to remand have been denied. Finally, the California Attorney General has indicated he may file a Clayton Act complaint against AES Southland and Williams relating to AES Southland's acquisition of Southern California generation facilities in 1998, tolled by Williams. Williams believes the complaints against it are without merit. As part of a comprehensive settlement with the State of California and other parties, Williams and the plaintiffs in these suits have resolved the claims. The settlement is final, and the complaint has been withdrawn.

Numerous shareholder class action suits have been filed against Williams in the United States District Court for the Northern District of Oklahoma. The majority of the suits allege that Williams and co-defendants, WCG and certain corporate officers, have acted jointly and separately to inflate the stock price of both companies. Other suits allege similar causes of action related to a public offering in early January 2002, known as the FELINE PACS offering. These cases were filed against Williams, certain corporate officers, all members of the Williams board of directors and all of the offerings' underwriters. These cases have all been consolidated and an order has been issued requiring separate amended consolidated complaints by Williams and WCG equity holders. The amended complaint of the WCG securities holders was filed on September 27, 2002, and the amended complaint of the WMB securities holders was filed on October 7, 2002. In addition, four class action complaints have been filed against Williams and the members of its board of directors under the Employee Retirement Income Security Act by participants in Williams' 401(k) plan. A motion to consolidate these suits has been approved. Williams and other defendants have filed motions to dismiss each of these suits and oral arguments on the motions will be held in April 2003. Derivative shareholder suits have been filed in state court in Oklahoma, all based on similar allegations. On August 1, 2002, a motion to consolidate and a motion to stay these suits pending action by the federal court in the shareholder suits was approved.

On July 26, 2002, Williams entered into a Settlement Agreement with its former telecommunications subsidiary, WCG, the official committee of unsecured creditors, and Leucadia, whereby Williams settled its claims against WCG in exchange for $180 million cash for the sale of its claims to Leucadia and the sale of the Williams Technology Center to WCG. The settlement closed into escrow on October 15, 2002, and was finalized on December 2, 2002. This matter is discussed more fully in Note 2.

On April 26, 2002, the Oklahoma Department of Securities issued an order initiating an investigation of Williams and WCG regarding issues associated with the spin-off of WCG and regarding the WCG bankruptcy. Williams has committed to cooperate fully in the investigation.

On November 30, 2001, Shell Offshore, Inc. filed a complaint at the FERC against Williams Gas Processing -- Gulf Coast Company, L.P. (WGP), Williams Gulf Coast Gathering Company (WGCGC), Williams Field Services Company (WFS) and Transcontinental Gas Pipe Line Corporation (Transco), alleging concerted actions by the affiliates frustrating the FERC's regulation of Transco. The alleged actions

are related to offers of gathering service by WFS and its subsidiaries on the recently spundown and deregulated North Padre Island offshore gathering system. On September 5, 2002, the FERC issued an order reasserting jurisdiction over that portion of the North Padre Island facilities previously transferred to WFS. The FERC also determined an unbundled gathering rate for service on these facilities which is to be collected by Transco. Transco, WGP, WGCGC and WFS believe their actions were reasonable and lawful and have sought rehearing of the FERC's order.

On October 23, 2002, Western Gas Resources, Inc. and its subsidiary, Lance Oil and Gas Company, Inc. filed suit against Williams Production RMT Company in District Court for Sheridan, Wyoming, claiming that the merger of Barrett Resources Corporation and Williams triggered a preferential right to purchase a portion of the coal bed methane development properties owned by Barrett in the Powder River Basin of northeastern Wyoming. In addition, Western claims that the merger triggered certain rights of Western to replace Barrett as operator of those properties. Mediation efforts were not successful in resolving the dispute. The Company believes that the claims have no merit.

Williams Alaska Petroleum, Inc. (WAPI) is actively engaged in administrative litigation being conducted jointly by the FERC and the Regulatory Commission of Alaska concerning the Trans-Alaska Pipeline System (TAPS) Quality Bank. Primary issues being litigated include the appropriate valuation of the naphtha, heavy distillate, vacuum gas oil and residual product cuts within the TAPS Quality Bank as well as the appropriate retroactive effects of the determinations. WAPI's interest in these proceedings is material as the matter involves claims by crude producers and the State of Alaska for retroactive payments plus interest from WAPI in the range of $150 million to $200 million in aggregate. Because of the complexity of the issues involved, however, the outcome cannot be predicted within certainty nor can the likely result be quantified.

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

Enron and certain of its subsidiaries, with whom Energy Marketing & Trading and other Williams subsidiaries have had commercial relations, filed a voluntary petition for Chapter 11 reorganization under the U.S. Bankruptcy Code in the Federal District Court for the Southern District of New York on December 2, 2001. Additional Enron subsidiaries have subsequently filed for Chapter 11 protection. Williams has filed its proofs of claim prior to the court-ordered October 15, 2002, bar date. During fourth-quarter 2001, Energy Marketing & Trading recorded a total decrease to revenues of approximately $130 million as a part of its valuation of energy commodity and derivative trading contracts with Enron entities, approximately $91 million of which was recorded pursuant to events immediately preceding and following the announced bankruptcy of Enron. Other Williams subsidiaries recorded approximately $5 million of bad debt expense related to amounts receivable from Enron entities in fourth-quarter 2001, reflected in selling, general and administrative expenses. At December 31, 2001, Williams has reduced its recorded exposure to accounts receivable from Enron entities, net of margin deposits, to expected recoverable amounts. During 2002, Energy Marketing & Trading sold rights to certain Enron receivables to a third party in exchange for $24.5 million in cash. The $24.5 million was recorded within the trading revenues in first-quarter 2002.

Energy Marketing & Trading has paid and received various settlement amounts in conjunction with the liquidation of trading positions in 2002. Additionally, one counterparty has disputed a settlement amount related to the liquidation of a trading position with Energy Marketing & Trading and the amount of settlement is in excess of $100 million payable to Energy Marketing & Trading. The matter is being arbitrated.

SUMMARY

Litigation, arbitration, regulatory matters and environmental matters are subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs. Management, including internal counsel, currently believes

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 not have a materially adverse effect upon Williams' future financial position.

COMMITMENTS

Energy Marketing & Trading has entered into certain contracts giving it the right to receive fuel conversion services as well as certain other services associated with electric generation facilities that are currently in operation throughout the continental United States. At December 31, 2002, annual estimated committed payments under these contracts range from approximately $60 million to $462 million, resulting in total committed payments over the next 20 years of approximately $8 billion.

NOTE 17. RELATED PARTY TRANSACTIONS

LEHMAN BROTHERS HOLDINGS, INC.

Lehman Brothers Inc. is a related party as a result of a director that serves on both Williams' and Lehman Brothers Holdings, Inc.'s board of directors. In third-quarter 2002, RMT, a wholly owned subsidiary, entered into a $900 million short-term Credit Agreement dated July 31, 2002, with certain lenders, including a subsidiary of Lehman Brothers Inc. (see Note 11). Included in interest accrued on the Consolidated Statement of Operations for 2002 are $154.1 million of interest expense, including amortization of deferred set-up fees related to the RMT note. As of December 31, 2002, the amount payable related to the RMT note and related interest was approximately $1 billion. In addition, Williams paid $39.6 million and $27 million to Lehman Brothers Inc. in 2002 and 2001, respectively, primarily for underwriting fees related to debt and equity issuances as well as strategic advisory and restructuring success fees.

AMERICAN ELECTRIC POWER COMPANY, INC.

American Electric Power Company, Inc. (AEP) is a related party as a result of a director that serves on both Williams' and AEP's board of directors. Williams' Energy Marketing & Trading segment engaged in forward and physical power and gas trading activities with AEP. Net revenues from AEP were $133.9 million in 2002. At December 31, 2002, amounts due from and due to AEP were $96.4 million and $331.3 million, respectively.

EXXON MOBIL CORPORATION

Exxon Mobil Corporation was a related party as a result of a director that serves on both Williams' and Exxon Mobil Corporation's board of directors. Transactions with Exxon Mobil Corporation result primarily from the purchase and sale of crude oil, refined products and natural gas liquids in support of crude oil, refined products and natural gas liquids trading activities and strategies as well as revenues generated from gathering and processing activities. Aggregate revenues, including those reported on a net basis, from this customer were $217.6 million, $38.9 million and $10.2 million in 2002, 2001 and 2000, respectively, while aggregate purchases from this customer were $15.6 million, $6.4 million and $69.9 million in 2002, 2001 and 2000, respectively. Amounts due from Exxon Mobil were $22.1 million and $8.3 million as of December 31, 2002 and 2001, respectively. Amounts due to Exxon Mobil were $66.9 million and $140.3 million as of December 31, 2002 and 2001, respectively.

NOTE 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

INCOME (LOSS)				
UNREALIZED APPRECIATION CASH FLOW HEDGES	FOREIGN MINIMUM PENSION LIABILITY	(DEPRECIATION) ON SECURITIES	CURRENCY TRANSLATION	TOTAL
			(MILLIONS)	
Balance at December 31, 1999	$ --	$ 120.1	$(20.6)	$ 99.5
2000 change: Pre-income tax amount	--	218.1	(28.2)	189.9
Income tax provision	--	(82.2)	--	(82.2)
Minority interest in other comprehensive income (loss)	--	(20.4)	4.3	(16.1)
Net realized gains in net income (net of $118.3 income tax and $28.0 minority interest)	--	(162.9)	--	(162.9)
Balance at December 31, 2000	--	72.7	(44.5)	28.2
2001 change: Cumulative effect of change in accounting for derivative instruments (net of $58.9 income tax)				
Pre-income tax amount	(94.5)	--	--	(94.5)
Income tax benefit (provision)	896.8	(69.7)	(39.9)	783.6
Minority interest in other comprehensive loss	(343.3)	27.5	1.4	(314.4)
Net realized gains in net income (net of $.1 income tax and $1.8 minority interest)				
Net reclassification into earnings of derivative instrument gains (net of $55.7 income tax)		1.5	--	1.5
	(88.8)	--	--	(88.8)
	370.2	(35.3)	(37.1)	(2.2)
Adjustment due to spinoff of WCG	295.6	--	(36.5)	57.8
Balance at December 31, 2001	370.2	.9	(23.8)	(2.2)
2002 change: Pre-income tax amount	345.1	(170.7)	5.3	(.1)
Income tax benefit (provision)	(27.3)	(192.8)	65.0	(1.9)
Minority interest in other comprehensive loss		10.4	73.5	.4
Net realized loss in net loss (net of $.7 income tax)				
	--	1.2	--	--
Net reclassification into earnings of derivative instrument gains (net of $119.2 income tax)				
	(193.6)	--	--	(193.6)
	(298.9)	4.6	(.1)	(16.9)
Balance at December 31, 2002	$ 71.3	$ 5.5	$(23.9)	$(19.1)
	$ 33.8			

The adjustment due to the spinoff of WCG for 2001 includes unrealized appreciation (depreciation) on securities and foreign currency translation balances which relate to WCG and are included in the $2.0 billion decrease to stockholders' equity (see Note 2). In addition, the balances at December 31 in the previous table

include components of accumulated other comprehensive income that are related to discontinued operations. The amounts related to discontinued operations for the years ended December 31 are as follows:

INCOME (LOSS)	UNREALIZED APPRECIATION CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	MINIMUM PENSION LIABILITY	TOTAL
	(MILLIONS)			
1999				
$ --	$120.1	$(13.6)	$ --	$106.5
2000				
--	76.1	(38.5)	--	37.6
2001				
--	--	--	(.7)	(.7)
2002				
--	--	--	(1.2)	(1.2)

NOTE 19. SEGMENT DISCLOSURES

SEGMENTS AND RECLASSIFICATION OF OPERATIONS

Williams' reportable segments are strategic business units that offer different products and services. The segments are managed separately, because each segment requires different technology, marketing strategies and industry knowledge. Other includes corporate operations and certain activities previously reported within the International segment.

Effective July 1, 2002, management of certain operations previously conducted by Energy Marketing & Trading, the previously reported International segment and Petroleum Services was transferred to Midstream Gas & Liquids. These operations included natural gas liquids trading, activities in Venezuela and a petrochemical plant, respectively. Segment amounts have been restated for all periods presented to reflect these changes.

On April 11, 2002, Williams Energy Partners L.P., a partially owned and consolidated entity of Williams, acquired Williams Pipe Line, an operation within Petroleum Services. Accordingly, Williams Pipe Line's operations have been transferred from the Petroleum Services segment to the Williams Energy Partners segment and the segment information is reflected as such for all periods presented.

Segment amounts for 2001 and 2000 reflect the reclassification of the International segment to other.

SEGMENTS -- PERFORMANCE MEASUREMENT

Williams currently evaluates performance based upon segment profit (loss) from operations which includes revenues from external and internal customers, operating costs and expenses, depreciation, depletion and amortization, equity earnings (losses) and income (loss) from investments. The accounting policies of the segments are the same as those described in Note 1, Summary of significant accounting policies. Intersegment sales are generally accounted for as if the sales were to unaffiliated third parties, that is, at current market prices.

In first-quarter 2002, Williams began managing its interest rate risk on an enterprise basis by the corporate parent. The more significant of these risks relate to its debt instruments and its energy risk management and trading portfolio. To facilitate the management of the risk, entities within Williams may enter into derivative instruments (usually swaps) with the corporate parent. Generally, the level, term and nature of derivative instruments entered into with external parties were determined by the corporate parent. Energy Marketing & Trading has entered into intercompany interest rate swaps with the corporate parent, the effect of which is included in Energy Marketing & Trading's segment revenues and segment profit (loss) as shown in the reconciliation within the following tables. The results of interest rate swaps with external

counterparties are shown as interest rate swap loss in the Consolidated Statement of Operations below operating income.

The majority of energy commodity hedging by the Exploration & Production and Petroleum Services business units is done through intercompany derivatives with Energy Marketing & Trading which, in turn, enters into offsetting derivative contracts with unrelated third parties. Energy Marketing & Trading bears the counterparty performance risks associated with unrelated third parties.

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

	UNITED STATES	OTHER	TOTAL
	(MILLIONS)		
Revenues from external customers:			
2002	$ 4,763.0	$ 845.4	$ 5,608.4
2001	6,241.2	824.3	7,065.5
2000	6,251.1	308.2	6,559.3
Long-lived assets:			
2002	$14,606.9	$1,207.0	$15,813.9
2001	14,190.1	1,356.5	15,546.6

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

In 2001, one of Energy Marketing & Trading's customers exceeded 10 percent of Williams' revenues with sales of approximately $937 million. In 2002 and 2000, there were no customers who exceeded 10 percent of Williams' revenues.

	ENERGY MARKETING & TRADING	MIDSTREAM GAS & LIQUIDS	WILLIAMS PIPELINE PARTNERS	GAS PIPELINE	EXPLORATION & PRODUCTION	ENERGY SERVICES	OTHER	ELIMINATIONS	TOTAL
				(MILLIONS)					2002
Segment revenues:									
External	$ 977.8	$1,443.2	$ 62.7	$1,869.9	$386.7	$ 841.5	$ 26.6		
Internal	(1,063.0)*	60.6	837.2	39.2	37.0	24.5	39.3		
Total segment revenues	(85.2)	1,503.8	899.9	1,909.1	423.7	866.0	65.9		
Less intercompany interest rate swap gain (loss)	(141.4)	--	--	--	--	--	--		
Total revenues	$ 56.2	$1,503.8	$ 899.9	$1,909.1	$423.7	$ 866.0	$ 65.9		
Segment profit (loss)	$ (624.8)	$ 661.3	$ 520.5	$ 189.3	$ 99.3	$ 32.8	$ 27.9		
Less: Equity earnings (losses)	(9.7)	88.4	3.7	17.6	--	(14.6)	(13.4)		
Income (loss) from investments	(2.0)	(13.9)	--	--	--	(.7)	58.7		
Intercompany interest rate swap gain (loss)	(141.4)	--	--	--	--	--			
Segment operating income (loss)	$ (471.7)	$ 586.8	$ 516.8	$ 171.7	$ 99.3	$ 48.1	$(17.4)		
General corporate expenses									
Consolidated operating income (loss)									
Other financial information:									
Additions to long-lived assets	$ 135.8	$ 732.3	$ 398.7	$ 821.8	$ 41.2	$ 23.0	$ 43.9		
Depreciation, depletion & amortization	$ 33.1	$ 263.7	$ 199.9	$ 202.4	$ 37.9	$ 21.8	$ 16.3		
									2001
Segment revenues:									
External	$ 2,260.2	$1,384.5	$ 121.6	$1,826.3	$354.1	$1,077.8	$ 41.0		
Internal	(554.6)*	41.5	493.6	80.5	48.4	31.9	39.3		
Total revenues and segment revenues	$ 1,705.6	$1,426.0	$ 615.2	$1,906.8	$402.5	$1,109.7	$ 80.3		
Segment profit (loss)	$ 1,270.0	$ 571.7	$ 234.1	$ 171.9	$101.2	$ 145.7	$(25.7)		
Less: Equity earnings (losses)	(1.3)	46.3	14.6	(14.0)	--	(.1)	(22.8)		
Income (loss) from investments	(23.3)	27.5	--	--	--	--	--		
Segment operating income (loss)	$ 1,294.6	$ 497.9	$ 219.5	$ 185.9	$101.2	$ 145.8	$ (2.9)		
General corporate expenses									
Consolidated operating income (loss)									
Other financial information:									
Additions to long-lived assets	$ 209.2	$ 657.3	$3,784.7	$ 565.6	$ 87.7	$ 32.5	$ 35.3		
Depreciation, depletion & amortization	$ 20.0	$ 265.0	$ 101.1	$ 169.7	$ 34.5	$ 22.4	$ 15.5		
									2000
Segment									

revenues:
External.....
$ 2,165.5 $1,514.4 $ 76.4 $1,050.5
$314.0 $1,402.7 $ 35.8
Internal.....
(870.4)* 52.6 254.6 523.8 59.0 53.6
38.6 --------- -------- -------- --
------ ------ -------- ------ Total
revenues and segment revenues... $
1,295.1 $1,567.0 $ 331.0 $1,574.3
$373.0 $1,456.3 $ 74.4 =========
======== ======== ======== ======
======== ====== Segment profit
(loss)..... $ 970.6 $
597.3 $ 87.6 $ 278.0 $104.2 $ 38.9
$(20.2) Less: Equity earnings
(losses)..... 1.6 27.0 11.8
(4.0) -- (.6) (14.2) Income (loss)
from investments..... .8 -- -- --
-- -- -- --------- -------- -------
- -------- ------ -------- ------
Segment operating income
(loss)..... $ 968.2 $ 570.3 $
75.8 $ 282.0 $104.2 $ 39.5 $ (6.0)
========= ======== ========
======== ====== ======== ======
General corporate
expenses..... Consolidated
operating income
(loss).....
Other financial information:
Additions to long-lived
assets..... $ 68.3 $ 607.3 $ 75.4
$ 942.5 $ 65.6 $ 56.6 $ 44.8
Depreciation, depletion &
amortization.....
$ 17.1 $ 249.6 $ 30.8 $ 147.6 $
30.3 $ 24.3 $ 20.7
ELIMINATIONS TOTAL ------------ ---
----- (MILLIONS) 2002 Segment
revenues:
External.....
$ -- $5,608.4
Internal.....
25.2 -- ------- -------- Total
segment revenues.....
25.2 5,608.4 Less intercompany
interest rate swap gain
(loss).....
141.4 -- ------- -------- Total
revenues.....
$(116.2) $5,608.4 ======= ========
Segment profit
(loss)..... $ -- $
906.3 Less: Equity earnings
(losses)..... -- 72.0 Income
(loss) from investments..... --
42.1 Intercompany interest rate
swap gain
(loss).....
-- (141.4) ------- -------- Segment
operating income (loss)..... $ --
933.6 ======= General corporate
expenses..... (142.8) ------
-- Consolidated operating income
(loss).....
$ 790.8 ======== Other financial
information: Additions to long-
lived assets..... $ -- $2,196.7
Depreciation, depletion &
amortization.....
$ -- $ 775.1 2001 Segment revenues:
External.....
$ -- $7,065.5
Internal.....
(180.6) -- ------- -------- Total
revenues and segment revenues...
$(180.6) $7,065.5 ======= ========
Segment profit
(loss)..... $ --
$2,468.9 Less: Equity earnings
(losses)..... 22.7 Income
(loss) from investments..... --
4.2 ------- -------- Segment
operating income (loss)..... $ --
2,442.0 ======= General corporate
expenses..... (124.3) ------
-- Consolidated operating income
(loss).....
$2,317.7 ======== Other financial
information: Additions to long-
lived assets..... $ -- $5,372.3
Depreciation, depletion &
amortization.....
$ -- $ 628.2 2000 Segment revenues:
External.....
$ -- $6,559.3
Internal.....
(111.8) -- ------- -------- Total
revenues and segment revenues...

$(111.8) $6,559.3 ======= ========
Segment profit (loss)..... $ -- $2,056.4 Less: Equity earnings (losses)..... -- 21.6 Income (loss) from investments..... -- .8 ------- -------- Segment operating income (loss)..... $ -- 2,034.0 ======= General corporate expenses..... (97.2) ------- - Consolidated operating income (loss)..... $1,936.8 ======== Other financial information: Additions to long-lived assets..... $ -- $1,860.5 Depreciation, depletion & amortization..... $ -- $ 520.4

- ---

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

	TOTAL ASSETS		EQUITY METHOD INVESTMENTS	
	DECEMBER 31, 2002	DECEMBER 31, 2001	DECEMBER 31, 2002	DECEMBER 31, 2001
	(MILLIONS)			
Energy Marketing & Trading	$12,533.2	$14,707.6	$ --	$ --
Gas Pipeline	8,196.5	7,506.5	778.4	715.5
Exploration & Production	5,816.4	5,045.6	35.8	31.6
Midstream Gas & Liquids	5,027.0	4,720.4	282.0	274.7
Williams Energy Partners	1,110.2	1,033.6	--	--
Petroleum Services	1,189.6	1,039.7	95.7	110.1
Other	6,829.1	7,542.7	.1	39.1
Eliminations	(6,694.8)	(7,353.6)	--	--
	34,007.2	34,242.5	1,192.0	1,171.0
Net assets of discontinued operations	981.3	4,371.7	--	--
Total assets	$34,988.5	$38,614.2	$1,192.0	$1,171.0

THE WILLIAMS COMPANIES, INC

QUARTERLY FINANCIAL DATA
(UNAUDITED)

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

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2002				
Revenues	$1,622.0	$1,057.4	$1,226.3	$1,702.7
Costs and operating expenses	816.7	835.7	937.3	1,063.8
Income (loss) from continuing operations	98.4	(301.3)	(174.0)	(124.6)
Net income (loss)	107.7	(349.1)	(294.1)	(219.2)
Basic and diluted earnings (loss) per common share:				
Income (loss) from continuing operations	.05	(.59)	(.35)	(.26)
Net income (loss)	.07	(.68)	(.58)	(.44)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2001				
Revenues	$2,091.8	$1,689.1	$1,709.2	$1,575.4
Costs and operating expenses	1,127.1	988.3	830.7	900.5
Income (loss) from continuing operations	354.9	291.5	180.7	(24.4)
Net income (loss)	199.2	339.5	221.3	(1,237.7)
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	.74	.60	.36	(.05)
Net income (loss)	.42	.70	.44	(2.39)
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	.73	.59	.36	(.05)
Net income (loss)	.41	.69	.44	(2.39)

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

Energy Marketing & Trading's net revenues can vary quarter to quarter based on the timing of origination activities and market movements of commodity prices, interest rates and counterparty credit worthiness impacting the determination of fair value contracts. Energy Marketing & Trading's net segment revenues were $355.0 million, $(278.6) million, $(290.2) million and $128.6 million for the first, second, third and fourth quarters respectively for 2002.

Net loss for fourth-quarter 2002 includes the following items which are pre-tax:

- $85.0 million net revenue impact related to the settlement of Energy Marketing & Trading contracts with the State of California
- $44.7 million impairment of the Worthington generation facility at Energy Marketing & Trading (see Note 4)
- $50.8 million loss accruals and impairments of other power related assets at Energy Marketing & Trading (see Note 4)
- $17.0 million charge associated with a FERC settlement (see Note 16)
- $115.0 million impairment of Canadian assets at Midstream Gas & Liquids (see Note 4)

- $18.4 million impairment of Alaska assets at Petroleum Services (see Note 4)

- $19.2 million income from discontinued operations (see Note 2)

- $172.0 million loss from discontinued operations for impairments and net losses on sales (see Note 2)

Net loss for third-quarter 2002 includes the following items which are pre-tax:

- $10.5 million loss accruals related to commitments for certain assets previously planned to be used in power projects at Energy Marketing & Trading (see Note 4)

- $11.6 million net write-down pursuant to the sale of Williams' equity interest in a Canadian and U.S. gas pipeline, at Gas Pipeline (see Note 3)

- $143.9 million gain related to the sale of certain natural gas production properties at Exploration & Production (see Note 4)

- $58.5 million gain on sale of Williams' investment in a Lithuanian oil refinery, pipeline and terminal complex, which was included in the previously reported International segment (see Note 3)

- $22.9 million charge included in continuing operations related to estimated losses from an assessment of the recoverability of WCG related receivables (see Note 2)

- $22.5 million income from discontinued operations (see Note 2)

- $231.4 million loss from discontinued operations for impairments and net losses on sales (see Note 2)

Net loss for second-quarter 2002 includes the following items which are pre-tax:

- $57.5 million impairment of goodwill due to deteriorating market conditions in the merchant energy sector at Energy Marketing & Trading (see Note 4)

- $58.9 million of loss accruals related to commitments for certain assets previously planned to be used in power projects and write-offs associated with a terminated power plant project at Energy Marketing & Trading (see Note 4)

- $31.8 million impairment of other power related assets at Energy Marketing & Trading (see Note 4)

- $12.3 million write-down of Gas Pipeline's investment in a pipeline project which was cancelled in 2002 (see Note 3)

- $27.4 million benefit which reflects a contractual construction completion fee received by Williams whose operations are accounted for under the equity method of accounting (see Note 3)

- $15.0 million charge included in continuing operations related to estimated losses from an assessment of the recoverability of WCG related receivables (see Note 2)

- $29.4 million of expense was recorded for Williams' early retirement option

- $20.8 million income from discontinued operations (see Note 2)

- $71.1 million loss from discontinued operations for impairments and net losses on sales (see Note 2)

Net income for first-quarter 2002 includes the following items which are pre-tax:

- $232.0 million charge included in continuing operations related to estimated losses from an assessment of the recoverability of WCG related receivables (see Note 2)

- $52.5 million income from discontinued operations (see Note 2)

- $38.1 million loss from discontinued operations for impairments and net losses on sales (see Note 2)

Energy Marketing and Trading's net segment revenues for first, second, third and fourth quarters of 2001 were $598.2 million, $337.7 million, $493.1 million and $276.6 million respectively. Energy Marketing and Trading's revenues can vary as discussed above.

Net loss for fourth-quarter 2001 includes the following items which are pre-tax:

- $130.0 million decrease to revenues and an approximate $4 million charge to bad debt expense related to Williams' estimated net exposure for the Enron bankruptcy at Energy Marketing & Trading and Gas Pipeline, respectively (see Note 16)

- $13.3 million impairment charge for the termination of a plant expansion at Energy Marketing & Trading (see Note 4)

- $37.4 million charge resulting from an unfavorable court decision in one of Transcontinental Gas Pipe Line's royalty claims proceedings (see Note 16)

- $213.0 million charge included in continuing operations related to estimated losses from an assessment of the recoverability of WCG related receivables (see Note 2)

- $57.7 million income from discontinued operations (see Note 2)

- $2,023.9 million loss from discontinued operations for impairments and net losses on sales (see Note 2)

Net income for third-quarter 2001 includes the following items which are pre-tax:

- $23.3 million charge related to the write-down of certain equity and cost basis investments at Energy Marketing & Trading (see Note 3)

- $70.9 million charge included in continuing operations related to estimated losses from an assessment of the recoverability of WCG related receivables (see Note 2)

- $65.2 million income from discontinued operations (see Note 2)

Net income for second-quarter 2001 includes the following items which are pre-tax:

- $72.1 million gain from the sale of certain convenience stores at Petroleum Services (see Note 4)

- $10.9 million impairment loss related to certain south Texas non-regulated gathering and processing assets at Midstream Gas & Liquids (see Note 4)

- $27.5 million gain on sale of Williams' limited partnership interest in Northern Border Partners, L.P. at Gas Pipeline (see Note 3)

- $77.6 million income from discontinued operations (see Note 2)

Net income for first-quarter 2001 includes the following items which are pre-tax:

- $11.2 million impairment charge related to Petroleum Services' end-to-end mobile computing systems business (see Note 4)

- $233.8 million loss from discontinued operations (see Note 2)

THE WILLIAMS COMPANIES, INC.

SUPPLEMENTAL OIL AND GAS DISCLOSURES
(UNAUDITED)

The following information pertains to the Williams' oil and gas producing activities and is presented in accordance with SFAS No. 69, "Disclosures About Oil and Gas Producing Activities." The information is required to be disclosed by geographic region. Williams has significant oil and gas producing activities primarily in the Rocky Mountain and Mid-continent regions of the United States. Additionally, Williams has oil and gas producing activities in Argentina, however, proved reserves and revenues related to these activities are approximately 5.2 percent and 3.1 percent, respectively, of Williams' total oil and gas producing activities. The following information relates only to the oil and gas activities in the United States.

CAPITALIZED COSTS

AS OF DECEMBER 31,	2002	2001
	(MILLIONS)	
Proved properties	$2,544.8	$2,415.2
Unproved properties	784.5	851.9
	3,329.3	3,267.1
Accumulated depreciation, depletion, and amortization, and valuation provisions	417.7	268.3
Net capitalized costs	$2,911.6	$2,998.8

- Capitalized costs include the cost of equipment and facilities for oil and gas producing activities. This amount for 2002 and 2001 does not include approximately $1 billion of goodwill related to the purchase of Barrett Resources Corp. (Barrett) in 2001.

- Proved properties include capitalized costs for oil and gas leaseholds holding proved reserves; development wells and related equipment and facilities (including uncompleted development well costs); successful exploratory wells and related equipment and facilities (and uncompleted exploratory well costs) and support equipment.

- Unproved properties consist primarily of acreage related to probable reserves acquired through the Barrett acquisition in addition to a small portion of unproved exploratory acreage.

COSTS INCURRED

FOR THE YEAR ENDED DECEMBER 31,	2002	2001
	(MILLIONS)	
Acquisition	$ --	$2,557.0
Exploration	15.5	35.6
Development	374.3	198.9
	$389.8	$2,791.5

- Costs incurred include capitalized and expensed items.

- Property acquisition costs include costs incurred to purchase, lease, or otherwise acquire a property, the majority of which is related to the Barrett acquisition during 2001.

- Exploration costs include the costs of geological and geophysical activity, dry holes, drilling and equipping exploratory wells, and the cost of retaining undeveloped leaseholds.

- Development costs include costs incurred to gain access to and prepare development well locations for drilling and to drill and equip development wells.

RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31,	2002	2001	2000
	(MILLIONS)		
Revenues: Oil and gas revenues	$ 698.0	$408.4	
Other revenues	174.0	171.2	
Total revenues	872.0	579.6	
Costs: Production costs	119.5	79.3	
General & administrative	62.9	40.1	
Exploration expenses	13.9	10.1	
Depreciation, depletion & amortization	191.0	94.0	
Property impairments	8.4	7.2	
Gain on sale of interests in Jonah and Anadarko properties		(141.7)	
Other expenses		109.2	138.7
Total costs	363.2	369.4	
Results of operations	508.8	210.2	
Equity earnings	--	8.5	
Provision for income taxes	(186.9)	(80.4)	
Exploration and production net income	$ 321.9	$138.3	

- Results of operations for producing activities consist of all related activities within the Exploration & Production reporting unit.

- Oil and gas revenues consist primarily of natural gas production sold to Energy Marketing & Trading and includes the impact of intercompany hedges.

- Other revenues and other expenses consist of activities within the Exploration & Production segment that are not a direct part of the producing activities. These non-producing activities include acquisition and disposition of other working interest and royalty interest gas and the movement of gas from the wellhead to the tailgate of the respective plants for sale to Energy Marketing & Trading or third party purchasers. In addition, other revenues include recognition of income from transactions which transferred certain non-operating benefits to a third party.

- Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. These costs also include production related taxes other than income taxes, and administrative expenses related to the production activity. Excluded are depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.

- Exploration expenses include unsuccessful exploratory dry hole costs, leasehold impairment, geological and geophysical expenses and the cost of retaining undeveloped leaseholds.

- Depreciation, depletion and amortization includes depreciation of support equipment.

PROVED RESERVES

2002	2001		
(BCFE)	(BCFE)		
Proved reserves at beginning of period	3,178	1,202	
Revisions	(87)	(69)	
Purchases	--	1,949	
Extensions and discoveries	385	239	
Production	(211)	(131)	
Sale of minerals in place	(431)	(12)	
Proved reserves at end of period	2,834	3,178	
Proved developed reserves at end of period	1,368	1,599	

- The SEC defines proved oil and gas reserves (Rule 4-10(a) of Regulation S-X) as the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty are recoverable in future years from known reservoirs under existing economic and operating conditions. Williams' proved reserves consist of two categories, proved developed reserves and proved undeveloped reserves. Proved developed reserves are currently producing wells and wells awaiting minor sales connection expenditure, recompletion, additional perforations or borehole stimulation treatments. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Proved reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled or where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

- Natural gas reserves are computed at 14.73 pounds per square inch absolute and 60 degrees Fahrenheit. Crude oil reserves are insignificant and have been included in the proved reserves on a basis of billion cubic feet equivalents (Bcfe).

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

The following is based on the estimated quantities of proved reserves and the year-end prices and costs. The average year end natural gas prices used in the following estimates were $3.85, $2.31 and $9.17 per mmcfe at December 31, 2002, 2001 and 2000, respectively. Future income tax expenses have been computed considering available carryforwards and credits and the appropriate statutory tax rates. The discount rate of 10 percent is as prescribed by SFAS No. 69. Continuation of year-end economic conditions also is assumed. The calculation is based on estimates of proved reserves, which are revised over time as new data becomes available. Probable or possible reserves, which may become proved in the future, are not considered. The calculation also requires assumptions as to the timing of future production of proved reserves, and the timing and amount of future development and production costs. Of the $1,215 million of future development costs, $147 million, $186 million and $197 million are estimated to be spent in 2003, 2004 and 2005, respectively.

Numerous uncertainties are inherent in estimating volumes and the value of proved reserves and in projecting future production rates and timing of development expenditures. Such reserve estimates are subject

to change as additional information becomes available. The reserves actually recovered and the timing of production may be substantially different from the reserve estimates.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

AT DECEMBER 31,	2002	2001
(MILLIONS) Future cash inflows	$10,904	$7,334
Less: Future production costs	2,828	1,958
Future development costs	1,215	1,114
Future income tax provisions	2,346	1,317
Future net cash flows	4,515	2,945
Less 10 percent annual discount for estimated timing of cash flows	2,243	1,513
Standardized measure of discounted future net cash flows	$ 2,272	$1,432

SOURCES OF CHANGE IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

2002	2001	(MILLIONS)
Standardized measure of discounted future net cash flows beginning of period	$ 1,432	$2,720
Changes during the year: Sales of oil and gas produced, net of operating costs	(322)	(270)
Net change in prices and production costs	1,602	(3,945)
Extensions, discoveries and improved recovery, less estimated future costs	546	153
Development costs incurred during year	374	199
Changes in estimated future development costs	(326)	(41)
Purchase of reserves in place, less estimated future costs	--	1,069
Sales of reserves in place, less estimated future costs	(611)	(8)
Revisions of previous quantity estimates	(123)	(43)
Accretion of discount	203	426
Net change in income taxes	(537)	1,077
Other	34	95
Net changes	840	(1,288)
Standardized measure of discounted future net cash flows end of period	$ 2,272	$1,432

THE WILLIAMS COMPANIES, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

		ADDITIONS			
	BALANCE	CHARGED TO COSTS AND EXPENSES	OTHER	DEDUCTIONS	ENDING BALANCE
- (MILLIONS) Year ended December 31, 2002: Allowance for doubtful accounts -- Accounts and notes receivable(a)	$252.2	$ 22.9	$ --	$ 161.9(c)	$113.2
Other noncurrent assets(a)	103.2	256.0	1,720.0(e)	2,079.2(c)	--
Price-risk management credit reserves(a)	648.2	(397.8)(f)	--	--	250.4
Refining and processing plant major maintenance accrual(b)	4.0	.9	.6	2.8(d)	2.7
Year ended December 31, 2001: Allowance for doubtful accounts -- Accounts and notes receivables(a)	7.2	98.5	145.6(g)	(.9)(c)	252.2
Other noncurrent assets(a)	--	103.2	--	--	103.2
Price-risk management credit reserves(a)	60.9	728.5(f)	(141.2)(h)	--	648.2
Refining and processing plant major maintenance accrual(b)	6.0	4.0	--	6.0(d)	4.0
Year ended December 31, 2000: Allowance for doubtful accounts -- Accounts and notes receivables(a)	3.5	3.4	--	(.3)(c)	7.2
Price-risk management credit reserves(a)	10.6	50.3(f)	--	--	60.9
Refining and processing plant major maintenance accrual(b)	5.0	1.0	--	--	6.0

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(a) Deducted from related assets.

(b) Included in liabilities.

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

(d) Represents payments made.

(e) Reflects a reclassification of amounts included in the liability for Guarantees and payment obligations related to Williams Communications Group, Inc. at December 31, 2001 (see Note 2 of Notes to Consolidated Financial Statements).

(f) Included in revenue.

(g) Reflects a reclassification of the reserve related to Enron from Price-risk management credit reserves to Allowance for doubtful accounts -- Accounts and notes receivable (see Note 16 of Notes to Consolidated Financial Statements) and amounts related to acquisitions of businesses.

(h) Reflects a reclassification of the reserve related to Enron from Price-risk management credit reserves to Allowance for doubtful accounts -- Accounts and notes receivable (see Note 16 of Notes to consolidated Financial Statements).

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding our directors and nominees for director required by Item 401 of Regulation S-K will be presented under the heading "Election of Directors" in our Proxy Statement prepared for the solicitation of proxies in connection with our Annual Meeting of Stockholders for 2003 (the "Proxy Statement"), which information is incorporated by reference herein. Information regarding our executive officers is presented as Item 4A 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 will be 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 will be 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 is not incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information regarding the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K will be presented under the headings "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which information is incorporated by reference herein.

The information regarding our Equity Compensation Stock Plans required by Item 201(d) of Regulation S-K will be presented under the heading "Equity Compensation Stock Plans" in our Proxy Statement prepared for the solicitation of proxies in connection with our Annual Meeting of Stockholders for 2003 (the "Proxy Statement"), which information is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information regarding certain relationships and related transactions required by Item 404 of Regulation S-K will be presented under the heading "Certain Relationships and Related Transactions" in the Proxy Statement, which information is incorporated by reference herein.

ITEM 14. CONTROLS AND PROCEDURES

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) of the Securities Exchange Act) was performed within the 90 days prior to the filing date of this report. This evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Acting Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that these disclosure controls and procedures are effective.

There have been no significant changes in our internal controls or other factors that could significantly affect internal controls since the certifying officers' most recent evaluation of those controls.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(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.

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

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Restated Certificate of Incorporation, as supplemented
3.2*	Restated By-laws (filed as Exhibit 99.1 to Form 8-K filed January 19, 2000).
4.1*	Form of Senior Debt Indenture between Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.1 to Form S-3 filed September 8, 1997).
4.2*	Form of Subordinated Debt Indenture between Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.2 to Form S-3 filed September 8, 1997).
4.3*	Form of Floating Rate Senior Note (filed as Exhibit 4.3 to Form S-3

filed September 8, 1997). 4.4* -- Form of Fixed Rate Senior Note (filed as Exhibit 4.4 to Form S-3 filed September 8, 1997). 4.5* -- Form of Floating Rate Subordinated Note (filed as Exhibit 4.5 to Form S-3 filed September 8, 1997). 4.6* -- Form of Fixed Rate Subordinated Note (filed as Exhibit 4.6 to Form S-3 filed September 8, 1997). 4.7** -- First Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of September 8, 2000. 4.8** -- Second Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of December 7, 2000. 4.9** -- Third Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee dated as of December 20, 2000. 4.10* -- Fourth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed as Exhibit 4(j) to Form 10-K for the fiscal year ended December 31, 2000).

EXHIBIT NO.	DESCRIPTION
4.11*	Fifth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed as Exhibit 4(k) to Form 10-K for the fiscal year ended December 31, 2000).
4.12*	Sixth Supplemental Indenture dated January 14, 2002, between Williams and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4.1 to Form 8-K filed January 23, 2002).
4.13*	Seventh Supplemental Indenture dated March 19, 2002, between The Williams Companies, Inc. as Issuer and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4.1 to Form 10-Q filed May 9, 2002).
4.14*	Form of Senior Debt Indenture between Williams and The Chase Manhattan Bank (formerly Chemical Bank), as Trustee (filed as Exhibit 4.1 to Form S-3 filed February 2, 1990).
4.15*	Indenture dated May 1, 1990, between Transco Energy Company and

The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990).

4.16* -- First Supplemental Indenture dated June 20, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990).

4.17* -- Second Supplemental Indenture dated November 29, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated December 7, 1990).

4.18* -- Third Supplemental Indenture dated April 23, 1991, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated April 30, 1991).

4.19* -- Fourth Supplemental Indenture dated August 22, 1991, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated August 27, 1991).

4.20* --

Fifth Supplemental Indenture dated May 1, 1995, among Transco Energy Company, Williams and The Bank of New York, as Trustee (filed as Exhibit 4(l) to Form 10-K for the fiscal year ended December 31, 1998).

4.21* -- Form of Senior Debt Indenture between Williams Holdings of Delaware, Inc. and Citibank, N.A., as Trustee (filed as Exhibit 4.1 to Williams Holdings of Delaware, Inc.'s Form 10-Q filed October 18, 1995).

4.22* -- First Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Citibank, N.A., as Trustee (filed as Exhibit 4(o) to Form 10-K for the fiscal year ended December 31, 1999).

4.23* -- Indenture dated March 31, 1990, between MAPCO Inc. and Bankers Trust Company, as Trustee (filed as Exhibit 4.0 to MAPCO Inc.'s Form 8-K filed February 19, 1991).

4.24* -- First Supplemental Indenture dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bankers Trust

Company, as Trustee (filed as Exhibit 4(f) to Williams Holdings of Delaware, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).

4.25* -- Second Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Bankers Trust Company, as Trustee (filed as Exhibit 4(p) to Form 10-K for the fiscal year ended December 31, 1999).

4.26* -- Senior Indenture dated February 25, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.5.1 to MAPCO Inc.'s Amendment No. 1 to Form S-3 dated February 25, 1997).

4.27* -- Supplemental Indenture No. 1 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.(o) to MAPCO Inc.'s Form 10-K for the fiscal year ended December 31, 1997).

4.28* -- Supplemental Indenture No. 2 dated

March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4. (p) to MAPCO Inc.'s Form 10-K for the fiscal year ended December 31, 1997).

EXHIBIT NO.	DESCRIPTION
4.29*	Supplemental Indenture No. 3 dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(j) to Williams Holdings of Delaware, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
4.30*	-- Supplemental Indenture No. 4 dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(q) to Form 10-K for the fiscal year ended December 31, 1999).
4.31*	-- Revised Form of Indenture between Barrett Resources Corporation, as Issuer, and Bankers Trust Company, as Trustee, with respect to Senior Notes including specimen of 7.55% Senior Notes (filed as Exhibit 4.1 to Barrett Resources Corporation's Amendment No. 2 to Registration Statement on Form S-3 filed February 10,

1997). 4.32* -- First Supplemental Indenture dated 2001, between Barrett Resources Corporation, as Issuer, and Bankers Trust Company, as Trustee (filed as Exhibit 4.3 to Form 10-Q filed November 13, 2001). 4.33* -- Second Supplemental Indenture dated as of August 2, 2001, among Barrett Resources Corporation, as Issuer, Resources Acquisition Corp., The Williams Companies, Inc. and Bankers Trust Company, as Trustee (filed as Exhibit 4.4 to Form 10-Q filed November 13, 2001). 4.34* -- Rights Agreement dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Form 8-K filed January 24, 1996). 4.35* -- 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). 4.36* -- Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(g) to Form 10-K for the fiscal year ended

December 31, 1997). 4.37* -- Form of Note (filed as Exhibit 4.2 and included in Exhibit 4.1 to Form 8-K filed January 23, 2002). 4.38* -- Purchase Contract Agreement dated January 14, 2002, between Williams and JPMorgan Chase Bank, as Purchase Contract Agent (filed as Exhibit 4.3 to Form 8-K filed January 23, 2002). 4.39* -- Form of Income PACS Certificate (filed as Exhibit 4.4 and included in Exhibit 4.3 to Form 8-K filed January 23, 2002). 4.40* -- Pledge Agreement dated January 14, 2002, among Williams, JPMorgan Chase Bank, as Collateral Agent, and JPMorgan Chase Bank, as Purchase Contract Agent (filed as Exhibit 4.5 to Form 8-K filed January 23, 2002). 4.41* -- Remarketing Agreement dated January 14, 2002, among Williams, JPMorgan Chase Bank, as Purchase Contract Agent, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Remarketing Agent (filed as Exhibit 4.6 to Form 8-K filed January 23, 2002). 4.42* -- Indenture dated as of March 28, 2001, among WCG Note Trust, Issuer, WCG Note Corp., Inc., Co-Issuer, and

United States Trust Company of New York, Indenture Trustee and Securities Intermediary (filed as Exhibit 10.8 to Form 10-Q filed November 13, 2001). 4.43* -- First Supplemental Indenture dated as of March 5, 2002, among WCG Note Trust (the "Issuer"), WCG Note Corp., Inc., (the "Co-Issuer") and Bank of New York, as Indenture Trustee (filed as Exhibit 10.4 to Form 10-Q filed May 9, 2002). 10.1* -- Credit Agreement dated as July 25, 2000, among Williams and certain of its subsidiaries, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4.1 to Form 10-Q filed August 11, 2000). 10.2* -- Waiver and First Amendment to Credit Agreement dated as of January 31, 2001, to Credit Agreement dated July 25, 2000, among Williams and certain of its subsidiaries, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(jj) to Form 10-K for the fiscal year ended December 31, 2000). 10.3* -- Second Amendment to Credit Agreement dated as of February 7, 2002, among Williams and certain of its subsidiaries, the Banks named

	therein and Citibank, N.A., as agent (filed as Exhibit 10(c) to Form 10-K for the fiscal year ended December 31, 2001).

EXHIBIT NO.	DESCRIPTION
10.4*	Third Amendment to Credit Agreement dated as of March 11, 2002, by and among Williams and certain of its subsidiaries, as Borrowers, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein, the Documentation Agent as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.1 to Form 10-Q filed May 9, 2002).
10.5*	Consent and Fourth Amendment to the Credit Agreement dated as of July 31, 2002 among the Borrowers party to the Credit Agreement, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein, the Documentation Agent as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.12 to Form 10-Q filed August 14, 2002).
10.6*	First Amended and Restated Credit Agreement dated as of October 31, 2002, among The Williams Companies, Inc., Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation, as Borrowers, the Banks named therein, JPMorgan Chase Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, Citicorp USA, Inc. as Agent, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.2

to Form 10-Q filed November 13, 2002).
10.7* -- Credit Agreement dated as of July 25, 2000, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4.2 to Form 10-Q filed August 11, 2000).
10.8* -- Waiver and First Amendment to Credit Agreement dated as of January 31, 2001, to Credit Agreement dated July 25, 2000, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(jj) to form 10-K for the fiscal year ended December 31, 2000).
10.9* -- Limited Waiver and Second Amendment to Credit Agreement Dated July 24, 2001, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 10(f) to Form 10-K for the fiscal year ended December 31, 2001).
10.10* -- Third Amendment to Credit Agreement dated as of February 7, 2002, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 10(g) to Form 10-K filed March 7, 2002).
10.11* -- Fourth Amendment to Credit Agreement dated as of March 11, 2002 By and among Williams, as Borrower, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.2 to Form 10-Q filed May 9, 2002).
10.12* -- U.S. $400,000,000 Term Loan Agreement dated April 7, 2000, among Williams,

the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(r) to Form 10-K for the fiscal year ended December 31, 1999). 10.13* -- First Amendment dated as of August 21, 2000, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(nn) to Form 10-K for the fiscal year ended December 31, 2000). 10.14* -- Form of Waiver and Second Amendment dated as of January 31, 2001, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(oo) to Form 10-K for the fiscal year ended December 31, 2000). 10.15* -- Third Amendment dated as of February 7, 2002, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 10(k) to Form 10-K for the fiscal year ended December 31, 2001). 10.16* -- Fourth Amendment to Term Loan Agreement effective as of March 11, 2002, among Williams, Credit Lyonnais New York New York Branch, as Administrative Agent and certain Lenders of the Term Loan Agreement (filed as Exhibit 10.3 to Form 10-Q filed May 9, 2002). 10.17 -- Fifth Amendment to Term Loan Agreement

effective as of July 31, 2002, among Williams, Credit Lyonnais New York New York Branch, as Administrative Agent and certain Lenders Of the Term Loan Agreement.

EXHIBIT NO.	DESCRIPTION
10.18*	First Amended and Restated Term Loan Agreement dated as of October 31, 2002 among The Williams Companies, Inc., as Borrower, Credit Lyonnais New York Branch, as Administrative Agent, Commerzbank AG New York and Grand Cayman Branches, As Syndication Agent, The Bank of Nova Scotia, as Documentation Agent, and the Lenders named therein (filed as Exhibit 10.10 to Form 10-Q filed November 14, 2002).
10.19*	Participation Agreement among Williams, Williams Communications Group, Inc., Williams Communications, LLC, WCG Note Trust, WCG Note Corp., Inc., Williams Share Trust, United States Trust Company of New York and Wilmington Trust Company dated as of March 22, 2001 (filed as Exhibit 10(a) to Form 10-Q filed May 15, 2001).
10.20*	Williams Preferred Stock Remarketing, Registration Rights and Support Agreement among Williams, Williams Share Trust, WCG Note Trust, United States Trust Company of New York and Credit Suisse First Boston Corporation dated as of March 28, 2001 (filed as Exhibit 10(b) to Form 10-Q filed May 15, 2001).
10.21*	Intercreditor Agreement dated as of September 8, 1999, among Williams, Williams Communications Group, Inc., Williams Communications, LLC and Bank of America N.A.

(filed as Exhibit 10.7 to Form 10-Q filed November 13, 2001). 10.22* -- Amendment and Consent dated as of August 17, 2000, to the Amended and Restated Participation Agreement, attaching as Exhibit A the Second Amended and Restated Guaranty Agreement dated as of August 17, 2000, between Williams, State Street Bank and Trust Company of Connecticut, National Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(q) to Form 10-K for the fiscal year ended December 31, 2001). 10.23* -- Amendment, Waiver and Consent dated as of January 31, 2001, to Second Amended and Restated Guaranty Agreement between Williams, State Street Bank and Trust Company of Connecticut, National Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(r) to Form 10-K for the fiscal year ended December 31, 2001). 10.24* -- Amendment and Consent dated as of February 7, 2002, to Second Amended and Restated Guaranty Agreement between Williams, State Street Bank and Trust Company of Connecticut, National Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(s) to Form 10-K for the fiscal year ended December 31, 2001). 10.25* -- 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 fiscal year ended December 31, 1987). 10.26* -- Form of The Williams Companies, Inc. Change in Control Protection Plan among Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the fiscal year ended December 31, 1989). 10.27* -- The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to the Proxy Statement dated March 13, 1985). 10.28* -- The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to the Proxy Statement dated March 14, 1988). 10.29* -- The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to the Proxy Statement dated March 12, 1990). 10.30* -- 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). 10.31* -- The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to the Proxy Statement dated March 27, 1996). 10.32* -- The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to the Proxy Statement dated March 27, 1996). 10.33* -- Indemnification Agreement effective as of August 1, 1986, among Williams, 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). 10.34* -- The Williams International Stock Plan (filed as Exhibit 10(iii)(l) to Form 10-K for the fiscal year ended December 31, 1998).

EXHIBIT NO.	DESCRIPTION
10.35*	Form of Stock Option Secured Promissory Note and Pledge Agreement among Williams and certain employees, officers and non-employee directors (filed as Exhibit 10(iii)(m) to Form 10-K for the fiscal year ended December 31, 1998).
10.36*	The Williams Companies, Inc. 2001 Stock Plan (filed as Exhibit 4.1 to Form S-8 filed August 1, 2001).
10.37*	Amended and Restated Separation Agreement dated April 23, 2001, between Williams and Williams Communications Group, Inc. (filed as Exhibit 99.1 to Form 8-K filed May 3, 2001).
10.38	Second Amended Joint Chapter 11 Plan dated August 12, 2002, of Williams Communications Group, Inc. and CG Austria, Inc.
10.39	Modifications to Second Amended Joint Chapter 11 Plan dated as of September 30, 2002, of Williams Communications Group, Inc. and CG Austria, Inc.
10.40	Settlement Agreement dated as of July 26, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc., the Official Committee of Unsecured Creditors of Williams Communications Group, Inc., and Leucadia National Corporation.
10.41	First Amendment to Settlement Agreement dated as of August 13, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc.,

the Official Committee of Unsecured Creditors of Williams Communications Group, Inc., and Leucadia National Corporation. 10.42 -- Second Amendment to Settlement Agreement dated as of September 30, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc., the Official Committee of Unsecured Creditors of Williams Communications Group, Inc., and Leucadia National Corporation. 10.43 -- Purchase and Sale Agreement dated as of July 26, 2002, by and between Williams and Leucadia National Corporation. 10.44 -- Amendment to Purchase and Sale Agreement dated as of October 15, 2002, by and between Williams and Leucadia National Corporation. 10.45 -- Agreement for the Resolution of Continuing Contract Disputes dated July 26, 2002, among Williams, Williams Communications Group, Inc., and Williams Communications, LLC. 10.46 -- Amendment to Agreement for the Resolution of Continuing Contract Disputes dated October 15, 2002, among Williams, Williams Communications Group, Inc., and Williams Communications, LLC. 10.47 -- Tax Cooperation Agreement dated July 26, 2002, by and between Williams and Williams Communications Group, Inc. 10.48 -- Guaranty Indemnification Agreement dated July 26, 2002, by and between Williams and Williams Communications Group, Inc.

10.49 -- Real Property Purchase and Sale Agreement dated as of July 26, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., and Williams Aircraft Leasing, LLC. 10.50 -- First Amendment to Real Property Purchase and Sale Agreement dated October 15, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., WilTel Communications Group, Inc., Williams Aircraft, Inc., and CG Austria, Inc. 10.51 -- Second Amendment to Real Property Purchase and Sale Agreement dated October 23, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., WilTel Communications Group, Inc., Williams Aircraft, Inc., and CG Austria, Inc. 10.52* -- Underwriting Agreement dated January 7, 2002, between Williams and the several underwriters named therein (filed as Exhibit 1.1 to Form 8-K filed January 23, 2002). 10.53* -- Purchase Agreement between E-Birchtree, LLC and Enterprise Products Operating L.P. dated as of July 31, 2002 (filed as Exhibit 10.1 to

Form 10-Q filed August 14, 2002). 10.54* -- Purchase Agreement between E-Birchtree, LLC and E-Cypress, LLC dated as of July 31, 2002 (filed as Exhibit 10.2 to Form 10-Q filed August 14, 2002).

EXHIBIT NO.	DESCRIPTION
10.55*	-- $900,000,000 Credit Agreement dated as of July 31, 2002, among The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company, as Borrower, the Several Lenders from time to time parties thereto, Lehman Brothers Inc., as Lead Arranger and Book Manager, and Lehman Commercial Paper Inc., as Syndication Agent and Administrative Agent (filed as Exhibit 10.3 to Form 10-Q filed August 14, 2002).
10.56*	-- Amendment No. 1 dated as of October 31, 2002, to Credit Agreement dated as July 31, 2002, among The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company, as Borrower, the Several Lenders from time to time Parties thereto, Lehman Brothers Inc., as Lead Arranger and Book Manager, and Lehman Commercial Paper Inc., as Syndication Agent and Administrative Agent, and Guarantee and Collateral Agreement made by The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company and certain of its Subsidiaries

in favor of Lehman Commercial Paper Inc., as Administrative Agent, dated as of July 31, 2002 (filed as Exhibit 10.1 to Form 10-Q filed November 14, 2002). 10.57* -- Guarantee and Collateral Agreement made by The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent, dated as of July 31, 2002 (filed as Exhibit 10.4 to Form 10-Q filed August 14, 2002). 10.58* -- Termination Agreement between The Williams Companies, Inc. and Keith E. Bailey dated May 1, 2002 (filed as Exhibit 10.5 to Form 10-Q filed August 14, 2002). 10.59* -- Security Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is a signatory thereto or which subsequently becomes a party thereto in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.6 to Form 10-Q filed August 14, 2002). 10.60* -- First Amendment dated as of October 31, 2002, to

Security Agreement dated as of July 31, 2002, among the Williams Companies, Inc., and each of the Subsidiaries which is or subsequently becomes a party to the Security Agreement in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed As Exhibit 10.4 to Form 10-Q filed November 14, 2002). 10.61* -- Pledge Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is a signatory thereto or which subsequently becomes a party thereto in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.7 to Form 10-Q filed August 14, 2002). 10.62* -- First Amendment dated as of October 31, 2002, to Pledge Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is or subsequently becomes a party to the Pledge Agreement in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.5 to Form 10-Q filed

November 14, 2002). 10.63* -- Guaranty dated as of July 31, 2002, by Williams Gas Pipeline Company, L.L.C. in favor of the Financial Institutions as defined therein (filed as Exhibit 10.8 to Form 10-Q filed August 14, 2002). 10.64* -- First Amendment dated as of October 31, 2002, to Guaranty dated as of July 31, 2002, by Williams Gas Pipeline Company, L.L.C. in favor of the Financial Institutions as defined therein (filed as Exhibit 10.6 to Form 10-Q filed November 14, 2002). 10.65* -- Collateral Trust Agreement among The Williams Companies, Inc., and certain of its Subsidiaries, as Debtors, and Citibank, N.A., as Collateral Trustee, dated as of July 31, 2002 (filed as Exhibit 10.9 to Form 10-Q filed August 14, 2002). 10.66* -- First Amendment dated as of October 31, 2002, to Collateral Trust Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and certain of its Subsidiaries, as Debtors, and Citibank, N.A., as Collateral Trustee (filed as Exhibit 10.7 to Form 10-Q filed November 14, 2002).

EXHIBIT NO. DESCRIPTION - ------- ----- ------ 10.67* -- Form of Guaranty dated July 31, 2002, by each of the entities named on the signature pages thereto in favor of Citibank, N.A., as surety administrative agent for the holders of the Secured Obligations (filed as Exhibit 10.10 to Form 10-Q filed August 14, 2002). 10.68* -- First Amendment to Guaranty by Midstream Entities dated as of October 31, 2002, to Guaranty dated as of July 31, 2002, by certain Midstream Subsidiaries, as defined therein, in favor of Citibank, N.A., as surety administrative agent for the holders of the Secured Obligations (filed as Exhibit 10.8 to Form 10-Q filed November 14, 2002). 10.69* -- Form of Subordinated Guaranty dated as of July 31, 2002, by Williams Production Holdings LLC in favor of the Financial Institutions (filed as Exhibit 10.11 to Form 10-Q filed August 14, 2002). 10.70* -- Amended and Restated Subordinated Guaranty dated as of October 31, 2002, by Williams Production Holdings LLC in favor of the Financial Institutions as defined herein (filed as Exhibit 10.9 to Form 10-Q filed November 14,

2002). 10.71* -- U.S. $400,000,000 Credit Agreement dated as of July 31, 2002 among The Williams Companies, Inc., as Borrower, Citicorp USA, Inc., as Agent and Collateral Agent, Bank of America N.A., as Syndication Agent, Citibank, N.A., and Bank of America N.A., as Issuing Banks, the Banks named therein, as Banks, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.13 to Form 10-Q filed August 14, 2002). 10.72* -- Amended and Restated Credit Agreement dated as of October 31, 2002, among The Williams Companies, Inc., as Borrower, Citicorp USA, Inc., as Agent and Collateral Agent, Bank of America N.A., as Syndication Agent, Citibank, N.A., Bank of America N.A. and The Bank of Nova Scotia, as Issuing Banks, the Banks named therein, as Banks, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.3 to Form 10-Q filed November 14, 2002). 10.73* -- Settlement and Retention Agreement dated August 7, 2002, between The Williams Companies, Inc. and William G. von Glahn (filed as Exhibit 10.11 to Form 10-Q filed November 14, 2002). 10.74* -- Form of Change in Control Severance

Agreement between the Company and certain executive officers (filed as Exhibit 10.12 to Form 10-Q filed November 14, 2002). 10.75 -- Settlement and Retention Agreement dated December 18, 2002, between The Williams Companies, Inc. and Jack D. McCarthy. 10.76 -- Contribution Agreement between and among Williams Energy Services, LLC, Williams GP LLC, The Williams Companies, Inc. and Williams Energy Partners L.P. dated April 11, 2002. 10.77 -- Purchase Agreement by and between The Williams Companies, Inc., Williams Gas Pipeline Company, LLC, Williams Western Pipeline Company LLC, and Kern River Acquisition, LLC, as Sellers, and MidAmerican Energy Holdings Company, KR Holdings, LLC, KR Acquisition 1, LLC, and KR Acquisition 2, LLC, as Buyers, dated March 7, 2002. 10.78 -- Purchase Agreement by and between Williams Gas Pipeline Company, LLC, as Seller, and Southern Star Central Corp., as Buyer, dated September 13, 2002. 10.79 -- Settlement Agreement, by and among the Governor of the State of California and the several other parties named therein and The Williams Companies, Inc. and Williams

Energy Marketing & Trading Company dated November 11, 2002. 10.80 -- Asset Purchase and Sale Agreement between Williams Refining & Marketing L.L.C., Williams Generating Memphis, L.L.C., Williams Memphis Terminal, Inc., Williams Petroleum Pipeline Systems, Inc. and Williams Mid-South Pipelines, LLC and The Williams Companies, Inc., and The Premcor Refining Group, Inc. and Premcor Inc. dated November 25, 2002. 10.81 -- Stock Purchase Agreement by and among The Williams Companies, Inc, MEHC Investment, Inc. and MidAmerican Energy Holdings Company dated March 7, 2002. 12 -- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements. 20* -- Definitive Proxy Statement of Williams for 2003 (to be filed with the Securities and Exchange Commission on or before March 31, 2003). 21 -- Subsidiaries of the registrant.

EXHIBIT NO.	DESCRIPTION
23.1	Consent of Independent Auditors, Ernst & Young LLP.
23.2	Consent of Independent Petroleum Engineers and Geologists, Netherland, Sewell & Associates, Inc.
23.3	Consent of Independent Petroleum Engineers, Ryder Scott Company, L.P.
23.4	Consent of Independent Petroleum Engineers and Geologists, Miller and Lents, LTD.
24	Power of Attorney together with certified resolution.

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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.

** Williams agrees upon request to furnish each such exhibit to the Securities and Exchange Commission. The total amount of the securities authorized under each such exhibit does not exceed ten percent of the total assets of Williams and its subsidiaries taken as a whole.

(b) Reports on Form 8-K. During fourth-quarter 2002, Williams filed an Item 5 Form 8-K on October 24, 2002, and an Item 9 Form 8-K on the following dates: October 24, 25 and 30 (2 Form 8-Ks filed on this date), November 8, 12, 15 and 26 and December 5, 17 and 19, 2002.

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

SIGNATURES

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

THE WILLIAMS COMPANIES, INC.
(Registrant)

By: /s/ BRIAN K. SHORE

Brian K. Shore
Attorney-in-fact

Date: March 19, 2003

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 and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ STEVEN J. MALCOLM*	President, Chief Executive Officer and Chairman of the Board	March 19, 2003
Steven J. Malcolm	(Principal Executive Officer)	
/s/ GARY R. BELITZ*	Acting Chief Financial Officer	March 19, 2003
Gary R. Belitz	Controller (Principal Accounting Officer)	
/s/ HUGH M. CHAPMAN*	Director	March 19, 2003
Hugh M. Chapman		
/s/ THOMAS H. CRUIKSHANK*	Director	March 19, 2003
Thomas H. Cruikshank		
/s/ WILLIAM E. GREEN*	Director	

March 19, 2003 ----- --- William E. Green /s/ W.R. HOWELL* Director March 19, 2003 ----- --- W.R. Howell /s/ JAMES C. LEWIS* Director March 19, 2003 ----- --- James C. Lewis /s/ CHARLES M. LILLIS* Director March 19, 2003 ----- --- Charles M. Lillis /s/ GEORGE A. LORCH* Director March 19, 2003 ----- --- George A. Lorch

SIGNATURE	TITLE	DATE
/s/ FRANK T. MACINNIS*	Director	March 19, 2003
Frank T. MacInnis		
/s/ GORDON R. PARKER*	Director	March 19, 2003
Gordon R. Parker		
/s/ JANICE D. STONEY*	Director	March 19, 2003
Janice D. Stoney		
/s/ JOSEPH H. WILLIAMS*	Director	March 19, 2003
Joseph H. Williams		
*By: /s/ BRIAN K. SHORE	March 19, 2003	
- Brian K. Shore	Attorney-in-fact	

CERTIFICATIONS

I, Steven J. Malcolm, certify that:

1. I have reviewed this annual report on Form 10-K of The Williams Companies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14), for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ STEVEN J. MALCOLM

Steven J. Malcolm
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 19, 2003

I, Gary R. Belitz, certify that:

1. I have reviewed this annual report on Form 10-K of The Williams Companies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14), for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ GARY R. BELITZ

Gary R. Belitz
Acting Chief Financial Officer
(Principal Financial Officer) and
Controller
(Principal Accounting Officer)

Date: March 19, 2003

INDEX TO EXHIBITS

EXHIBIT NO. DESCRIPTION - ------- ----- ------ 3.1 -- Restated Certificate of Incorporation, as supplemented 3.2* -- Restated By-laws (filed as Exhibit 99.1 to Form 8-K filed January 19, 2000). 4.1* -- Form of Senior Debt Indenture between Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.1 to Form S-3 filed September 8, 1997). 4.2* -- Form of Subordinated Debt Indenture between Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.2 to Form S-3 filed September 8, 1997). 4.3* -- Form of Floating Rate Senior Note (filed as Exhibit 4.3 to Form S-3 filed September 8, 1997). 4.4* -- Form of Fixed Rate Senior Note (filed as Exhibit 4.4 to Form S-3 filed September 8, 1997). 4.5* -- Form of Floating Rate Subordinated Note (filed as Exhibit 4.5 to Form S-3 filed September 8, 1997). 4.6* -- Form of Fixed Rate Subordinated Note (filed as Exhibit 4.6 to Form S-3 filed September 8, 1997). 4.7** -- First Supplemental

Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of September 8, 2000. 4.8** -- Second Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of December 7, 2000. 4.9** -- Third Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee dated as of December 20, 2000. 4.10* -- Fourth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed as Exhibit 4(j) to Form 10-K for the fiscal year ended December 31, 2000). 4.11* -- Fifth Supplemental Indenture between Williams and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed as Exhibit 4(k) to Form 10-K for the fiscal year ended December 31, 2000). 4.12* -- Sixth Supplemental Indenture dated January 14, 2002, between Williams and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4.1 to Form 8-K filed January 23, 2002). 4.13* -- Seventh Supplemental Indenture dated March

19, 2002, between The Williams Companies, Inc. as Issuer and Bank One Trust Company, National Association, as Trustee (filed as Exhibit 4.1 to Form 10-Q filed May 9, 2002). 4.14* -- Form of Senior Debt Indenture between Williams and The Chase Manhattan Bank (formerly Chemical Bank), as Trustee (filed as Exhibit 4.1 to Form S-3 filed February 2, 1990). 4.15* -- Indenture dated May 1, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990). 4.16* -- First Supplemental Indenture dated June 20, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990). 4.17* -- Second Supplemental Indenture dated November 29, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated December 7, 1990). 4.18* -- Third Supplemental Indenture dated April 23, 1991,

between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated April 30, 1991).

4.19* -- Fourth Supplemental Indenture dated August 22, 1991, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated August 27, 1991).

4.20* -- Fifth Supplemental Indenture dated May 1, 1995, among Transco Energy Company, Williams and The Bank of New York, as Trustee (filed as Exhibit 4(l) to Form 10-K for the fiscal year ended December 31, 1998).

EXHIBIT NO.	DESCRIPTION
4.21*	Form of Senior Debt Indenture between Williams Holdings of Delaware, Inc. and Citibank, N.A., as Trustee (filed as Exhibit 4.1 to Williams Holdings of Delaware, Inc.'s Form 10-Q filed October 18, 1995).
4.22*	First Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Citibank, N.A., as Trustee (filed as Exhibit 4(o) to Form 10-K for the fiscal year ended December 31, 1999).
4.23*	Indenture dated March 31, 1990, between MAPCO Inc. and Bankers Trust Company, as Trustee (filed as Exhibit 4.0 to MAPCO Inc.'s Form 8-K filed February 19, 1991).
4.24*	First Supplemental Indenture dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bankers Trust Company, as Trustee (filed as Exhibit 4(f) to Williams Holdings of Delaware, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
4.25*	Second Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of

Delaware, Inc., Williams and Bankers Trust Company, as Trustee (filed as Exhibit 4(p) to Form 10-K for the fiscal year ended December 31, 1999). 4.26* -- Senior Indenture dated February 25, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4.5.1 to MAPCO Inc.'s Amendment No. 1 to Form S-3 dated February 25, 1997). 4.27* -- Supplemental Indenture No. 1 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4. (o) to MAPCO Inc.'s Form 10-K for the fiscal year ended December 31, 1997). 4.28* -- Supplemental Indenture No. 2 dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4. (p) to MAPCO Inc.'s Form 10-K for the fiscal year ended December 31, 1997). 4.29* -- Supplemental Indenture No. 3 dated

March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(j) to Williams Holdings of Delaware, Inc.'s Form 10-K for the fiscal year ended December 31, 1998). 4.30* -- Supplemental Indenture No. 4 dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed as Exhibit 4(q) to Form 10-K for the fiscal year ended December 31, 1999). 4.31* -- Revised Form of Indenture between Barrett Resources Corporation, as Issuer, and Bankers Trust Company, as Trustee, with respect to Senior Notes including specimen of 7.55% Senior Notes (filed as Exhibit 4.1 to Barrett Resources Corporation's Amendment No. 2 to Registration Statement on Form S-3 filed February 10, 1997). 4.32* -- First Supplemental Indenture dated 2001, between Barrett Resources Corporation, as Issuer, and Bankers

Trust Company, as Trustee (filed as Exhibit 4.3 to Form 10-Q filed November 13, 2001). 4.33* -- Second Supplemental Indenture dated as of August 2, 2001, among Barrett Resources Corporation, as Issuer, Resources Acquisition Corp., The Williams Companies, Inc. and Bankers Trust Company, as Trustee (filed as Exhibit 4.4 to Form 10-Q filed November 13, 2001). 4.34* -- Rights Agreement dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Form 8-K filed January 24, 1996). 4.35* -- 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). 4.36* -- Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(g) to Form 10-K for the fiscal year ended December 31, 1997). 4.37* -- Form of Note (filed as Exhibit 4.2 and included in Exhibit 4.1 to Form 8-K filed January 23,

2002). 4.38* -- Purchase Contract Agreement dated January 14, 2002, between Williams and JPMorgan Chase Bank, as Purchase Contract Agent (filed as Exhibit 4.3 to Form 8-K filed January 23, 2002). 4.39* -- Form of Income PACS Certificate (filed as Exhibit 4.4 and included in Exhibit 4.3 to Form 8-K filed January 23, 2002).

EXHIBIT NO.	DESCRIPTION
4.40*	Pledge Agreement dated January 14, 2002, among Williams, JPMorgan Chase Bank, as Collateral Agent, and JPMorgan Chase Bank, as Purchase Contract Agent (filed as Exhibit 4.5 to Form 8-K filed January 23, 2002).
4.41*	Remarketing Agreement dated January 14, 2002, among Williams, JPMorgan Chase Bank, as Purchase Contract Agent, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Remarketing Agent (filed as Exhibit 4.6 to Form 8-K filed January 23, 2002).
4.42*	Indenture dated as of March 28, 2001, among WCG Note Trust, Issuer, WCG Note Corp., Inc., Co-Issuer, and United States Trust Company of New York, Indenture Trustee and Securities Intermediary (filed as Exhibit 10.8 to Form 10-Q filed November 13, 2001).
4.43*	First Supplemental Indenture dated as of March 5, 2002, among WCG Note Trust (the "Issuer"), WCG Note Corp., Inc., (the "Co-Issuer") and Bank of New York, as Indenture Trustee (filed as Exhibit 10.4 to Form 10-Q filed May 9, 2002).
10.1*	Credit Agreement dated as July 25, 2000, among Williams and certain of its subsidiaries, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4.1 to Form 10-Q filed August 11, 2000).
10.2*	Waiver

and First Amendment to Credit Agreement dated as of January 31, 2001, to Credit Agreement dated July 25, 2000, among Williams and certain of its subsidiaries, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(jj) to Form 10-K for the fiscal year ended December 31, 2000).

10.3* -- Second Amendment to Credit Agreement dated as of February 7, 2002, among Williams and certain of its subsidiaries, the Banks named therein and Citibank, N.A., as agent (filed as Exhibit 10(c) to Form 10-K for the fiscal year ended December 31, 2001).

10.4* -- Third Amendment to Credit Agreement dated as of March 11, 2002, by and among Williams and certain of its subsidiaries, as Borrowers, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein, the Documentation Agent as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.1 to Form 10-Q filed May 9, 2002).

10.5* -- Consent and Fourth Amendment to the Credit Agreement dated as of July 31, 2002 among the Borrowers party to the Credit Agreement, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein, the Documentation Agent as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.12 to Form 10-Q filed August 14, 2002).

10.6* -- First Amended and Restated Credit Agreement dated as of October 31, 2002, among The Williams Companies, Inc., Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation, as Borrowers, the Banks named therein, JPMorgan Chase Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, Citicorp USA, Inc. as Agent, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.2 to Form 10-Q filed November 13, 2002).

10.7* -- Credit Agreement dated as of July 25, 2000, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4.2 to Form 10-Q filed August 11, 2000).

10.8* -- Waiver and First Amendment to Credit Agreement dated as of January 31, 2001, to Credit Agreement dated July 25, 2000, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(jj) to form 10-K for the fiscal year ended December 31, 2000).

10.9* -- Limited Waiver and Second Amendment to Credit Agreement Dated July 24, 2001, among Williams, the banks named therein and Citibank, N.A., as agent (filed as Exhibit 10(f) to Form 10-K for the fiscal year ended December 31, 2001).

10.10* -- Third Amendment to Credit Agreement dated as of February 7, 2002, among Williams, the banks named therein and

Citibank, N.A., as agent (filed as Exhibit 10(g) to Form 10-K filed March 7, 2002).

10.11* -- Fourth Amendment to Credit Agreement dated as of March 11, 2002 By and among Williams, as Borrower, the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein and Citibank, N.A., as agent for the Banks (filed as Exhibit 10.2 to Form 10-Q filed May 9, 2002).

EXHIBIT NO. DESCRIPTION - - ------ -------- --- 10.12* -- U.S. $400,000,000 Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(r) to Form 10-K for the fiscal year ended December 31, 1999). 10.13* -- First Amendment dated as of August 21, 2000, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(nn) to Form 10-K for the fiscal year ended December 31, 2000). 10.14* - - Form of Waiver and Second Amendment dated as of January 31, 2001, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 4(oo) to Form 10-K for the fiscal year ended December 31, 2000). 10.15* - - Third Amendment dated as of February 7, 2002, to Term Loan Agreement dated April 7, 2000, among Williams, the lenders named therein and Credit Lyonnais New York Branch, as administrative agent (filed as Exhibit 10(k) to Form 10-K for the fiscal year ended December 31, 2001). 10.16* - - Fourth Amendment to Term Loan Agreement effective as of March 11, 2002, among Williams, Credit Lyonnais New York New York Branch, as

Administrative Agent and certain Lenders of the Term Loan Agreement (filed as Exhibit 10.3 to Form 10-Q filed May 9, 2002). 10.17 -- Fifth Amendment to Term Loan Agreement effective as of July 31, 2002, among Williams, Credit Lyonnais New York New York Branch, as Administrative Agent and certain Lenders Of the Term Loan Agreement. 10.18* -- First Amended and Restated Term Loan Agreement dated as of October 31, 2002 among The Williams Companies, Inc., as Borrower, Credit Lyonnais New York Branch, as Administrative Agent, Commerzbank AG New York and Grand Cayman Branches, As Syndication Agent, The Bank of Nova Scotia, as Documentation Agent, and the Lenders named therein (filed as Exhibit 10.10 to Form 10-Q filed November 14, 2002). 10.19* -- Participation Agreement among Williams, Williams Communications Group, Inc., Williams Communications, LLC, WCG Note Trust, WCG Note Corp., Inc., Williams Share Trust, United States Trust Company of New York and Wilmington Trust Company dated as of March 22, 2001 (filed as Exhibit 10(a) to Form 10-Q filed May 15, 2001). 10.20* -- Williams Preferred Stock Remarketing, Registration Rights and Support Agreement among Williams, Williams Share Trust, WCG Note Trust, United States Trust Company of New York and Credit Suisse First Boston Corporation dated as of

March 28, 2001 (filed as Exhibit 10(b) to Form 10-Q filed May 15, 2001). 10.21* -- Intercreditor Agreement dated as of September 8, 1999, among Williams, Williams Communications Group, Inc., Williams Communications, LLC and Bank of America N.A. (filed as Exhibit 10.7 to Form 10-Q filed November 13, 2001). 10.22* -- Amendment and Consent dated as of August 17, 2000, to the Amended and Restated Participation Agreement, attaching as Exhibit A the Second Amended and Restated Guaranty Agreement dated as of August 17, 2000, between Williams, State Street Bank and Trust Company of Connecticut, National Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(q) to Form 10-K for the fiscal year ended December 31, 2001). 10.23* -- Amendment, Waiver and Consent dated as of January 31, 2001, to Second Amended and Restated Guaranty Agreement between Williams, State Street Bank and Trust Company of Connecticut, National Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(r) to Form 10-K for the fiscal year ended December 31, 2001). 10.24* -- Amendment and Consent dated as of February 7, 2002, to Second Amended and Restated Guaranty Agreement between Williams, State Street Bank and Trust Company of Connecticut, National

Association, State Street Bank and Trust Company and Citibank, N.A., as Agent (filed as Exhibit 10(s) to Form 10-K for the fiscal year ended December 31, 2001).

10.25* -- 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 fiscal year ended December 31, 1987).

10.26* -- Form of The Williams Companies, Inc. Change in Control Protection Plan among Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the fiscal year ended December 31, 1989).

EXHIBIT NO.	DESCRIPTION
10.27*	The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to the Proxy Statement dated March 13, 1985).
10.28*	The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to the Proxy Statement dated March 14, 1988).
10.29*	The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to the Proxy Statement dated March 12, 1990).
10.30*	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).
10.31*	The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to the Proxy Statement dated March 27, 1996).
10.32*	The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to the Proxy Statement dated March 27, 1996).
10.33*	Indemnification Agreement effective as of August 1, 1986, among Williams, 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).
10.34*	The Williams International Stock Plan (filed as Exhibit 10(iii)(l) to Form 10-K for the fiscal year ended December 31, 1998).

10.35* -- Form of Stock Option Secured Promissory Note and Pledge Agreement among Williams and certain employees, officers and non-employee directors (filed as Exhibit 10(iii)(m) to Form 10-K for the fiscal year ended December 31, 1998). 10.36* -- The Williams Companies, Inc. 2001 Stock Plan (filed as Exhibit 4.1 to Form S-8 filed August 1, 2001). 10.37* -- Amended and Restated Separation Agreement dated April 23, 2001, between Williams and Williams Communications Group, Inc. (filed as Exhibit 99.1 to Form 8-K filed May 3, 2001). 10.38 -- Second Amended Joint Chapter 11 Plan dated August 12, 2002, of Williams Communications Group, Inc. and CG Austria, Inc. 10.39 -- Modifications to Second Amended Joint Chapter 11 Plan dated as of September 30, 2002, of Williams Communications Group, Inc. and CG Austria, Inc. 10.40 -- Settlement Agreement dated as of July 26, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc., the Official Committee of Unsecured Creditors of Williams Communications Group, Inc., and Leucadia National Corporation. 10.41 -- First Amendment to Settlement Agreement dated as of August 13, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc., the Official Committee of Unsecured Creditors of Williams Communications

Group, Inc., and Leucadia National Corporation. 10.42 -- Second Amendment to Settlement Agreement dated as of September 30, 2002, among Williams, Williams Communications Group, Inc., CG Austria, Inc., the Official Committee of Unsecured Creditors of Williams Communications Group, Inc., and Leucadia National Corporation. 10.43 -- Purchase and Sale Agreement dated as of July 26, 2002, by and between Williams and Leucadia National Corporation. 10.44 -- Amendment to Purchase and Sale Agreement dated as of October 15, 2002, by and between Williams and Leucadia National Corporation. 10.45 -- Agreement for the Resolution of Continuing Contract Disputes dated July 26, 2002, among Williams, Williams Communications Group, Inc., and Williams Communications, LLC. 10.46 -- Amendment to Agreement for the Resolution of Continuing Contract Disputes dated October 15, 2002, among Williams, Williams Communications Group, Inc., and Williams Communications, LLC. 10.47 -- Tax Cooperation Agreement dated July 26, 2002, by and between Williams and Williams Communications Group, Inc. 10.48 -- Guaranty Indemnification Agreement dated July 26, 2002, by and between Williams and Williams Communications Group, Inc.

EXHIBIT NO.	DESCRIPTION
10.49	Real Property Purchase and Sale Agreement dated as of July 26, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., and Williams Aircraft Leasing, LLC.
10.50	First Amendment to Real Property Purchase and Sale Agreement dated October 15, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., WilTel Communications Group, Inc., Williams Aircraft, Inc., and CG Austria, Inc.
10.51	Second Amendment to Real Property Purchase and Sale Agreement dated October 23, 2002, by and between Williams Headquarters Building Company, Williams Technology Center, LLC, Williams Communications, LLC, Williams Communications Group, Inc., WilTel Communications Group, Inc., Williams Aircraft, Inc., and CG Austria, Inc.
10.52*	Underwriting Agreement dated January 7, 2002, between Williams and the several underwriters named therein (filed as Exhibit 1.1 to Form 8-K filed January 23, 2002).
10.53*	Purchase Agreement between E-Birchtree, LLC and Enterprise

Products Operating L.P. dated as of July 31, 2002 (filed as Exhibit 10.1 to Form 10-Q filed August 14, 2002). 10.54* -- Purchase Agreement between E-Birchtree, LLC and E-Cypress, LLC dated as of July 31, 2002 (filed as Exhibit 10.2 to Form 10-Q filed August 14, 2002). 10.55* -- $900,000,000 Credit Agreement dated as of July 31, 2002, among The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company, as Borrower, the Several Lenders from time to time parties thereto, Lehman Brothers Inc., as Lead Arranger and Book Manager, and Lehman Commercial Paper Inc., as Syndication Agent and Administrative Agent (filed as Exhibit 10.3 to Form 10-Q filed August 14, 2002). 10.56* -- Amendment No. 1 dated as of October 31, 2002, to Credit Agreement dated as July 31, 2002, among The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company, as Borrower, the Several Lenders from time to time Parties thereto, Lehman Brothers Inc., as Lead Arranger and Book Manager, and Lehman Commercial Paper Inc., as Syndication Agent and Administrative Agent, and Guarantee and Collateral Agreement made by The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company and certain of its Subsidiaries in favor of Lehman Commercial

Paper Inc., as Administrative Agent, dated as of July 31, 2002 (filed as Exhibit 10.1 to Form 10-Q filed November 14, 2002). 10.57* -- Guarantee and Collateral Agreement made by The Williams Companies, Inc., Williams Production Holdings LLC, Williams Production RMT Company and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent, dated as of July 31, 2002 (filed as Exhibit 10.4 to Form 10-Q filed August 14, 2002). 10.58* -- Termination Agreement between The Williams Companies, Inc. and Keith E. Bailey dated May 1, 2002 (filed as Exhibit 10.5 to Form 10-Q filed August 14, 2002). 10.59* -- Security Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is a signatory thereto or which subsequently becomes a party thereto in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.6 to Form 10-Q filed August 14, 2002). 10.60* -- First Amendment dated as of October 31, 2002, to Security Agreement dated as of July 31, 2002, among the Williams Companies, Inc., and each of the Subsidiaries which is or subsequently becomes a party to the Security Agreement in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations

(filed As Exhibit 10.4 to Form 10-Q filed November 14, 2002). 10.61* -- Pledge Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is a signatory thereto or which subsequently becomes a party thereto in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.7 to Form 10-Q filed August 14, 2002).

EXHIBIT NO.	DESCRIPTION
10.62*	-- First Amendment dated as of October 31, 2002, to Pledge Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and each of the Subsidiaries which is or subsequently becomes a party to the Pledge Agreement in favor of Citibank, N.A., as collateral trustee for the benefit of the holders of the Secured Obligations (filed as Exhibit 10.5 to Form 10-Q filed November 14, 2002).
10.63*	-- Guaranty dated as of July 31, 2002, by Williams Gas Pipeline Company, L.L.C. in favor of the Financial Institutions as defined therein (filed as Exhibit 10.8 to Form 10-Q filed August 14, 2002).
10.64*	-- First Amendment dated as of October 31, 2002, to Guaranty dated as of July 31, 2002, by Williams Gas Pipeline Company, L.L.C. in favor of the Financial Institutions as defined therein (filed as Exhibit 10.6 to Form 10-Q filed November 14, 2002).
10.65*	-- Collateral Trust Agreement among The Williams Companies, Inc., and certain of its Subsidiaries, as Debtors, and Citibank, N.A., as

Collateral Trustee, dated as of July 31, 2002 (filed as Exhibit 10.9 to Form 10-Q filed August 14, 2002). 10.66* -- First Amendment dated as of October 31, 2002, to Collateral Trust Agreement dated as of July 31, 2002, among The Williams Companies, Inc. and certain of its Subsidiaries, as Debtors, and Citibank, N.A., as Collateral Trustee (filed as Exhibit 10.7 to Form 10-Q filed November 14, 2002). 10.67* -- Form of Guaranty dated July 31, 2002, by each of the entities named on the signature pages thereto in favor of Citibank, N.A., as surety administrative agent for the holders of the Secured Obligations (filed as Exhibit 10.10 to Form 10-Q filed August 14, 2002). 10.68* -- First Amendment to Guaranty by Midstream Entities dated as of October 31, 2002, to Guaranty dated as of July 31, 2002, by certain Midstream Subsidiaries, as defined therein, in favor of Citibank, N.A., as surety administrative agent for the holders of the Secured Obligations (filed as Exhibit 10.8 to Form 10-Q filed November 14, 2002). 10.69* -- Form of Subordinated Guaranty dated as of July 31, 2002, by

Williams Production Holdings LLC in favor of the Financial Institutions (filed as Exhibit 10.11 to Form 10-Q filed August 14, 2002). 10.70* -- Amended and Restated Subordinated Guaranty dated as of October 31, 2002, by Williams Production Holdings LLC in favor of the Financial Institutions as defined herein (filed as Exhibit 10.9 to Form 10-Q filed November 14, 2002). 10.71* -- U.S. $400,000,000 Credit Agreement dated as of July 31, 2002 among The Williams Companies, Inc., as Borrower, Citicorp USA, Inc., as Agent and Collateral Agent, Bank of America N.A., as Syndication Agent, Citibank, N.A., and Bank of America N.A., as Issuing Banks, the Banks named therein, as Banks, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.13 to Form 10-Q filed August 14, 2002). 10.72* -- Amended and Restated Credit Agreement dated as of October 31, 2002, among The Williams Companies, Inc., as Borrower, Citicorp USA, Inc., as Agent and Collateral Agent, Bank of America N.A., as Syndication Agent, Citibank, N.A., Bank of America N.A. and The Bank of Nova Scotia, as Issuing Banks, the Banks named therein, as

Banks, and Salomon Smith Barney Inc., as Arranger (filed as Exhibit 10.3 to Form 10-Q filed November 14, 2002). 10.73* -- Settlement and Retention Agreement dated August 7, 2002, between The Williams Companies, Inc. and William G. von Glahn (filed as Exhibit 10.11 to Form 10-Q filed November 14, 2002). 10.74* -- Form of Change in Control Severance Agreement between the Company and certain executive officers (filed as Exhibit 10.12 to Form 10-Q filed November 14, 2002). 10.75 -- Settlement and Retention Agreement dated December 18, 2002, between The Williams Companies, Inc. and Jack D. McCarthy. 10.76 -- Contribution Agreement between and among Williams Energy Services, LLC, Williams GP LLC, The Williams Companies, Inc. and Williams Energy Partners L.P. dated April 11, 2002. 10.77 -- Purchase Agreement by and between The Williams Companies, Inc., Williams Gas Pipeline Company, LLC, Williams Western Pipeline Company LLC, and Kern River Acquisition, LLC, as Sellers, and MidAmerican Energy Holdings Company, KR Holdings, LLC, KR Acquisition 1, LLC, and KR Acquisition

2, LLC, as Buyers, dated March 7, 2002. 10.78 -- Purchase Agreement by and between Williams Gas Pipeline Company, LLC, as Seller, and Southern Star Central Corp., as Buyer, dated September 13, 2002.

EXHIBIT NO.	DESCRIPTION
10.79	Settlement Agreement, by and among the Governor of the State of California and the several other parties named therein and The Williams Companies, Inc. and Williams Energy Marketing & Trading Company dated November 11, 2002.
10.80	Asset Purchase and Sale Agreement between Williams Refining & Marketing L.L.C., Williams Generating Memphis, L.L.C., Williams Memphis Terminal, Inc., Williams Petroleum Pipeline Systems, Inc. and Williams Mid-South Pipelines, LLC and The Williams Companies, Inc., and The Premcor Refining Group, Inc. and Premcor Inc. dated November 25, 2002.
10.81	Stock Purchase Agreement by and among The Williams Companies, Inc, MEHC Investment, Inc. and MidAmerican Energy Holdings Company dated March 7, 2002.
12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
20*	Definitive Proxy Statement of Williams for 2003 (to be

filed with the Securities and Exchange Commission on or before March 31, 2003). 21 -- Subsidiaries of the registrant. 23.1 -- Consent of Independent Auditors, Ernst & Young LLP. 23.2 -- Consent of Independent Petroleum Engineers and Geologists, Netherland, Sewell & Associates, Inc. 23.3 -- Consent of Independent Petroleum Engineers, Ryder Scott Company, L.P. 23.4 -- Consent of Independent Petroleum Engineers and Geologists, Miller and Lents, LTD. 24 -- Power of Attorney together with certified resolution.

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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.

** Williams agrees upon request to furnish each such exhibit to the Securities and Exchange Commission. The total amount of the securities authorized under each such exhibit does not exceed ten percent of the total assets of Williams and its subsidiaries taken as a whole.

EXHIBIT 3.1

Delaware
The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF DESIGNATION OF "THE WILLIAMS COMPANIES, INC.", FILED IN THIS OFFICE ON THE TWENTY-SEVENTH DAY OF MARCH, A.D. 2002, AT 11:30 O'CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

2116534 8100

AUTHENTICATION: 1690674

0201998909

DATE: 03-27-02

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 11:30 A& 03/27/2002
020199809 -- 2116534

CERTIFICATE OF DESIGNATION

OF THE

9-7/8% CUMULATIVE CONVERTIBLE PREFERRED STOCK

OF

THE WILLIAMS COMPANIES, INC.

(Pursuant to Section 151 of the
General Corporation Law of the State of Delaware)

The undersigned DOES HEREBY CERTIFY that the following resolution was duly adopted by the Board of Directors of The Williams Companies, Inc., a Delaware corporation (hereinafter called the "Corporation"), with the rights, powers and preferences set forth therein relating to dividends, conversion, redemption, dissolution and distribution of assets of the Corporation having been fixed by the Board of Directors pursuant to authority wanted to it under Article FOURTH of the Corporation's Restated Certificate of Incorporation and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware:

RESOLVED that pursuant to authority expressly granted to and vested in the Board of Directors by provisions of the Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), the issuance of a series of Preferred Stock, par value $1.00 per share (the "Preferred Stock"), which shall consist of up to 1,466,667 of the 30,000,000 shares of Preferred Stock which the Corporation now has authority to issue, be, and the saint hereby is, authorized, and the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the shares (in addition to the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation which may be Applicable to the Preferred Stock) are fixed as follows:

1. DESIGNATION MID AMOUNT. The designation of such series of the Preferred Stock authorized by this resolution shall be the 9-7/8% Cumulative Convertible Preferred Stock (the "9-7/8% Preferred Stock"). The total number of shares of the 9-7/8% Preferred Stock shall be 1,466,667.

2. RANKING. The 9-7/8% Preferred Stock shall rank senior, with respect to dividends and with respect to distributions upon the liquidation, winding up or dissolution of the Corporation, as to the Common Stock and any other stock of the Corporation ranking junior to the 9-7/8% Preferred Stock (collectively, the "Junior Stock"). All series of stock of the Corporation with which the 9-7/8% Preferred Stock ranks on a parity, with respect to dividends or distributions upon the liquidation, winding up or dissolution of the Corporation shall constitute "Parity Stock" and the 9-7/8% Preferred Stock shall rank, as to dividends and distributions upon the liquidation, winding up or dissolution of the Corporation, on a parity with such Parity Stock, which shall include the Existing Parity Preferred Stock. For purposes of this Certificate of Designation, the term "Existing Parity Preferred Stock" shall mean the December

2000 Cumulative Convertible Preferred Stock of the Corporation, par value $1.00 per share or the March 2001 Mandatorily Convertible Single Reset Preferred Stock of the Corporation, par value $1.00 per share (the "March 2001 Preferred Stock"), as applicable.

3. DIVIDENDS.

(a) The holders of 9-7/8% Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors of the Corporation (the "Board of Directors"), out of the assets of the Corporation legally available for payment, cumulative cash dividends per share equal to 9-7/8% per annum of the Stated Value (as herein defined) of such 9-7/8% Preferred Stock. All dividends declared upon the 9-7/8% Preferred Stock shall be declared pro rata per share. For purposes hereof, the term "Stated Value" shall mean $187.50 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, stock distribution or combination with respect to the 9-7/8% Preferred Stock.

(b) Dividends on the 9-7/8% Preferred Stock will be payable in equal quarterly installments (except as provided below) in arrears on each January 1, April 1, July 1 and October 1, commencing on July 1, 2002 (each such date being referred to hereinafter as a "Dividend Payment Date") provided, that if such Dividend Payment Date is not a business day, then any payment with respect to such Dividend Payment Date shall be payable on the next succeeding business day. Each such payment shall be payable to holders of record as they appear on the stock books of the Corporation on the record date established by the Corporation for each dividend declared, which record date shall not be more than 60 days nor less than 10 days preceding the payment dates thereof, as shall be fixed by the Board of Directors. Dividends on the 9-7/8% Preferred Stock shall accrue on a daily basis commencing on and including the date of issuance, and accrued dividends for each dividend period or portion thereof shall cumulate, to the extent not paid, as of the date on which such dividends were to have been paid. A dividend period shall commence on a Dividend Payment Date and continue to the day next preceding the next succeeding Dividend Payment Date. Accumulated unpaid dividends shall not accrue interest. Dividends payable on the 9-7/8% Preferred Stock for any period less than or more than a full quarterly period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period less than one month. Dividends on the 9-7/8% Preferred Stock shall accrue whether or not the Corporation has earnings, whether or not there are assets legally available for the payment of such dividends and whether or not such dividends are declared. The holders of the 9-7/8% Preferred Stock shall not be entitled to any dividends in excess of the cumulative dividends provided herein. Dividends in arrears for any past dividend periods or portions thereof may be declared and paid at any time witlxut reference to any regular Dividend Payment Date to holders of record on such date as shall be fixed by the Board of Directors subject to applicable law, Dividends on the 9-7/8% Preferred Stock shall cease to accrue on the day immediately preceding the date of conversion in the event of an Optional Conversion, the Mandatory Conversion Date in the event of a Mandatory Conversion, or the Redemption Date in the event of an Optional Redemption (provided, in the event of any conversion or an Optional Redemption, the shares of 9-7/8% Preferred Stock are actually converted or redeemed on the terms provided herein, as applicable). In the case of an Optional Conversion of the 9-7/8% Preferred Stock, the payment of accrued and unpaid dividends shall be subject to Section 6(e).

(c) Dividends or other distributions for any dividend period may not be paid on any outstanding shares of Parity Stock unless any such dividends are declared and paid pro raw so that the amounts of any dividends declared and paid per share on outstanding 9-7/8% Preferred Stock and each share of such Parity Stock will in all cases bear to each other the same ratio that accrued and unpaid dividends (including any accumulation with respect to unpaid dividends for prior dividend periods, if such dividends are cumulative) per share of outstanding 9-7/8% Preferred Stock and such outstanding shares of Parity Stock bear to each other.

If dividends on any shares of 9-7/8% Preferred Stock are in arrears: (i) no dividends (in cash, stock or other property) may be declared, paid or set aside for payment or any other distribution made on any Parity Stock (except as set forth, above) or Junior Stock (other than dividends or distributions in shares of Junior Stock or options, warrants or rights to subscribe for Junior Stock) and (ii) no Parity Stock oi- Junior Stock nay be redeemed, purchased or otherwise acquired by the Corporation or any subsidiary, except by conversion of such stock into, or exchange of such stock for shares of Junior Stock or options, warrants or rights to subscribe for Junior Stock and cash in lieu of fractional shares of such Junior Stock in connection therewith.

(d) Any dividend payment made on the 9-7/8% Preferred Stock shall first be credited against the earliest scented but unpaid dividend due with respect to the 9-7/8% Preferred Stock.

(e) For the purposes of this Certificate of Designation, "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law to close.

4. LIQUIDATION.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of 9-7/8% Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation. available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made to the holders of Common Stock or any other class or series of Junior Stock, an amount in cash equal to the Stated Value per share plus any dividends (whether or not declared) accrued and unpaid, on the shares of 9-7/8% Preferred Stock to the date of final distribution (the "Liquidation Preference"). After payment of the full amount of the Liquidation Preference, the holders of shares of 9-7/8% Preferred Stock will not be entitled to any further participation. in any distribution in the assets of the Corporation. If, upon any such liquidation, dissolution or winding up of the affairs of the Corporation, the assets of the Corporation, or proceeds thereof. available for the distribution among the holders of shares of 9-7/8% Preferred Stock and Parity Stock shall be insufficient to pay the holders of shares of 9-7/8% Preferred Stock and any Parity Stock the fill amount to which they shall be entitled, the holders of shares of 9-7/8% Preferred Stock and Parity Stock shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect to the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full. For the purposes hereof, neither a consolidation nor merger of the Corporation with or into any other corporation, nor a merger of any corporation

with or into the Corporation, nor a sale or exchange or transfer of all or any part of the Corporation's assets for cash, shares of stock, securities or other consideration shall be considered a liquidation, dissolution or winding up of the affair of the Corporation.

(b) After the payment of all preferential amounts required to be paid to the holders of 9-7/8% Preferred Stock and any other Parity Stock, the holders of shares of Junior Liquidation Stock then outstanding shall be entitled to receive the remaining assets and funds of the Corporation available for distribution to its stockholders.

5. VOTING RIGHTS. The holders of 9-7/8% Preferred Stock shall have no right to vote except as otherwise specifically provided herein, in the Certificate of Incorporation or as required by statute.

(a) in The event the holders of 9-7/8% Preferred Stock shall become entitled to exercise the right to vote as a separate class together with other shares of Preferred Stock then entitled to vote on such matter with the 9-7/8% Preferred Stock, if any, as provided in Section 5(c), each share of 9-7/8% Preferred Stock shall be entitled to one vote.

(b) So long as any shares of 9-7/8% Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required in the Certificate of Incorporation or by law, the affirmative vote of the holders of at least a majority of the shares of 9-7/8% Preferred Stock entitled to vote, given in person or by proxy, either pursuant to a consent in writing without a meeting (if permitted by law and the Certificate of incorporation) or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) any amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation which alters or changes the rights, powers or preferences of the shares of 9-7/8% Preferred Stock so as to affect them adversely. Without limiting the foregoing, the amendment of the provisions of the Certificate of Incorporation so as to authorize or create, or to increase the authorized amount of Junior Stock shall not require approval by the holders of the 9-7/8% Preferred Stock and such holders shall not be entitled to vote thereon to the fullest extent permitted by law;

(ii) the authorization, creation or issuance of, or the increase in the authorized amount of, any stock of any class or series, or any security convertible into stock of any. class or series, ranking senior to, or on parity with (including the Existing Parity Preferred Stock), the 9-7/8% Preferred Stock with respect to (A) dividends, and/or (B) distributions upon the liquidation, winding up or dissolution of the Corporation;

(iii) the merger or consolidation of the Corporation with or into any other corporation or other entity in any case where (A) such merger or consolidation would affect adversely the rights, powers or preferences of the 9-7/8% Preferred Stock, or (B) each holder of shares of 9-7/8% Preferred Stock immediately preceding such merger or consolidation shall not receive or continue to hold in the surviving or resulting corporation or other entity the same number of shares, with substantially the same rights, powers amid preferences (except for those rights, powers and preferences that could be affected without the vote of the holders of the 9-7/-% Preferred. Stock, such as the

authorization and issuance of Junior Stock), as correspond to the shares of 9-7/8% Preferred Stock held immediately prior to such merger or consolidation (and if neither (A) nor (B) is applicable, then, and in such event, such merger or consolidation shall, not be subject to approval by the holders of the 9-7/8% Preferred Stock and such holders shall not be entitled to vote thereon);

(iv) any reclassification of the 9-7/8% Preferred Stock; and

(v) any amendment of Section I(5)(b) of Article FOURTH or Section H of Article FIFTH of the Certificate of Incorporation (other than any amendment that does not limit or restrict the right of holders of 9-7/8% Preferred Stock to act by written consent to the extent permitted by Section I(5)(b) of Article FOURTH and Section H of Article FIFTH of the Certificate of Incorporation).

(c) (i) In the event that (i) full cumulative dividends on the 9-7/8% Preferred Stock are not paid and are in arrears for four quarterly dividend periods (whether or not consecutive) or (ii) The holders of shares of any other series of Parity Stock have the then present right to elect one or more directors for any reason, the number of directors of the Corporation constituting the entire Board of Directors shall be increased by two persons and the holders of shares of the 9-7/8% Preferred Stock, voting together as a single class with the holders of shares of all other series of Parity Stock of the Corporation having the then present right to elect one or more directors (herein referred to as "Class Voting Stock"), shall have the right to elect such additional two directors to fill such positions at any regular meeting of shareholders or special meeting held in place thereof, or at a special meeting called as provided in Section 5(c)(ii.). Whenever (i) all arrearages of dividends on the 9-7/8% Preferred Stock then outstanding shall have been paid or declared and irrevocably set apart for payment and (ii) the holders of shares of any other series of Parity Stock no longer have the present right to elect one or more directors for any reason (clause (i) and (ii) hereinafter referred to collectively as a "Special Director Termination Event"), then the right of the holders of shares of the 9-7/8% Preferred Stock to elect such additional two directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends or in the case of the vesting of voting rights in the holders of shares of any other series of Parity Stock), and the terms of office of all persons previously elected as directors by the holders of shares of the 9-7/8% Preferred Stock and such other Class Voting Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly.

(ii) At any time after the voting power referred to in Section 5(c)(i) shall have been so vested, in the holders of shares of the 9-7/8% Preferred Stock, the Secretary of the Corporation may, and upon the written request of any holder or the holders of at least 10% of the number of shares of 9-7/8% Preferred Stock then outstanding (addressed to the Secretary at the principal executive office of the Corporation) shall, call a special meeting of the. holders of shares of the 9-7/8% Preferred Stock and all other Class Voting Stock for the election of the directors to be elected by them pursuant to Section 5(c)(i); provided that the Secretary shall not be required. to call such special meeting if the request for such meeting is received less than 45 calendar days before the date fixed for

the next ensuing annual meeting of shareholders. Such call shall be made by notice similar to that provided in the bylaws of the Corporation for a special meeting of the shareholders or as required by law. Subject to the foregoing provisions, if any such special meeting required to be called as above provided shall not be called by the Secretary within 20 calendar days after receipt of an appropriate request, then any holder of shares of 9-7/8% Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books and records of the Corporation. Except as otherwise provided by law, at any such meeting, the holders of a majority of the number of shares of 9-7/8% Preferred Stock and such other Class Voting Stock then outstanding shall constitute a quorum for the purpose of electing directors as contemplated in Section 5(c)(i). If at any such meeting or adjournment thereof, a quorum of such holders of 9-7/8% Preferred Stock and, if applicable, such other Class Voting Stock shall not be present, no election of directors by the 9-7/8% Preferred Stock and, if applicable, such other Class Voting Stock shall take place, and any such meeting may be adjourned from time to time for periods not exceeding 30 calendar days until a quorum of the 9-7/8% Preferred Stock and, if applicable, the Class Voting Stock is present at such adjourned meeting. Unless otherwise provided by law or the Certificate of Incorporation, directors to be elected by the holders of shares of 9-7/8% Preferred Stock and, if applicable, such other Class Voting Stock shall be elected by a plurality of the votes cast by such holders at a meeting at which a quorum is present. Notwithstanding the foregoing, the absence of a quorum of the 9-7/8% Preferred Stock and, if applicable, such other Class Voting Stock shall not prevent the voting of, including the election of, directors by the holders of Common Stock and other classes of capital stock at such meeting.

(iii) Any director who shall have been elected by holders of shares of 9-7/8% Preferred Stock voting together, if applicable, as a single class with the holders of one or more other series of Class Voting Stock, or any director so elected as provided below, may be removed at any time during the period in which the holders of shares of the 9-7/8% Preferred Stock voting together, if applicable, as a single class with the holders of one or more other series of Class Voting Stock are entitled to elect directors (such period being referred to herein as a "class voting period"), either for or without cause, by, and only by, the affirmative vote of the holders of a majority of the number of shares of 9-7/8% Preferred Stock (and, if applicable, one or more other series of Class Voting Stock) then outstanding, voting together, if applicable, as a single class with the holders of all other series of Class Voting Stock then outstanding, given at a special meeting of such shareholders called for such. purpose, and any vacancy thereby created may be filled during such class voting period only by the holder of shares of 9-7/8% Preferred Stock and, if applicable the other series, if any, of Class Voting Stock; provided, however, that a Special Director Termination Event has not occurred at the time of such class voting period. In case any vacancy (other than as provided in the preceding sentence) shall occur among the directors elected by the holder of shares of the 9-7/8% Preferred Stock (and, if applicable, such other Class Voting Stock), and provided that a Special Director Termination Event has not occurred, a successor shall be elected by the Board of Directors to serve until the next annual meeting of the shareholders or special meeting held in place thereof upon the nomination of the then remaining director elected by the

holders of the 9-7/8% Preferred Stock (and, if applicable, such. other Class Voting Stock) or the successor of such remaining director.

(d) So long as any shares of 9-7/8% Preferred Stock remain outstanding, the unanimous vote or consent of the shares of the 9-7/8% Preferred Stock outstanding (voting separately as a class) given in person or by Proxy, either by written consent or at any special or annual meeting called for the purpose, shall be necessary to effect any amendment to these resolutions that would (i) except as otherwise permitted by Section 7, increase the Conversion Price or (ii) reduce the annual cash dividends payable on the shares of the Preferred Stock.

(e) Holders of 9-7/8% Preferred Stock shall not be entitled to receive notice of any meeting of shareholders at which they are not entitled to vote or consent except as otherwise provided by applicable law.

6. OPTIONAL CONVERSION. Each share of 9-7/8% Preferred Stock maybe converted at any tune, at the option of the holder thereof ("Optional Conversion"), into the number of fully-paid and non-assessable shares of Common Stock obtained by dividing the Stated Value by the Conversion Price then in effect (the "Conversion Rate") provided, however, that on any Optional Redemption of the 9-7/8% Preferred Stock pursuant to Section 10 or any liquidation of the Corporation, the right of conversion shall terminate at the close of business on the business day next preceding the date fixed for such redemption or for the payment of any amounts distributable on liquidation to the holders of 9-7/8% Preferred Stock; provided, further, however, that in the event the Company fails to redeem any of the 9-7/8% Preferred Stock in accordance with Section 10 hereof, the right of conversion hereunder with respect to the shares of 9-7/% Preferred Stock not so redeemed shall continue in full force and effect.

(a) The initial conversion price, subject to adjustment as provided herein, is equal to $18.75 (the "Conversion Price"). The applicable Conversion Price from time to time in effect is subject to adjustment as hereinafter provided.

(b) The Corporation shall not issue fractions of shares of Common Stock upon conversion of 9-7/8% Preferred Stock or scrip in lieu thereof If any fraction of a share of Common Stock would, except for the provisions of this Section 6(b), be issuable upon conversion of any 9-7/8% Preferred Stock, the Corporation shall in lieu thereof pay to the person entitled thereto an amount in cash equal to the current value of such fraction, calculated to the nearest one-hundredth (1/100) of a share, to be computed (i) if the Common Stock is quoted or listed or admitted to trading on any national securities exchange or quotation system, on the basis of the last sales price of the Common Stock on such exchange or quotation system (or the quoted closing bid price if there shall have been no sales) on the last business day immediately preceding the date of conversion, or (ii) if the Common Stock shall not be listed, on the basis of the fair market value per share as determined by the Board of Directors.

(c) In order to exercise the conversion privilege, the holder of any 9-7/8% Preferred Stock to be converted shall surrender its certificate or certificates therefore to the Corporation at its principal office, and shall give written notice to the Corporation at such office that the holder elects to convert the 9-7/8% Preferred Stock represented by such certificates, or any number thereof. Such notice shall also state the name or names (with address) in which the

certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued, subject to any restrictions on transfer relating to shares of Common Stock upon conversion thereof. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly authorized in writing. The date of receipt by the Corporation of the certificates and notice shall be the conversion date. As soon as practicable after receipt of such notice and the surrender of the certificate or certificates for 9-7/8% Preferred Stock as aforesaid, the Corporation shall cause to be issued and delivered at such office to such holder, or on its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof, cash as provided in Section 6(b) hereof in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion and, if less than all shares of 9-7/8% Preferred Stock represented by the certificate or certificates so surrendered are being converted., a residual certificate or certificates representing the shares of 9-7/8% Preferred Stock not converted.

(d) The Corporation shall at all times when the 9-7/8% Preferred Stock shall be outstanding reserve and keep available out of its authorized but unissued stock, for the purposes of effecting the conversion of the 9-7/8% Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding 9-7/8% Preferred Stock. Before taking any action that would cause an adjustment reducing the Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the 9-7/8% Preferred Stock, the Corporation will lake any corporate action that may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully-paid arid non-assessable shares of such Common Stock at such adjusted Conversion Price.

(e) Upon any conversion, all accrued and unpaid. dividends on the 9-7/8% Preferred Stock surrendered for conversion shall be paid at the election of the Corporation, in cash or in shares of Common Stock. In the event such dividends are paid in additional shares of Common Stock, the number of shares of Common Stock to be issued in payment of the dividend with respect to each outstanding share of Common Stock shall be determined by dividing the amount of the dividend that would have been payable had such dividend been paid in cash by an amount equal to the Conversion Price, To the extent that any such dividend would result in the issuance of a fractional share of Common Stock (which shall be determined with respect to the aggregate number of shares of Common Stock held of record by each holder), then the amount of such fraction multiplied by the Conversion Price shall be paid in cash (unless there are no legally available funds with which to make such cash payment, in which event such cash payment shall be made as soon as possible). Notwithstanding the foregoing, holders of shares of 9-7/8% Preferred Stock whose shares are converted following the record date for the payment of a quarterly dividend and prior to the Dividend Payment Date with respect to such record date shall not be entitled to the quarterly dividend, payment for the quarterly dividend period ending on such Dividend Payment Date if such conversion is an Optional Conversion, but shall be entitled to such quarterly dividend payment if such conversion is a Mandatory Conversion. A holder of shares of 9-7/8% Preferred Stock surrendered for Optional Conversion in the circumstances described in the preceding sentence shall pay the Corporation a cash amount equal to the amount of such quarterly dividend at the time such holder surrenders its shares for conversion and such holder shall be entitled to retain the quarterly dividend payment received from the Corporation;

provided, however, that in the event the Corporation shall fail to pay such quarterly dividend payment, the Corporation shall promptly refund the cash amount paid by the holder to the Corporation at the time such holder surrendered its shares for conversion.

(f) All shares of 9-7/8% Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease and terminate except only the right of the holder thereof to receive shares of Common Stock in exchange therefore and payment of any accrued and unpaid dividends thereon. Any shares of 9-7/8% Preferred Stock so converted, shall be retired and canceled and shall not be reissued, and the Corporation may from time to time take such appropriate action as may be necessary to reduce the authorized 9-7/8% Preferred Stock accordingly.

(g) The Corporation will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on conversion of shares of Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involving the issue and delivery of shares of Common Stock in the name other than that in which the shares of 9-7/8% Preferred Stock so converted were registered and no such issue and delivery shall be made unless and until the person. requesting such issue has paid to the Corporation the amount of any tax, or has established, to the satisfaction of the Corporation, that such tax has been paid,

7. ANTI-DILUTION PROVISIONS. The Conversion Price shall be adjusted from time to time by the Corporation as follows:

(a) In case the Corporation shall hereafter pay a dividend or make a distribution on any class of capital stock of the Corporation in shares of Common Stock, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect at the opening of business on the date following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination, and the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. If any dividend or distribution of the type described in this Section 7(a) is declared but not so paid or made, the Conversion Price shall again be adjusted to the Conversion Price that would then be in effect if such dividend or distribution had not been declared.

(b) In case the Corporation shall issue rights or warrants to all holders of its outstanding shares of Common Stock entitling them (for a period expiring within 45 days after the record date for determination of the stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price on the date fixed for determination of stockholders entitled to receive such rights or warrants, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date fixed for determination of stockholders entitled to receive such rights or warrants by a fraction, the

numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the number of shares that the aggregate offering price of the total number of shares so offered for subscription or purchase (pursuant to such rights or warrants) would purchase at such Current Market Price, and the denominator of which shall be the number of shares of Common Stock outstanding on the date fixed for determination of stockholders entitled to receive such rights or warrants plus the total number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants. Such reduction shall be successively made whenever any such rights or warrants are issued, and shall become effective immediately after the opening of business on the day following the date fixed for determination of stockholders entitled to receive such rights or warrants. To the extent that shares of Common Stock are not delivered after the expiration of such rights or warrants, the Conversion Price shall be readjusted to the Conversion Price that would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered. If such rights or warrants are not so issued, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such date fixed for the determination of stockholders entitled to receive such rights or warrants had not been fixed. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than such Current Market Price and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Corporation for such rights or warrants and the minimum aggregate amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board in good faith as described in a resolution of the Board.

(c) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, stmh reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(d) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock shares of any class of capital stock of the Corporation (other than any dividends or distributions to which Section 7(a) applies) or evidences of its indebtedness or assets (including securities of the Corporation or any subsidiary, including rights or warrants, but excluding any rights or warrants referred to in Section 7(b), and excluding any dividend paid exclusively in cash (any of the foregoing hereinafter in this Section 7(d) called the "Securities")), then, in each such case (unless the Corporation elects to reserve such Securities for distribution to the holders of 9-7/8% Preferred Stock upon conversion so that any holder converting will receive upon such conversion, in addition to the shares of Common Stock to which such holder is entitled, the amount and kind of such Securities which such holder would have received if such holder had converted its 9-7/8% Preferred Stock into Common Stock immediately prior to the Record Date (as defined in Section 7(g)(iv)) for such distribution of the Securities), the

Conversion Price shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Price in effect on the Record Date with respect to such distribution by a fraction, the numerator of which shall be the Current Market Price per share of the Common Stock on such Record Date less the fair market value (as determined by the Board in good faith, whose determination shall be conclusive, and described in a resolution of the Board a copy of which will be provided to the holders of the 9-7/8% Preferred Stock) on the Record Date of the portion of the Securities distributed applicable to one share of Common Stock and the denominator of which shall be the Current Market Price per share of the Common Stock on such Record Date, such reduction to become effective immediately prior to the opening of business on the day following such Record Date; provided, however, that in the event the then fair market value (as so determined) of the portion of the Securities so distributed applicable to one share of Common Stock is equal to or greater than the Current Market Price of the Common Stock on the Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of 9-7/8% Preferred Stock shall have the right to receive upon conversion the amount of Securities such holder would have received had such holder converted its 9-7/8% Preferred Stock into Common Stock immediately prior to the Record Date. If such dividend or distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such, dividend or distribution had not been declared. If the Board determines the fair market value of any distribution for purposes of this Section 7(d) by reference to the actual or when issued trading market for any Securities, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price of the Common Stock.

Rights or warrants distributed by the Corporation to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Corporation's capital stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not immediately exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 7 (and no adjustment to the Conversion Price under this Section 7 will be required) until the occurrence of the earliest Trigger Event, whereupon such rights and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Price shall be made under this Section 7(d). If any such right or warrant, including any such existing rights or warrants distributed prior to the date of this Certificate of Designation, are subject to events, upon the occurrence of which such rights or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and Record Date with respect to new rights or warrants with such rights (and a termination or expiration of the existing rights or warrants without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto, that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Price under this Section 7 was made, (1) in the case of any such rights or warrants that shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a

holder or holders of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Price shall be readjusted as if such rights and warrants had not been issued.

No adjustment of the Conversion Price shall be made pursuant to this Section 7(d) in respect of rights or warrants distributed or deemed distributed on any Trigger Event or other event of the type described in the preceding paragraph to the extent that such rights or warrants are actually distributed, or reserved by the Corporation for distribution, to holders of 9-7/8% Preferred Stock upon conversion by such holders of 9-7/8% Preferred Stock to Common Stock. For purposes of this Section 7(d) and Sections 7(a) and (b), any dividend or distribution to which this Section 7(d) is applicable that also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets or shares of capital stock other than such shares of Common Stock or rights or warrants (and any Conversion Price reduction required by this Section 7(d) with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or warrants (and any further Conversion Price reduction required by Sections 7(a) and (b) with respect to such dividend or distribution shall then be made), except (A) the Record Date of such dividend or distribution shall be substituted as "the date fixed for the determination of stockholders entitled to receive such dividend or other distribution," "the date fixed for the deter of stockholders entitled to receive such rights or warrants" and "the date fixed for such determination" within the meaning of Sections 7(a) and (b), and (B) any shares of Common Stock included in such. dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of Section 7(a).

(e) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock cash (excluding (x) any regular quarterly cash dividend on the Common Stock payable from the earnings of the Company to the extent the annualized rate of such cash dividend does not exceed the Maximum Permitted Dividend Rate (as defined below), and (y) any dividend or distribution in connection with the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary), then, in such case, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the close of business on such Record Date by a fraction, the numerator of which shall be the Current Market Price of the Common Stock on the Record Date less the amount of cash so distributed (and not excluded as provided above or as set forth in the last two sentences of this paragraph) applicable to one share of Common Stock, and the denominator of which shall be such Current Market Price of the Common Stock, such reduction to be effective immediately prior to the opening of business on the day following the Record Date; provided, however, that if the portion of the cash so distributed applicable to one share of Common Stock is equal to or greater than the Current Market Price of the Common Stock on the Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of 9-7/8% Preferred Stock shall have the right to receive upon conversion, out of funds legally available therefore, the amount of cash such holder would have received had such holder converted such 9-7/8% Preferred Stock or the Record Date. If such dividend or distribution is not so paid or made, the Conversion Price shill again be adjusted to be the Conversion Price that

would then be in effect if such dividend or distribution had not been declared. If any adjustment is required to be made as set forth in this Section 7(e) as a result of a distribution that is a quarterly dividend, such adjustment shall be based upon the amount by which such distribution exceeds the amount of the quarterly cash dividend permitted to be excluded pursuant hereto, If an adjustment is required to be made as set forth in this Section 7(e) above as a result of a distribution that is not a quarterly dividend, such. adjustment shall be based upon the full amount of the distribution.

The "Maximum Permitted Dividend Rate" shall mean an annualized dividend rate of $0.80 per share of Common Stock (as adjusted to appropriately reflect any of the events referred to in Sections 7(a) or 7(c)) (the "Current Rate"). The Maximum Permitted Dividend Rate will be adjusted to a rate in excess of the Current Rate only on the following terms:

(i) if the regular dividend mate on the Common Stock is reduced to a rate less than the Current Rate, the regular dividend rate may thereafter be increased but (except as provided in clause (ii) below) not to an annualized rate exceeding the Current Rate.

(ii) Having been reduced as contemplated by clause (i), if the annualized dividend rate on the Common Stock is increased to the Current Rate, it may not thereafter be increased to a rate greater than the Current Rate for a period of four consecutive quarters. Thereafter, the Maximum Permitted Dividend Rate shall increase annually at a rate of increase of 10% per annum.

(iii) If the regular dividend rate on the Common Stock is not reduced as contemplated in clause (i), the Maximum Dividend Rate shall increase annually at a rate of increase of 10% per annum for the dividend period commencing October 1, 2002.

(f) In case a tender or exchange offer made by the Corporation or any Subsidiary for all or any portion of the Common Stock shall expire and such tender or exchange offer (as amended upon the expiration thereof) shall require the payment to stockholders of consideration per share of Common Stock having a fair market value (as determined by the Board, whose determination shall be conclusive and described in a resolution of the Board) that as of the last time (the "Expiration Time") tenders or exchanges may be made pursuant to such tender or exchange offer (as it may be amended) exceeds the Current Market Price of the Common Stock on the Trading Day next succeeding the Expiration. Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Expiration Time by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) at the Expiration Time multiplied, by the Current Market Price of the Common Stock on the Trading Day next succeeding the Expiration Time and the denominator of which shall be the sum of (x) the fair market value (determined, as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the tenns of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted, upto any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) at the Expiration Time and the Current Market Price of the Common Stock on the Trading Day next succeeding the Expiration Time,

such reduction to become effective immediately prior to the opening of business on the Trading Day following the Expiration Time, If the Corporation is obligated to purchase shares pursuant to any such tender or exchange offer, but the Corporation is permanently prevented by applicable law from effecting any such purchases or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such tender or exchange offer had not been made.

(g) For purposes of this Section 7, the following terms shall have the meaning indicated:

(i) "Closing Price" with respect to any security on any day shall mean the closing sale price, regular way, on such day or, in case no such sale takes place on such day, the average of the reported closing bid arid asked prices, regular way, in each case as quoted on the New York Stock Exchange or, if such security is not quoted or listed or admitted to trading on such New York Stock Exchange, on the principal national securities exchange or quotation system on which such security is quoted or listed or admitted to trading or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any New York Stock Exchange member firm selected from time to time by the Board for that purpose, or a price determined in good faith by the Board.

(ii) "Current Market Price" shall mean the arithmetic average of the daily Closing Prices per share of Common Stock for the 10 consecutive Trading Days immediately prior to the date in question.

(iii) "Fair Market Value" shall mean the amount which a willing buyer would pay a willing seller in an arm's-length transaction.

(iv) "Record Date" shall mean, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board or by statute, contract or otherwise).

(v) "Trading Day" shall mean (x) if the applicable security is quoted or listed or admitted for trading on the New York Stock Exchange or another national securities exchange or quotation system, a day on which the New York Stock Exchange or such other national securities exchange or quotation system is open for business or (y) if the applicable security is not so quoted, listed or admitted for trading, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(h) In case the Corporation shall agree or resolve to issue, or issue or sell, or shall be deemed to have issued or sold, within nine months after the date of issuance of the 9-7/8% Preferred Stock:

(i) any shares of Common Stock without consideration or for consideration per share less than the Conversion Price in effect on the date of and immediately prior to such agreement, resolution, issuance or sale;

(ii) any options, warrants or other rights to subscribe for or purchase shares of Common Stock with an exercise or purchase price per share less than the Conversion Price in effect on the date of and immediately prior to such agreement, resolution, issuance or sale; or

(iii) any securities convertible into or exchangeable for Common Stock or otherwise entitling the holder thereof to acquire (whether for consideration or otherwise) or requiring the Corporation to issue in respect thereof, Common Stock with a conversion or exchange price per share of Common Stock less than the Conversion Price in effect on the date of and immediately prior to such agreement, resolution, issuance or sale,

then the Conversion Price shall be reduced to a price equal to the amount of such consideration or price (as applicable), effective from the date of such issuance or sale. The foregoing provisions shall not apply to the issuance of options pursuant to the Corporation's stock option or employee benefit plans, or the exercise of any options issued pursuant to such plans. In determining (I) the aggregate offering price of such shares of Common Stock, (II) whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at a purchase price per share less than the Conversion Price in effect on the date of and immediately prior to such issuance or sale and (III) whether any securities are convertible into or exchangeable for, or otherwise entitling the holder thereof to acquire, Common Stock with a conversion or exchange price per share of Common Stock less than the Conversion Price in effect on the dare of and immediately prior to such issuance or sale, in each such case, there shall be taken into account any consideration received by the Corporation in connection with such issuance or sale of Common Stock, rights, warrants or other securities and the minimum aggregate amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board in good faith as described in a resolution of the Board.

(i) If, on or after the successful completion of the remarketing of the March 2001 Preferred Stock, conducted in accordance with the terms of the Williams Preferred Stock Remarketing Registration Rights and Support Agreement, dated as of March 28, 2001, by and among the Corporation, Williams Share Trust, WCG Note Trust, United. States Trust Company of New York and Credit Suisse First Boston Corporation (or any successor agreement), the conversion price per share of Common Stock for the March 2001 Preferred Stock (as measured by the amount of liquidation preference or stated value required to be surrendered per share of Common Stock) is less than the Conversion Price then in effect, the Conversion Price shall be reduced so as to equal such conversion price per share of Common Stock of the March 2001 Preferred Stock. The reduction of the Conversion Price hereunder shall be effective as and from the date the conversion price of the March 2001 Preferred Stock is established.

(j) The Corporation may (but is not obligated to) make such reductions in the Conversion Price, in addition to those required by this Certificate of Designation as the Board considers to be advisable to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes.

To the extent permitted by applicable law, the Corporation from time to time may (but is not obligated to) reduce the Conversion Price by any amount for any period of time if the period is at least 20 days, the reduction is irrevocable during the period and the Board shall have made a determination that such reduction would be in the best interests of the Corporation, which determination shall, be conclusive. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Corporation shall mail to holders of record of the 9-7(8% Preferred Stock a notice of the reduction at least 15 days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the period during which it will be in effect.

(k) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in such price; provided, however, that any adjustments that by reason of this Section 7(k) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 7 shall be made by the Corporation and shall be made to the nearest cent or to the nearest one-hundredth (1/100) of a share, as the case may be. No adjustment need be made pursuant to any provision of this Section 7 for rights to purchase Common Stock pursuant to a Corporation plan for reinvestment of dividends or interest. To the extent the 9-7/8% Preferred Stock becomes convertible into cash, assets, property or securities (other than capital stock of the Corporation), no adjustment need be made thereafter as to the cash, assets, property or such securities. Interest will not accrue on the cash into which shares of 9-7/8% Preferred Stock may be convertible.

(1) Whenever the Conversion Price shall be adjusted as herein provided, the Corporation shall forthwith file at each office designated for the conversion of 9-7/8% Preferred Stock., a statement, signed by the Chairman of the Board, the President, any Vice President or Treasurer of the Corporation, showing in reasonable detail the facts requiring such adjustment and the Conversion Rate that will be effective after such adjustment. The Corporation shall also cause a notice setting forth any such adjustments to be sent by mail, first class, postage prepaid, to each record holder of 9-7/8% Preferred Stock at his or its address appearing on the stock register. Failure to deliver such. notice shall not affect the legality or validity of any such adjustment.

(m) In any case in Which this Section 7 provides that an adjustment shall become effective immediately after (1) a record date for an event, (2) the date fixed for the determination of stockholders entitled to receive a dividend or distribution pursuant to Section 7(a), or (3) a date fixed for the determination of stockholders entitled to receive rights or warrants pursuant to Section 7(b) or (4) the Expiration Time for any tender or exchange offer pursuant to Section 7(f), (each a "Determination Date"), the Corporation may elect to defer until the occurrence of the relevant Adjustment Event (as hereinafter defined) (x) issuing to the holder of any share of 9-7/8% Preferred Stock converted after such Determination Date and before the

occurrence of such Adjustment Event, the additional shares of Common Stock or other securities or assets issuable upon such conversion by reason of the adjustment required by such Adjustment Event over and above the Common Stock issuable upon such conversion before giving effect to such adjustment and (y) paying to such holder any amount in cash in lieu, of any fraction pursuant to Section 6(b) or Section 6(e). For purposes of this Section 7(m), the term "Adjustment Event" shall mean:

(i) in any case referred to in clause (1) hereof, the occurrence of such event,

(ii) in any case referred to in clause (2) hereof, the date any such dividend or distribution is paid Or made,

(iii) in any case referred to in clause (3) hereof, the date of expiration of such rights or warrants, and

(iv) in any case referred to in clause (4) hereof, the date a sale or exchange of Common Stock pursuant to such tender or exchange offer is consummated and becomes irrevocable.

(n) For purposes of this Section 7, the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of outstanding scrip certificates, if any, issued by the Corporation in lieu of fractions of shares of Common Stock. The Corporation will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Corporation.

(o) If any event occurs as to which, in the opinion of the Board of Directors, the provisions of this Section 7 arc not strictly applicable or if strictly applicable would not fairly protect the rights of the holders of the 9-7/8% Preferred Stock in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make an adjustment in the application of such, provisions, in accordance with such essential intent and principles, so as to protect such rights as aforesaid, but in no event shall any adjustment have the effect of increasing the Conversion. Price as otherwise determined pursuant to any of the provisions of this Section 7 except in the case of a combination of shares of a type contemplated in Section 7(e) hereof and then in no event to an amount larger than the Conversion Price as adjusted pursuant to Section 7(c) hereof. The determination of the Board of Directors as to whether an adjustment should be made pursuant to the provisions of this Section 7(o), and if so, as to what adjustment should be made and when, shall be conclusive, final and binding on the Corporation and all stockholders of the Corporation..

8. RECLASSIFICATIONS, CONSOLIDATION, MERGER OR SALE. If any of the following events occur, namely (i) any reclassification or change of the outstanding shares of Common Stock (other than a subdivision or combination to which Section 7(c) applies), (ii) any consolidation, merger or combination of the Corporation with another Person as a result of which holders of Common Stock shall be entitled to receive stock, other securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, or (iii) any sale or Conveyance of all or substantially all of the properties and assets of the

Corporation to any other Person as a result of which holders of Common Stock shall be entitled to receive stock, other securities or other property or assets (including cash) with respect to or in exchange for such Common. Stock, then the 9-7/8% Preferred Stock shall be convertible into The kind and amount of shares of stock, other securities or other property or assets (including cash) that the holder of a share of 9-7/8% Preferred Stock would have received upon such reclassification, change, consolidation., merger, combination, sale or conveyance had such holder converted such share of 9-7/8% Preferred Stock into the number of shares of Common Stock issuable upon such conversion (assuming, for such purposes, a sufficient number of authorized shares of Common Stock are available for such conversion) immediately prior to such reclassification, change, consolidation, merger, combination, sale or conveyance (but after giving effect to the adjustment of the Conversion Price required in Section 10(a)), assuming such holder of Common Stock did not exercise his rights of election, if any, as to the kind or amount of stock, other securities or other property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, combination., sale or conveyance (provided that, if the kind or amount of stock, other securities or other property or assets (including cash) receivable upon such reclassification, change; consolidation, merger, combination, sale or conveyance is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("non-electing share"), then for the purposes of this Section 8 the kind and amount of stock, other securities or other property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, combination, sale or conveyance for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares),

The Corporation shall not enter into any transaction governed by this Section 8 unless (I) if the Corporation is not the entity surviving any such merger, consolidation or combination, the 9-7/8% Preferred Stock is converted into share's of preferred stock or equivalent equity securities of the entity surviving or resulting from such merger or consolidation having terms and conditions substantially similar to the terms and conditions of the 9-7/8% Preferred Stock in effect immediately prior to such merger or consolidation, but giving effect to the conversion adjustments contemplated in this Section 8 or (II) if the Corporation survives such consolidation, merger or sale, the entity into whose securities or assets the 9-7/8% Preferred Stock becomes convertible pursuant to this Section 8, if other than the Corporation shall agree to honor the conversion rights provided in this Section 8.

The above provisions of this Section 8 shall similarly apply to successive reclassifications, changes, consolidations, mergers, combinations, sales and conveyances.

If this Section 8 applies to any event or occurrence, Section 7 shall not apply.

9. MANDATORY CONVERSION. On or alter March 27,2017, the Corporation may, by giving notice to the holders of 9-7/8% Preferred Stock (the "Forced Conversion Notice"), convert each share of 9-7/8% Preferred Stock held by such holder (the "Mandatory Conversion") into the number of shares of the Common Stock (the "Mandatory Conversion Rate") equal to the Stated Value plus all accrued and unpaid dividends to the date of conversion (whether or not declared) divided by the Conversion Price then in effect; provided that in order to be allowed to exercise this right to compel Mandatory Conversion, the average of the last reported Closing Prices (as defined in Section 7(g)) for the Common Stock for the 20 day

period ending not more than 10 days prior to the date of the giving of the Forced Conversion Notice must be greater than 1 28% of the Conversion Price then in effect. Such conversion shall be effective as of the date (the "Mandatory Conversion Date") the Forced Conversion Notice is given by the Corporation and the holders of 9-7/8% Preferred Stock shall promptly surrender their certificates evidencing their ownership of 9-7/8% Preferred Stock for Common Stock certificates. The provisions of Section 6 shall be applicable to any Mandatory Conversion.

10. OPTIONAL REDEMPTION

(a) Upon a Merger (as defined below), the Corporation may, upon written notice (the "Redemption Notice") to the holders of 9-7/8% Preferred Stock, redeem all, but not less than all, of the then outstanding shares of 9-7/8% Preferred Stock (the "Optional Redemption") for cash at a redemption price per share equal to 120% of the Stated Value plus accrued and unpaid dividends (whether or not declared) (the "Redemption Price"). The Redemption Notice shall be given no later than 10 business days following the consummation of the Merger. In the event the value of the consideration paid per share to holders of Common Stock in such Merger (the "Merger Consideration") is less than the Conversion Price in effect on the date of and immediately prior to such Merger, then the Conversion Price shall be reduced to a price equal to the value of the Merger Consideration. In the event the Merger Consideration payable to holders of Common Stock is not entirely in cash, the value to be ascribed to the Merger Consideration per share for purposes of this Section 10 shall be the Current Market Price of the Common Stock on the date the Merger occurs. "Merger" shall be deemed to have occurred when the Corporation consolidates with or merges into any other person or any other person merges into the Corporation or conveys, transfers or leases all or substantially all of its assets to any person other than a subsidiary or subsidiaries, and the outstanding Common Stock of the Corporation is changed or exchanged into other assets or securities as a result, unless the shareholders of the Corporation immediately before such transaction owns directly or indirectly immediately following such transaction, more than 50% of the combined voting power of the outstanding voting securities of the person resulting from such transaction or the transferee person.

(b) The Corporation shall mail the Redemption Notice, postage prepaid, to each bolder of record of 9-7/8% Preferred Stock to be redeemed, at his or its post office address last shown on the books of the Corporation, notifying such holder of the date of the Optional Redemption, which shall be at least 30 days but not more than 45 days after such notice (the "Redemption Date"), the Redemption Price and the date on which such holder's conversion rights (pursuant to Section 6 hereof) as to such shares terminate and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, his or its certificate or certificates representing the shares to be redeemed. On or prior to the Redemption Date, each holder of 9-7/8% Preferred Stock to be redeemed shall surrender its certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of the 9-7/8% Preferred Stock designated for redemption in the Redemption Notice as holders of 9-7/8% Preferred Stock (except the right to receive the Redemption Price without interest upon

surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever.

(c) If the Corporation is unable on the Redemption Date to redeem all of the shares of 9-7/8% Preferred Stock then to be redeemed because such redemption would violate the applicable laws of the State of Delaware, then the Corporation shall be permitted to redeem only as many shares of 9-7/8% Preferred Stock as it may legally redeem, ratably from the holders thereof in proportion to the number of shares held by them.

(d) Except as provided in Section 10(a) hereof, the Corporation shall have no right to redeem the shares of 9-7/8% Preferred Stock, Any shares of 9-7/8% Preferred Stock so redeemed shall be permanently retired, shall no longer be deemed outstanding and shall not under any circumstances be reissued. Nothing herein contained shall prevent or restrict the purchase by the Corporation, from time to time either at public or private sale, of the whole or any part of the 9-7/8% Preferred Stock at such price or prices as the Corporation may determine, subject to the provisions of applicable law.

11. ACTIONS NOT REQUIRING CONSENT. No consent of the holders of the 9-7/8% Preferred Stock shall be required for (a) the creation of any indebtedness of any kind of the Corporation, (b) subject to Section 5, the creation, or increase or decrease in the amount, of any class or series of stock of the Corporation not ranking prior upon liquidation or as to the payment of dividends to the 9-7/8% Preferred Stock or (c) any increase or decrease in the amount of authorized shares of Common Stock or blank check Preferred Stock or any increase, decrease or change in the par value thereof or in any other terms thereof.

12. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, shares of this series of Preferred Stock shall not have any relative rights, powers or preferences or other special rights other than those specifically set forth in this Certificate of Designation or otherwise in the Certificate of Incorporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation of 9-7/8% Cumulative Convertible Preferred Stock to be duly executed by its President this 27th day of March, 2002.

THE WILLIAMS COMPANIES, INC.

By: /s/ Steven J. Malcolm

Name: Steven J. Malcolm
Title: President

EXHIBIT 10.17

FIFTH AMENDMENT TO TERM LOAN AGREEMENT

THIS FIFTH AMENDMENT TO TERM LOAN AGREEMENT (the "Amendment") is entered into effective as of July 31, 2002, among The Williams Companies, Inc., a Delaware corporation (the "Company"), Williams Gas Pipeline Company, L.L.C., a Delaware limited liability company, and Williams Production Holdings L.L.C., a Delaware limited liability company (collectively, the "Guarantor"), Credit Lyonnais New York Branch, as Administrative Agent (in such capacity, "Administrative Agent"), and certain Lenders (herein so called) named on Schedule 2.1 (as amended and supplemented from time to time) of the Term Loan Agreement (as hereinafter defined).

RECITALS

A. The Company, Lenders, Commerzbank AG New York and Cayman Island Branches, as Syndication Agent, The Bank of Nova Scotia, as Documentation Agent, and Administrative Agent entered into that certain Term Loan Agreement dated as of April 7, 2000, as modified and amended pursuant to that certain First Amendment to Term Loan Agreement dated as of August 21, 2000, that certain Waiver and Second Amendment to Term Loan Agreement dated as of January 31, 2001, that certain Third Amendment to Term Loan Agreement dated as of February 7, 2002, and that certain Fourth Amendment to Term Loan Agreement dated as of March 11, 2002 (such Term Loan Agreement, as so modified and amended, herein referred to as the "Term Loan Agreement"), which Term Loan Agreement has been further modified by that certain letter agreement dated as of November 6, 2000, and that certain Limited Waiver of Term Loan Agreement dated as of July 20, 2001. Unless otherwise indicated herein, all terms used with their initial letter capitalized are used herein with their meaning as defined in the Term Loan Agreement, and all Section references are to Sections in the Term Loan Agreement.

B. The Company has requested that the Lenders further modify and amend certain terms and provisions of the Term Loan Agreement.

C. The Lenders are willing to so modify and amend the Term Loan Agreement, as requested, in accordance with the terms and provisions set forth herein and upon the condition that the Company and the Determining Lenders shall have executed and delivered this Amendment and that the Company shall have fully satisfied the terms and conditions hereof.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, Administrative Agent and the Lenders hereby agree, as follows:

Paragraph 1. Consent. The Lenders party hereto consent to (i) the sale by the Company or by any of its Subsidiaries of (1) WPC (the "Central Pipelines Asset Disposition"), (2) MAPL (the "MAPL Asset Disposition"), (3) Seminole (the "Seminole Asset Disposition"), (4) the Refineries (the "Refineries Asset Disposition"), (5) Soda Ash (the "Soda Ash Asset Disposition"), (6) TravelCenters (the "Travel Centers Asset Disposition"), and (7) Bio-Energy (the "Bio-Energy Asset Disposition", together with the Central Pipelines Asset Disposition, MAPL Asset Disposition, Seminole Asset Disposition, Refineries Asset Disposition, Soda Ash Disposition and TravelCenters Asset Disposition, the "TWC Asset Dispositions"), (ii) the LLC Guaranty, the Midstream Guaranty, and the Holdings Guaranty, and (iii) the execution and delivery of and performance by RMT, the Company and RMT LLC and their subsidiaries party thereto of the Barrett Loan Agreement and the transactions related thereto or contemplated thereby.

Paragraph 2. Amendments to Term Loan Agreement. The Term Loan Agreement hereby is amended as follows:

2.1 Definitions

(a) Section 1.1 of the Credit Agreement is hereby amended by replacing the following definitions, in their respective entireties, as follows:

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

Index Debt Ratings	Eurodollar Rate Borrowings	Base Rate Borrowings
Category 1 BB+ and Ba1 or higher	3.250%	2.000%
Category 2 BB and Ba2	3.750%	2.500%
Category 3 BB- and Ba3	4.250%	3.000%
Category 4 B+ and Bl	4.500%	3.250%
Category 5 B and B2; or lower	4.750%	3.500%

For purposes of determining the Applicable Margin, with respect to the debt ratings criteria: (i) if neither Moody's nor S&P shall have in effect a rating for Index Debt (other than by reason of the circumstances referred to in the last sentence of this definition), then both such rating agencies will be deemed to have established ratings for Index Debt in Category 5; (ii) if only one of Moody's or S&P shall have in effect a rating for Index Debt, the Company and the Lenders will negotiate in good faith to agree upon another rating agency to be substituted by an agreement for the rating agency which shall not have a rating in effect, and in the absence of such agreement the Applicable Margin will be determined by reference to the available rating; (iii) except as expressly provided in the above table, if the ratings established by Moody's and S&P shall differ by (x) one Category, the Applicable Margin shall be determined by reference to the numerically higher Category, and (y) two or more Categories the Applicable Margin shall be determined by reference to the numerical Category which is one less than the numerically highest such Category (for example, if the rating from S&P is in Category 2 and the rating from Moody's is in Category 5, the Applicable Margin shall be determined by reference to Category 4); and (iv) if any rating established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the date on which such change is first announced by the rating agency making such change. If the rating system of either Moody's or S&P shall change prior to the payment in full of the Obligation and the cancellation of all commitments to lend hereunder, the Company and the Lenders shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system.

If both Moody's and S&P shall cease to be in the business of rating corporate debt obligations, the Company and the Lenders shall negotiate in good faith to agree upon a substitute rating agency and to amend the references to specific ratings in this definition to reflect the ratings used by such substitute rating agency, and the Applicable Margin shall continue to be based upon the ratings Category in effect immediately prior to such event until such agreement on a substitute rating agency is reached.

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

"Debt" means, in the case of any Person, the principal or equivalent amount of (i) indebtedness of such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) obligations of such Person to pay the deferred purchase price of property or services (other than trade payables not overdue by more than 60 days incurred in the ordinary course of business), (iv) obligations of such Person as lessee under leases that are, in accordance with generally accepted accounting principles, recorded as capital leases, (v) payments necessary to exercise a purchase option with respect to the property used by such Person and encumbered by a Synthetic Lease with such Person as lessee, excluding any portion of such amount representing accrued interest, transfer taxes or other ancillary items, (vi) obligations of such Person under any Financing Transaction, (vii) indebtedness (other than that described in clauses (i) through (iv), (viii), (ix) and (x) of this definition) incurred after July 31, 2002 of the Subsidiaries of such Person, and indebtedness (other than that described in clauses (i) through (iv), (viii), (ix) and (x) of this definition) incurred after July 31, 2002 of any other entity that has been created or utilized, directly or indirectly, for financing purposes of such Person or any of its Subsidiaries, (viii) 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 (vii) of this definition, (ix) indebtedness or obligations of others of the kinds referred to in clauses (i) through (viii) of this definition secured by any Lien on or in respect of any property of such Person and (x) any Attributable Obligations of such Person; provided, however, that Debt shall not include (w) any obligations of the Company in respect of the FELINE PACS; (x) Non-Recourse Debt; (y) Performance Guaranties, (z) monetary obligations or guaranties of monetary obligations of Persons as lessee under leases (other than, to the extent provided herein above, Synthetic Leases) that are, in accordance with generally accepted accounting principles, recorded as operating leases and (aa) guarantees by such Person of obligations of others which are not obligations described in clauses (i) through (x) of this definition, and provided further that where any such indebtedness or obligation of such Person is made jointly, or jointly and severally, with any third party or parties other than any Subsidiary of such Person, the amount thereof for the purpose of this definition only shall be the pro rata portion thereof payable by such Person, so long as such third party or parties have not defaulted on its or their joint and several portions thereof and can reasonably be expected to perform its or their obligations thereunder. For the avoidance of doubt, "Debt" shall not include the Letters of Credit.

"Net Worth" of any Person means, as of any date of determination, the excess of total assets of such Person plus all non-cash losses resulting from the write-down or disposition of the Trading Book over total liabilities of such Person, total assets and total liabilities each to be determined in accordance with generally accepted accounting principles; provided, however, that for purposes of calculating Net Worth, total liabilities shall not include any obligations of the Borrower in respect of the FELINE PACS.

(b) Section 1.1 of the Credit Agreement is hereby amended by inserting the following definitions hereto in proper alphabetical order:

"Acceptable Security Interest" in any property shall mean a Lien granted pursuant to a Credit Document (i) which exists in favor of the Collateral Agent for the benefit of itself, the Administrative Agent, the Banks and the "Administrative Agent", "Issuing Banks" and "Banks" as each such term is defined in the L/C Agreement, (ii) which is superior to all other Liens, except Permitted Liens, (iii) which secures the "Obligations" as defined in each of the Primary Credit Agreement and the L/C Agreement, and (iv) which is perfected and is enforceable by the Collateral Agent, for the benefit of itself and the "Administrative Agent", "Issuing Banks" and "Banks" as each such term is defined in each of the Primary Credit Agreement and the L/C Agreement, against all other Persons in preference to any rights of any such other Person therein; provided that such Lien may be subject to the "Agreed Exceptions" (as defined in the L/C Agreement).

"Asset" or "property" (in each case, whether or not capitalized) means any right, title or interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"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).

"Barrett Loan" means the loans made pursuant to the Barrett Loan Agreement.

"Barrett Loan Agreement" means the Credit Agreement dated July 3 1, 2002, among the Company, RMT LLC, RMT, the Lenders party thereto from time to time, Lehman Brothers Inc., as Arranger, and Lehman Commercial Paper Inc., as Syndication Agent and as Administrative Agent.

"Capital Lease" means a lease that in accordance with generally acceptable accounting principles must be reflected on a company's balance sheet as an asset and corresponding liability.

"Cash Equivalents" means any of the following, to the extent owned by the Company or any of its Subsidiaries free and clear of all Liens other than Liens created under the L/C Collateral Documents and having a maturity of not greater than 270 days from the date of acquisition thereof: (a) readily marketable direct obligations of the Government of the United States or any agency or instrumentality thereof or obligations unconditionally guaranteed by the full faith and credit of the Government of the United States, (b) insured certificates of deposit of or time deposits with any commercial bank that is a Lender or a "Bank" under each of the Primary Credit Agreement or the L/C Agreement or a member of the Federal Reserve System, issues (or the parent of which issues) commercial paper rated as described in clause (c) below, is organized under the laws of the United States or any State thereof and has combined capital and surplus of at least $1 billion or (c) commercial paper in an aggregate amount of no more than $500,000,000, per issuer outstanding at any time, issued by any corporation organized under the laws of any State of the United States and rated at least "Prime-l" (or the then equivalent grade) by Moody's Investors Service, Inc. or "A-l" (or the then equivalent grade) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

"Cash Flow" means, for any period, the Consolidated cash flow from operations of the Company and its Subsidiaries for such period determined in accordance with generally accepted accounting principles; provided that in determining such Consolidated cash flow from operations, there shall be excluded therefrom (to the extent otherwise included therein) (a) any positive cash flow from operations of any Person (including Project Financing Subsidiaries) subject to any restriction prohibiting the distribution of cash to the Company or any of its Subsidiaries, except and then only to the extent of the amount thereof that the Company or any of its Subsidiaries actually receives or has the right to receive (within the limits of such restrictions) during such period, (b) proceeds resulting from the sale, transfer or other disposition of any property by the Company or its Subsidiaries (other than sales, transfers and other dispositions in the ordinary course of business), (c) all other extraordinary items, (d) any item constituting the cumulative effect of a change in accounting principles, prior to applicable income taxes, (e) repayment of the WCG Synthetic Lease and (1) for the third Fiscal Quarter of 2002 only, margin and capital or adequate assurances relating to its refining and marketing and EMT.

"Collateral" shall have the meaning specified in Section 1.1 of the L/C Agreement.

"Collateral Agent" means Citicorp, USA, Inc. in its capacity as "Collateral Agent" pursuant to the L/C Collateral Documents and the LIC Agreement.

"Credit Documents" means the Primary Credit Agreement, the L/C Agreement, the L/C Collateral Documents, the Letter of Credit Documents, each Letter of Credit, all documents, instruments, agreements, certificates and notices at any time executed and/or delivered to the "Agent," any "Issuing Bank," or any "Bank" (as such terms are defined in each of the Primary Credit Agreement and the L/C Agreement) in connection therewith.

"EMT" means Williams Energy Marketing & Trading Company.

"Equity Interests" means any capital stock, partnership, joint venture, member or limited liability or unlimited liability company interest, beneficial interest in a trust or similar entity or other equity interest or investment of whatever nature.

"Financing Transaction" means, with respect to any Person, any individual or group of related Persons (i) prepaid forward sales of oil, gas, minerals or other Assets by such Person, (ii) interest rate, currency, commodity or other swaps, collars, caps, options or other derivatives or (iii) sales or transfers of Assets, the primary effect of which or an important purpose of which is to receive money or credit in advance coupled with an obligation to repay or perform in the future to effect repayment thereof, including any contract monetization or production payment. Notwithstanding the foregoing, the following transactions, if entered into in the ordinary course of business by the Company or any of its affiliates and otherwise permitted hereunder, shall be deemed not to be Financing Transactions: (a) sales or exchanges of property fully delivered within 90 days of receipt of the first payment by a counterparty therefor, (b) interest rate, currency, commodity or other swaps, collars, caps, options or other derivatives (including prepayment of forward sales of property by a counterparty of the Company or any of its affiliates to hedge against the credit risk of such counterparty, provided that the forward delivery obligation with respect to the property sold must be fully performed within 120 days), and (c) "riskless" forward sales or exchanges of property whereby a third party guarantees the performance obligations of the Company or any of its affiliates to deliver such property without subrogation or other recourse against the Company or any of its affiliates by any party to the transaction. The term "contract monetization" as used in this definition means the acceleration of cash flows a contract party expects to receive from such contract pursuant to which the contract party retains a significant ongoing obligation to perform, but shall in any event exclude transactions commonly referred to as securitizations. The term "production payment" as used in this definition means a limited-term non-cost bearing right to receive produced hydrocarbons or the proceeds

therefrom satisfiable in cash or in kind up to an aggregate defined amount of cash and/or hydrocarbons.

"Fiscal Quarter" means any quarter of a Fiscal Year.

"Fiscal Year" means any period of twelve consecutive calendar months ending on December 31; references to a Fiscal Year with a number corresponding to any calendar year (e.g., the "2002 Fiscal Year") refer to the Fiscal Year ending on December 31 of such calendar year.

"Guarantor" means, collectively, Williams Gas Pipeline Company, L.L.C., a Delaware limited liability company, and Williams Production Holdings L.L.C., a Delaware limited liability company.

"Hedge Agreements" means interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other hedging obligations.

"Holdings Guaranty" means that certain guaranty executed by RMT LLC in substantially the form of Exhibit J to the L/C Agreement, as amended, supplemented or modified from time to time.

"Hydrocarbons" means oil, gas, casinghead gas, condensate, distillate, and liquid hydrocarbons.

"Interest Expense" means, for any period, the gross interest expense (determined in accordance with generally accepted accounting principles) of the Company and its Consolidated Subsidiaries accrued for such period, including that attributable to the capitalized amount of obligations owing under Capital Leases, all debt discount amortized in such period and all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, net of interest income (determined in accordance with generally accepted accounting principles) of the Company and its Consolidated Subsidiaries, but excluding such interest expense, debt discount, commissions, discounts and other fees and charges and interest income to the extent attributable to the Non-Recourse Debt of Project Financing Subsidiaries.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any Equity Interests or Debt or the Assets comprising a division or business unit or a substantial part or all of the business of such Person, any capital contribution to such Person or any other direct or indirect investment in such Person, including, without limitation, any acquisition by way of a merger or consolidation and any arrangement pursuant to which the investor incurs Debt of the types referred to in clause (viii) or (ix) of the definition of "Debt" in respect of such Person.

"L/C Agreement" means that certain Credit Agreement as in effect on July 31, 2002 among the Company, as borrower, Citibank, N.A., as agent and as collateral agent, and the other agents, issuing banks and lenders party thereto.

"L/C Collateral Documents" means the "Security Documents" as defined in the L/C Agreement.

"Legacy L/C's" means those outstanding letters of credit as of July 31, 2002 as set forth on Schedule XV of the Primary Credit Agreement, to the extent such Letters of Credit have not been Cash Collateralized

"Letter of Credit" has the meaning specified in Section 1.1 of the L/C Agreement.

"Letter of Credit Documents" means, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether

general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"LLC Guaranty" means, collectively, the agreements executed by the Guarantor in form and substance satisfactory to the Administrative Agent guarantying, unconditionally, the payment of the Obligation, as the same may be amended, modified or supplemented from time to time.

"Major Subsidiary" means any Subsidiary of the Company with Assets having a book value of $1,000,000,000 or more.

"MAPL" means Mid-America Pipeline Company, a Delaware corporation.

"MAPL Asset Disposition" means the sale, transfer or other distribution of the Equity Interests in or Assets of MAPL.

"Material Subsidiary" means (i) each Major Subsidiary and each other Subsidiary of the Company (other than a Project Financing Subsidiary) that itself (on an unconsolidated, stand alone basis) owns in excess of 5% of the book value of the Consolidated Assets of the Company and its Consolidated Subsidiaries, (ii) each of TGPL, TGT and NWP and (iii) each Subsidiary that owns any direct or indirect interest in TGPL, TGT and NWP.

"Midstream Assets" means all Assets now owned or hereafter acquired by the Company or any of its Subsidiaries, which are either individually, or in conjunction with other Midstream Assets, necessary for the conduct of the Midstream Business by the Company and its Subsidiaries, including the Refineries in Alaska and Tennessee, except that "Midstream Assets" shall not include (a) the assets being part of either of the MAPL Asset Disposition or Seminole Asset Disposition unless the MAPL Disposition or Seminole Asset Disposition, as applicable, shall not have occurred on or prior to the date that is 60 days from July 31, 2002, and (b) any Assets of Williams GP LLC, Williams Energy Partners L.P. or any of their Subsidiaries.

"Midstream Business" means the gathering, marketing, dehydrating, treating, processing, fractionating, refining, storing, selling and transporting of Hydrocarbons and Refined Hydrocarbons, and any business relating thereto.

"Midstream Guaranty" means that certain guaranty executed by those certain guarantors in substantially the form of Exhibit H to the L/C Agreement, as amended, supplemented or modified from time to time.

"Net Cash Proceeds" means, with respect to any sale, transfer or other disposition of any asset or the sale or issuance of any equity interests (including, without limitation, any capital contribution) by any Person, the gross cash proceeds received (including any cash received by way of deferred payment pursuant to a promissory note, receivable or otherwise, but only as and when received) by or on behalf of such Person in connection with such transaction net of only (a) reasonable transaction costs, including customary and reasonable brokerage commissions, underwriting fees and discounts, legal fees, fees paid to accountants and financial advisors, finder's fees and other similar fees and commissions, (b) the amount of taxes payable in connection with or as a result of such transaction, (c) the amount of any Debt by the terms of the agreement or instrument governing such Debt (including, without limitation, the Barrett Loan Agreement), that is required to be repaid or cash collateralized in the case of letters of credit, upon such disposition, including any premium, make-whole or breakage amount related thereto, (d)

payments of unassumed liabilities relating to the assets sold at the time of, or within 60 days after, the date of such sale, and provided that such gross proceeds shall not include any portion of such gross cash proceeds which the Company determines in good faith should be reserved for post-closing adjustments (including indemnification payments, tax expenses and purchase price adjustments, to the extent the Person delivers to the Administrative Agent a certificate signed by an Officer of such Person as to such determination), it being understood and agreed that on the day that all such post-closing adjustments have been determined (which shall not be later than 120 days following the date of the respective TWC Asset Disposition; provided, further that such 120-day period shall be extended to the extent any amount of such proceeds is subject to a good faith dispute or claim), the amount (if any) by which the reserved amount in respect of such sale or disposition exceeds the actual post-closing adjustments payable by such Person shall constitute Net Cash Proceeds on such date received by such Person from such sale, lease, transfer or other disposition.

"Non-Recourse Debt" means (i) any Debt incurred by any Project Financing Subsidiary to finance the acquisition (other than the acquisition from the Company or any Subsidiary of the Company that is not a Project Financing Subsidiary), improvement, installation, design, engineering, construction, development, completion, maintenance or operation of, or otherwise to pay costs and expenses relating to or providing financing for, a project listed on Schedule VI to the L/C Agreement or any new project commenced or acquired after the date hereof, which Debt does not provide for recourse against the Company or any Subsidiary of the Company (other than a Project Financing Subsidiary and such recourse as exists under a Performance Guaranty) or any property or asset of the Company or any Subsidiary of the Company (other than the property or assets of a Project Financing Subsidiary) and (ii) any refinancing of such Debt that does not increase the outstanding principal amount thereof at the time of the refinancing or increase the property subject to any Lien securing such Debt or otherwise add additional security or support for such Debt.

"Performance Guaranty" means any guaranty issued in connection with any Non-Recourse Debt that (i) if secured, is secured only by assets of or Equity Interests in a Project Financing Subsidiary, and (ii) guarantees to the provider of such Non-Recourse Debt or any other Person of the (a) performance of the improvement, installation, design, engineering, construction, acquisition, development, completion, maintenance or operation of, or otherwise affects any such act in respect of, all or any portion of the project that is financed by such Non-Recourse Debt, (b) completion of the minimum agreed equity contributions to the relevant Project Finance Subsidiary, or (c) performance by a Project Financing Subsidiary of obligations to Persons other than the provider of such Non-Recourse Debt.

"Prairie Wolf Facility" means the financing provided in connection with that certain $611,788,868 Joint Venture Sponsor Agreement dated as of December 28, 2000 (as amended, supplemented, amended and restated or otherwise modified from time to time, the "Sponsor Agreement"), among the Company, as Sponsor, and Williams Field Services Company, in favor of Prairie Wolf Investors, Arctic Fox Assets, L.L.C., Williams Energy (Canada), Inc. and the other Indemnified Persons (as defined in the Sponsor Agreement) listed therein.

"Prepayment Percentage" means the quotient of (i) the Principal Debt divided by (ii) the Related Credit Facility Debt (other than that arising under or related to the Prairie Wolf Facility).

"Progeny Facilities" means the financing facilities specifically described on Schedule III hereto.

"Project Financing Subsidiaries" means any non-material Subsidiary of the Company whose principal purpose is to incur Non-Recourse Debt and/or construct, lease, own or operate the assets financed thereby, or to become a direct or indirect partner, member or other equity participant or owner in a Business Entity so created, and substantially all the assets of which Subsidiary or Business Entity are

limited to those assets being financed (or to be financed), or the operation of which is being financed (or to be financed), in whole or in part by Non-Recourse Debt, or to Equity Interests in, or Debt or other obligations of, one or more other such Subsidiaries or Business Entities, or to Debt or other obligations of the Company or its Subsidiaries or other Persons. For purposes of this definition, a "non-material Subsidiary" shall mean any Consolidated Subsidiary of the Company which, as of the date of the most recent Consolidated balance sheet of the Company delivered pursuant to Section 8.2(b) or 8.2(c), has total assets which account for less than five percent (5%) of the total Consolidated assets of the Company and its Consolidated Subsidiaries, as shown on such Consolidated balance sheet; provided, that the aggregate assets of the non-material Subsidiaries shall not comprise more than ten percent (10%) of the total Consolidated assets of the Company and its Consolidated Subsidiaries, as shown on such Consolidated balance sheet.

"Refined Hydrocarbons" means all products refined, separated, fractionated, settled, and dehydrated from Hydrocarbons and all products derived therefrom, including, without limitation, kerosene, liquefied petroleum gas, refined lubricating oils, diesel fuels, drip gasoline, natural gasoline, helium, sulfur and all other minerals.

"Refineries" means the equity interest in and assets owned by the Midstream Business of the Company which produces Refined Hydrocarbons and is owned collectively by the following Subsidiaries: Williams Express, Inc., a Delaware corporation, Williams Alaska Pipeline Company, LLC, a Delaware limited liability company, Williams Alaska Petroleum, Inc., an Alaska corporation, Williams Alaska Air Cargo Properties, LLC, an Alaska limited liability company, Williams Lynxs Alaska CargoPort, LLC, an Alaska limited liability company, Williams Express, Inc., an Alaska corporation, Williams Refining & Marketing, LLC, a Delaware limited liability company, Williams Olefins, LLC, a Delaware limited liability company, Williams Olefins Feedstock Pipelines, LLC, a Delaware limited liability company, Williams Memphis Terminal, Inc., a Delaware corporation, Williams Generating Memphis, LLC, a Delaware limited liability company.

"Related Credit Facility Debt" means, without duplication, the aggregate amount of all commitments to lend, issue letters of credit or otherwise make loans, advances or other extensions of credit to the Company or any of its Affiliates under the Primary Credit Agreement (unless and until the outstanding "Commitments" thereunder have been reduced to $400,000,000) and the Progeny Facilities.

"RMT" means Williams Production RMT Company.

"RMT LLC' means Williams Production Holding LLC.

"Seminole Asset Disposition" means the sale, transfer or other distribution of all or substantially all of the Equity Interests in or assets of Seminole.

"Soda Ash" means Williams Soda Products Company and American Soda, L.L.P.

"Synthetic Lease" means any lease (including leases that may be terminated by the lessee at any time) of any property (whether real, personal or mixed) (i) that is not a capital lease in accordance with generally accepted accounting principles and (ii) in respect of which the lessee retains or obtains ownership of the property so leased for federal income tax purposes, other than any such lease under which such Person is the lessor.

"Trading Book" means, for any Person, all mark to market daily and forward traded transactions of such Person inclusive of structured portfolio transactions consisting primarily of tolling and full requirements transactions.

"Travel Centers" means Williams TravelCenters, Inc.

"TWC Asset Dispositions" has the meaning specified in Paragraph 1 herein.

"TWC Preferred Stock" means the shares of preferred stock of the Company which may be perpetual preferred stock or mandatorily convertible into shares of common stock of the Company.

"WCG Synthetic Lease" means that certain Amended and Restated Lease between State Street Bank and Trust Company of Connecticut, National Association, as Lessor and Williams Communications, Inc., as Lessee, dated as of September 2, 1998, as amended, which has been terminated and was fully repaid on March 29, 2002.

"WCG Unwind Transaction" means a transaction in which (i) the Company's Sale Leaseback transaction with WCG and its Subsidiary, Williams Technology Center, LLC ("WTC") involving Williams Technology Center and two aircraft dated September 13, 2001 (the "WCG Sale Leaseback"), is terminated, (ii) in exchange for such termination, the Company receives a promissory note payable by the reorganized WCG, WTC and/or the other WCG Subsidiaries, as co-makers in an amount of $100,000,000 or less, and (iii) consideration from the Company and its Subsidiaries includes termination of the existing WCG Sale Leaseback, but does not include any cash payment by the Company or any of its Subsidiaries to WCG or WTC.

2.2 Subsection 3.2(c) is hereby amended and restated to read in its entirety as follows:

"(c) The Company shall make mandatory prepayments of the Principal Debt from time to time in an amount equal to the product of (A) fifty percent (50%) of the Net Cash Proceeds of any and all asset dispositions (other than the MAPL Disposition, the Seminole Asset Disposition, the sale of the Alaska Refinery, and the sale or other disposition (other than a redemption) of any Equity Interests of Williams Energy Partners, L.P. by Williams GP LLC, the general partner thereof) and one hundred percent (100%) of any issuances of TWC Preferred Stock after July 31, 2002, multiplied by (B) the Prepayment Percentage. Any and all amounts required to be prepaid under the preceding sentence shall be made within three days after such proceeds are received and shall be made together with (1) all accrued and unpaid interest on the principal amount so prepaid and (2) any Consequential Loss arising as a result thereof.

2.3 Section 8.2(b) is hereby amended and restated in its entirety and replaced with the following:

"(b) as soon as available and in any event not later than 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of the Company, (1) the Consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such Fiscal Quarter and the Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for the period commencing at the end of the previous year and ending with the end of such Fiscal Quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments and the lack of footnotes) by an authorized financial officer of the Company as having been prepared in accordance with generally accepted accounting principles; provided that, if any financial statement referred to in this Section 8.2(b) is readily available on-line through EDGAR as of the date on which such financial statement is required to be delivered hereunder, the Company shall not be obligated to furnish copies of such financial statement; and (2) a certificate of an authorized financial officer of the Company (a) stating that he has no knowledge that a Default or Event of Default has occurred and is continuing or, if a Default or Event of

Default has occurred and is continuing, a statement as to the nature thereof and the action, if any, which the Company proposes to take with respect thereto, and (b) showing in detail the calculation supporting such statement in respect of Section 8.6;"

2.4 Section 8.2(c) is hereby amended and restated in its entirety and replaced with the following:

"(c) as soon as available and in any event not later than 105 days after the end of each Fiscal Year of the Company, (1) a copy of the annual audited report for such year for the Company and its Consolidated Subsidiaries, including therein Consolidated balance sheets of the Company and its Consolidated Subsidiaries as of the end of such Fiscal Year and Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for such Fiscal Year, in each case prepared in accordance with generally accepted accounting principles and reported on by Ernst & Young, LLP or other independent certified public accountants of recognized standing acceptable to the Determining Lenders; provided that if any financial statement referred to in this Section 8.2(c) is readily available on-line through EDGAR as of the date on which such financial statement is required to be delivered hereunder, the Company shall not be obligated to furnish copies of such financial statement; and (2) a letter of such accounting firm to the Lenders (a) stating that, in the course of the regular audit of the business of the Company and its Consolidated Subsidiaries, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that a Default or Event of Default has occurred and is continuing, or if in the opinion of such accounting firm, a Default or Event of Default 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 8.6 (which letter may nevertheless be limited in form, scope and substance to the extent required by applicable accounting rules or guidelines in effect from time to time)."

2.5 Section 8.2(d) is hereby amended by deleting the words "material Subsidiaries" in the second line thereof and replacing them with "Material Subsidiaries."

2.6 Section 8.2(e) is hereby amended by deleting the words "material Subsidiary" in the third line thereof and replacing them with "Material Subsidiaries."

2.7 Section 8.2(f) is hereby amended and restated in its entirety and replaced with the following:

"(f) as soon as possible and in any event within 30 Business Days after the Company or any ERISA Affiliate of the Company knows or has reason to know (A) that any Termination Event described in clause (a) of the definition of Termination Event with respect to any Plan has occurred that could have a material adverse effect on the Company or any Material Subsidiary of the Company or any ERISA Affiliate of the Company or (B) that any other Termination Event with respect to any Plan has occurred or is reasonably expected to occur that could have a material adverse effect on the Company or any Material Subsidiary of the Company or any ERISA Affiliate of the Company, a statement of the chief financial officer or chief accounting officer of the Company describing such Termination Event and the action, if any, which the Company or such Subsidiary or such ERISA Affiliate proposes to take with respect thereto."

2.8 Section 8.2(l) is hereby amended by adding at the end thereof a new clause (1) to read as follows:

"(1) promptly after any officer of the Company obtains knowledge thereof, notice of (A) any material violation of, noncompliance with, or remedial obligations under, any Environmental Protection Statute, and (B) any material release or threatened material release of Hazardous Substance or Hazardous Waste affecting any property owned, leased or operated by the Company or any Subsidiary of the Company that the Company or such Subsidiary is compelled by the requirements of any Environmental Protection Statute to report to any governmental agency, department, board or other instrumentality."

2.9 Section 8.3 is hereby amended by deleting the words "material Subsidiary" commencing in the first line thereof and replacing them with "Material Subsidiary."

2.10 Section 8.5 is hereby amended in its entirety and replaced with the following:

"8.5 Liens, Etc. The Company shall not create, assume, incur or suffer to exist, or permit any of its Subsidiaries to create, assume, incur or suffer to exist, any Lien on or in respect of any of its property, whether now owned or hereafter acquired, or assign or otherwise convey, or permit any such Subsidiary to assign or otherwise convey, any right to receive income, in each case to secure or provide for the payment of any Debt, trade payable or other obligation or liability or any Person (other than obligations or liabilities that are (i) neither Debt nor trade payables, (ii) incurred, and are owed to trading counterparties, in the ordinary course of the Company or any of its Subsidiaries, and (iii) secured only by cash, short-term investments or a Letter of Credit); provided however, that notwithstanding the foregoing (1) the Company or any of its Subsidiaries may create, incur, assume or suffer to exist Permitted Liens, and (2) RMT and RMT LLC may create, incur, assume or suffer to exist any Lien created pursuant to the Barrett Loan Agreement or documents related thereto."

2.11 Section 8.6 is hereby amended in its entirety and replaced with the following:

"8.6 Debt Interest Coverage. The Company shall not permit: (a) in the case of the Company, the ratio of (i) the aggregate amount of Consolidated Debt of the Company and its Consolidated Subsidiaries to (ii) the sum of the Consolidated Net Worth of the Company plus the aggregate amount of Consolidated Debt of the Company and its Consolidated Subsidiaries, to exceed at any time (x) on or before December 30, 2002, 0.70 to 1.00, (y) after December 30, 2002 and on or before March 30, 2003, 0.68 to 1.00, and (z) after March 30, 2003, 0.65 to 1.00; (b) in the case of each of TGPL, TGT and NWP, the ratio of (i) the aggregate amount of Consolidated Debt of such Subsidiary and its Subsidiaries on a Consolidated basis, to (ii) the sum of the Consolidated Net Worth of such Subsidiary plus the aggregate amount of Consolidated Debt of such Subsidiary and its Subsidiaries on a Consolidated basis, to exceed at any time 0.55 to 1.00.; and (c) for any period of four consecutive Fiscal Quarters, the ratio of (i) the sum of Cash Flow from operations of the Company plus Interest Expense of the Company to (ii) Interest Expense of the Company, to be less than 1.5 to 1.0."

2.12 Section 8. 7 hereby is amended and restated in its entirety and replaced with the following:

"8.7 Merger and Sale of Assets. The Company shall not merge or consolidate with or into any other Person, or sell, lease or otherwise transfer a material part of its assets, or permit any of its Major Subsidiaries to merge or consolidate with or into any other Person, or sell, lease or otherwise transfer a material part of such Major Subsidiary's assets, except that this Section 8.17 shall not prohibit any sale or transfer permitted by Section 8.16 or any TWC Asset Disposition."

2.13 Section 8.8 is hereby amended and restated in its entirety and replaced with the following:

"8.8 Agreements to Restrict Certain Transfers. The Company shall not enter into or suffer to exist, or permit any of its Subsidiaries to enter into or suffer to exist, any consensual encumbrance or restriction on its ability or the ability of any of its Subsidiaries (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 the Company or to any of its Subsidiaries; or (ii) to make loans or advances to the Company or any Subsidiary thereof, except (1) encumbrances and restrictions on any Subsidiary that is not a Material Subsidiary, (2) those encumbrances and restrictions existing on July 31, 2002, (3) other customary encumbrances and restrictions now or hereafter existing of the Company or any Subsidiary thereof entered into in the ordinary course of business that are not more restrictive in any material respect than the encumbrances and restrictions with respect to the Company or its Subsidiaries existing on the date hereof, (4) encumbrances or restrictions on any Subsidiary that is obligated to pay Non-Recourse Debt arising in connection with such Non-Recourse Debt, (5) encumbrances and restrictions on Williams Energy Partners L.P. and (6) encumbrances and restrictions on any Subsidiary pursuant to the Barrett Loan Agreement."

2.14 Section 8.9 is hereby amended and restated in its entirety and replaced with the following:

"8.9 Loans and Advances; Investments. The Company shall not make or permit to remain outstanding, or allow any of its Subsidiaries to make or permit to remain outstanding, any loan or advance to, or own, purchase or acquire any obligations or debt or Equity Interests of, any WCG Subsidiary, except that the Company and its Subsidiaries may (i) permit to remain outstanding, and to replace or refinance, loans and advances and other financing arrangements to, or Equity Interest in, a WCG Subsidiary existing or owned (in the case of such Equity Interests) as of the date hereof and listed on Exhibit F hereto, but no such replacement or refinancing shall exceed the amount of such loans, advances or other amounts outstanding immediately prior to such replacement or refinancing, (ii) pursuant to the WCG Unwind Transaction, acquire and own the promissory note referred to in clause (ii) of the definition herein of WCG Unwind Transaction, and (iii) receive any distribution from WCG or any Subsidiary thereof in connection with the bankruptcy proceedings of WCG or any Subsidiary thereof. Except for those investments permitted in subsections (i), (ii), and (iii) above, the Company shall not, and the Company shall not permit any of its Subsidiaries to, acquire or otherwise invest in Equity Interests in, or make any loan or advance to, a WCG Subsidiary."

2.15 Section 8.10 is hereby and restated in its entirety and replaced with the following:

"8.10 Maintenance of Ownership of Certain Subsidiaries. Except with respect to Williams Energy Partners L.P. and its Subsidiaries, the Company shall not sell, issue or otherwise dispose of, or create, assume, incur or suffer to exist any Lien on or in respect of, or permit any of its Subsidiaries to sell, issue or otherwise dispose of or create, assume, incur or suffer to exist any Lien on or in respect of, any Equity Interests or any direct or indirect interest in any Equity Interests in itself, NWP, TGPL, TGT, or any of the Company's Material Subsidiaries; provided, however, that this Section 8.10 shall not prohibit (i) Permitted Liens, (ii) the sale or other disposition of the Equity Interests in any Subsidiary of the Company to the Company or any Wholly-Owned Subsidiary of the Company if, but only if, (x) there shall not exist or result a Default or Event of Default and (y) in the case of each sale or other disposition

referred to in this proviso involving the Company or any of its Subsidiaries, such sale or other disposition could not reasonably be expected to impair materially the ability of the Company to perform its obligations hereunder and any other Loan Documents and the Company shall continue to exist, (iii) any Subsidiary from selling or otherwise disposing of any direct or indirect Equity Interests in any Subsidiary (other than TPGL, TGT, or NWP) of the Company (iv) any TWC Asset Disposition, or (v) the sale or other disposition of the Equity Interests in any Subsidiary of RMT LLC required pursuant to, and in accordance with, the Barrett Loan Agreement; provided that, after giving effect to any such sale or other disposition of any Equity Interests owned directly or indirectly by a Major Subsidiary, such Subsidiary continues to be a Major Subsidiary. Nothing herein shall be construed to permit the Company or any of its Subsidiaries to purchase shares, any interest in shares or any ownership interest in a WCG Subsidiary except as permitted by Section 8.9."

2.16 Section 8.12 is hereby amended by deleting the word "Subsidiary" in the third line thereof and replacing it with "Material Subsidiary."

2.17 Section 8J3 is hereby amended and restated in its entirety and replaced with the following:

"8.13 Guarantees. After the date of the Amendment, the Company shall not enter into any agreement to guarantee or otherwise become contingently liable for, or permit any of its Subsidiaries to guarantee or otherwise become contingently liable for, Debt or any other obligation of any WCG Subsidiary or to otherwise assure a WCG Subsidiary, or any creditor of a WCG Subsidiary, against loss, except for any guarantees permitted by the L/C Agreement and the Holdings Guaranty."

2.18 Section 8.14 is hereby amended and restated in its entirety and replaced with the following:

"8.14 Sale and Lease-Back Transactions. The Company shall not enter into, or permit any of its Subsidiaries to enter into, any Sale and Lease-Back Transaction, if after giving effect thereto the Company would not be permitted to incur at least $1.00 of additional Debt secured by a Lien permitted by paragraph (y) of Schedule I."

2.19 The following Sections are hereby added as Sections 8.16 through 8.21 as follows:

"8.16 Asset Disposition. The Company shall not sell, lease, transfer or otherwise dispose of, or permit any of their Material Subsidiaries to sell, lease, transfer or otherwise dispose of, any property of the Company or any Material Subsidiary of the Company, except (i) sales of inventory in the ordinary course of business and on reasonable terms, (ii) sales of worn out or obsolete equipment in the ordinary course of business, if no Event of Default exists at the time of such sale, (iii) replacement of equipment in the ordinary course of business with other equipment at least as useful and beneficial to the Company or its Material Subsidiaries and their respective businesses as the equipment replaced if no Event of Default exists at the time of such replacement and an Acceptable Security Interest exists in such other equipment at the time of such replacement, (iv) sales of other immaterial Property (other than Equity Interests, Debt or other obligations of any Subsidiary) in the ordinary course of business and on reasonable terms, if no Event of Default exists at the time of such sale; provided that Property may not be sold pursuant to this clause (iv) if the aggregate fair market value of all Property sold pursuant to this clause (iv) exceeds $250,000 in any year, (v) sales of assets which are not Collateral for cash in arm's length

transactions; (vi) sales or other dispositions of WPC or the Refineries, (vii) sales of MAPL and Seminole and (viii) sales or other dispositions of assets of Williams GP LLC or Williams Energy Partners L.P.; provided that (A) the proceeds from any disposition permitted pursuant to clauses (i) through (vii) shall be applied in accordance with the terms and conditions of this Agreement and (B) assets disposed of pursuant to clauses (i) through (v) shall not constitute a material part of the assets of TGPL, TGT or NWP. Notwithstanding anything in this Section 8.16 to the contrary, and for greater certainty, nothing in this Agreement shall prohibit (1) the transfer of Equity Interests of RMT from the Company to RMT LLC or (2) RMT LLC, RMT and their respective Subsidiaries from selling, leasing, transferring or otherwise disposing of any property of RMT LLC, RMT and their respective Subsidiaries required in accordance with the provisions of the Barrett Loan Agreement."

8.17 Restricted Payments. The Company shall not declare or pay any dividends, purchase, redeem, retire, defease or otherwise acquire for value any of its Equity Interests now or hereafter outstanding, return any capital to its stockholders, partners or members (or the equivalent Persons thereof) as such, make any distribution of assets, Equity Interests, obligations or securities to its stockholders, partners or members (or the equivalent Person thereof) as such or issue or sell any Equity Interests or accept any capital contributions, or permit any of its Subsidiaries to do any of the foregoing, or permit any of its Subsidiaries to purchase, redeem, retire, defease or otherwise acquire for value any Equity Interests in the Company or to issue or sell any Equity Interests therein, or make any prepayment with respect to any Debt (other than the Progeny Facilities or Debt of Williams Energy Partners L.P. and its Subsidiaries) or repurchase any Debt securities except as required by the terms thereof in effect on the date hereof, except that, so long as no Default shall have occurred and be continuing at the time of any action described in clause (a) through (d) below or would result therefrom:

(a) the Company may (A) declare and pay cash dividends and distributions on its (1) 9 7/8% Cumulative Convertible Preferred Stock, (2) December 2000 Cumulative Convertible Preferred Stock and (3) March 2001 Mandatorily Convertible Single Reset Preferred Stock, (B) declare and pay cash dividends and distributions on TWC Preferred Stock issued on or after July 30, 2002 in form and substance satisfactory to the Administrative Agent and (C) in any Fiscal Quarter, declare and pay cash dividends to its stockholders and purchase, redeem, retire or otherwise acquire shares of its own outstanding capital stock for cash if after giving effect thereto the aggregate amount of such dividends, purchases, redemptions, retirements and acquisitions paid or made in any such Fiscal Quarter would be no greater than the sum of $6,250,000;

(b) any Subsidiaries of the Company may (A) declare and pay cash dividends to the Company and (B) declare and pay cash dividends to any other Guarantor under the L/C Agreement of which it is a Subsidiary;

(c) Williams Energy Partners L.P. may declare and pay cash distributions to its unitholders; provided that any such cash distribution shall comply with the partnership agreement governing Williams Energy Partners L.P.; and

(d) Apco Argentina, Inc. may declare and pay dividends in accordance with applicable laws and its governing documents.

8.18 Investment in Other Persons. The Company shall not make or hold, or permit any of its Subsidiaries to make or hold, any Investment in any Person, except (i) equity Investments by the company and its Subsidiaries in their Subsidiaries outstanding on the date hereof and

additional investments in Subsidiaries engaged in businesses reasonably related to the businesses carried on by such Company and its Subsidiaries on the date hereof; (ii) loans and advances to employees in the ordinary course of the business of the company and its Subsidiaries as presently conducted; (iii) Investments of the company and its Subsidiaries in Cash Equivalents; (iv) Investments existing on the date hereof; (v) Investments by the company in Hedge Agreements entered into in the ordinary course of business and not for speculative purposes; (vi) Investments consisting of intercompany debt; and (vii) other Investments in an aggregate amount invested not to exceed $50,000,000 annually; provided that with respect to Investments made under this clause (vii): (1) any newly acquired or organized Subsidiary of the company or any of its Subsidiaries shall be a wholly owned Subsidiary thereof; (2) immediately before and after giving effect thereto, no Default shall have occurred and be continuing or would result therefrom; and (3) the company or business acquired or invested in pursuant to this clause (vii) shall be in the same line of business as the business of the Company or any of its Subsidiaries.

8.19 Subsidiary Debt. The Company shall not permit any of its Subsidiaries to create, incur, assume or suffer to exist Debt, other than (i) Debt incurred, assumed or suffered to exist by TGPL, TGT, NWP, and Williams Energy Partners L.P. and its Subsidiaries, (ii) Debt incurred, assumed or suffered to exist by Subsidiaries (other than those referred to in clause (i) and the Subsidiaries the stock of which is pledged under the Pledge Agreement (as defined in the L/C Agreement)) in an aggregate amount equal to $50,000,000, (iii) Debt in existence on the date hereof, (iv) Debt under the LLC Guaranty, the Midstream Guaranty and the Holdings Guaranty, (v) Debt of the Project Financing Subsidiaries, (vi) Debt under the Barrett Loan Agreement, and (vii) Debt consisting of intercompany debt so long as obligations of the debtors thereunder are subordinated to their obligations under the Loan Papers and are incurred in the ordinary course of the cash management systems of the Company and its Subsidiaries.

8.20 Compliance with Primary Credit Agreement. The Company and its Subsidiaries shall comply at all times with the terms and provisions of Articles V and VI of the Primary Credit Agreement as in effect as of July 3 1, 2002 (including, without limitation, as such Primary Credit Agreement shall have been amended pursuant to the Consent and Fourth Amendment dated as of July 31, 2002)."

8.21 Borrower Liquidity Reserve. The Company shall cause RMT to at all times maintain the Borrower Liquidity Reserve (as defined in the Barrett Loan Agreement).

2.20 Schedule I is hereby amended in its entirety and replaced with Schedule I set forth on Annex A attached hereto.

2.21 The Term Loan Agreement is hereby amended by adding a new Schedule III attached hereto as Annex B.

2.22 Section 12 is amended by adding the following new Section 12.17, such section to appear in appropriate numerical order therein:

"12.17 Guaranty. As an inducement to the Administrative Agent and the Lenders to enter into this Agreement, Company shall cause the Guarantor to execute and deliver to the Administrative Agent the LLC Guaranty and the Holdings Guaranty, each providing for the guaranty of payment and performance of the Obligation."

Paragraph 3. Amendment Effective Date. This Amendment shall be binding upon all parties to the Loan Papers on the last day upon which the following has occurred:

(a) Counterparts of this Amendment shall have been executed and delivered to Administrative Agent by the Company, Administrative Agent, and the Determining Lenders or when Administrative Agent shall have received telecopied, telexed, or other evidence satisfactory to it that all such parties have executed and are delivering to Administrative Agent counterparts thereof.

(b) Counterparts of the LLC Guaranty shall have been executed and delivered to the Administrative Agent by the Guarantor or when the Administrative Agent shall have received telecopied, telexed, or other evidence satisfactory to it that the Guarantor has executed and is delivering to the Administrative Agent counterparts thereof.

(c) The Administrative Agent shall have received from the Company and Guarantor a certificate dated as of the Amendment Effective Date (defined below) of its secretary, assistant secretary, manager or general partner as applicable (i) as to resolutions of its board of directors or managers or their equivalent authorizing the execution and performance of this Amendment and the LLC Guaranty, as applicable, (ii) the certificate or articles of incorporation, the bylaws, or the limited liability company agreement, as applicable, and (ii) if the officer executing this Amendment and the LLC Guaranty is not named in the incumbency certificate delivered at the time of execution of the Term Loan Agreement, as to the incumbency and signature of said officer.

(d) The Administrative Agent shall have received favorable opinions of William G. von Glahn, General Counsel of the Company, and Skadden, Arps, Slate, Meagher & Flom LLP, counsel for the Company, as to the due authorization, execution and delivery of this Amendment.

(e) Evidence satisfactory to the Administrative Agent that the Company shall have received gross cash proceeds from the TWC Asset Dispositions, the Barrett Loan and the issuance of TWC Preferred Stock in the aggregate amount of no less than $2,100,000,000.

(f) The Company shall have entered into (i) the L/C Agreement, and (ii) a Consent and Fourth Amendment to the Primary Credit Agreement, each in form and substance satisfactory to Administrative Agent and the Determining Lenders, and all conditions precedent to the effectiveness thereof shall have been fully satisfied.

(g) The Administrative Agent shall have received such other assurances, certificates, documents and consents as the Administrative Agent may require.

Upon satisfaction of the foregoing conditions, this Amendment shall be deemed effective on and as of July 3 1, 2002 (the "Amendment Effective Date").

Paragraph 4. Representations and Warranties. As a material inducement to Lenders to execute and deliver this Amendment, the Company hereby represents and warrants to Lenders (with the knowledge and intent that Lenders are relying upon the same in entering into this Amendment) the following: (a) the representations and warranties in the Term Loan Agreement and in all other Loan Papers are true and correct on the date hereof in all material respects, as though made on the date hereof except to the extent such representations and warranties relate to an earlier date; and (b) no Default or Potential Default exists under the Loan Papers.

Paragraph 5. Miscellaneous.

5.1 Effect on Loan Documents. The Term Loan Agreement and all related Loan Papers shall remain unchanged and in full force and effect, except as provided in this Amendment, and are hereby ratified and confirmed. On and after the Amendment Effective Date, all references to the "Term Loan Agreement" shall be to the Term Loan Agreement as herein amended. The execution, delivery, and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any Rights of the Lenders under the Term Loan Agreement or any Loan Papers, nor constitute a waiver under the Term Loan Agreement or any other provision of the Loan Papers.

5.2 Reference to Miscellaneous Provisions. This Amendment, the LLC Guaranty, and the other documents delivered pursuant to this Amendment are part of the Loan Papers referred to in the Term Loan Agreement, and the provisions relating to Loan Papers set forth in Section 12 are incorporated herein by reference the same as if set forth herein verbatim.

5.3 Fees. The Company shall pay to each Lender that shall have approved this Amendment and shall have delivered to the Administrative Agent a duly executed counterpart hereof not later than 12:00 noon central standard time on July 31, 2002, a fee equal to the product of each such Lender's respective Committed Sum and the greater of (a) 0.10% or (b) the highest percentage paid to any lender as a fee (whether as an "amendment fee" or otherwise) for or relating to the execution and delivery of the waiver or amendment of any of the other Progeny Facilities entered into contemporaneously herewith.

5.4 Costs and Expenses. The Company agrees to pay promptly the reasonable fees and expenses of counsel to Administrative Agent for services rendered in connection with the preparation, negotiation, reproduction, execution, and delivery of this Amendment.

5.5 Counterparts. This Amendment may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes, and all of which constitute, collectively, one agreement; but, in making proof of this Amendment, it shall not be necessary to produce or account for more than one such counterpart. It is not necessary that all parties execute the same counterpart so long as identical counterparts are executed by the Company, each Guarantor, each Determining Lender, and Administrative Agent.

5.6 Undertaking; Post Closing Actions. The parties to this Amendment hereby agree and undertake to each use their best efforts and to act diligently and promptly in taking any action or step necessary to resolve or correct any error, omission, open item or general inconsistency or other discrepancy which may exist, or of which the parties hereto may hereafter become aware, herein, in any other Loan Paper, or any other Credit Document.

5.7 THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

Executed as of the date first above written, but effective as of the Amendment Effective Date.

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SIGNATURE PAGES FOLLOW]

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

Address for notices
One Williams Center, Suite 5000
Tulsa, Oklahoma 74172
Attn: Treasurer
Telephone No.: (918) 573-5551
Facsimile No.: (918) 573-2065

THE WILLIAMS COMPANIES, INC.,
a Delaware corporation

By: /s/ James G. Ivey
Name: James G. Ivey
Title: Treasurer

With a copy to:

One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attn: Associate General Counsel
Telephone No.: (918) 573-2613
Facsimile No.: (918) 573-4503

[SIGNATURE PAGE TO FIFTH AMENDMENT
TO TERM LOAN AGREEMENT]

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

Address for notices
One Williams Center, Suite 5000
Tulsa, Oklahoma 74172
Attn: Treasurer
Telephone No.: (918) 573-5551
Facsimile No.: (918) 573-2065

WILLIAMS GAS PIPELINE COMPANY, L.L.C.

By: /s/ James G. Ivey
Name: James G. Ivey
Title: Asst. Treasurer

With a copy to:

One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attn: Associate General Counsel
Telephone No.: (918) 573-2613
Facsimile No.: (918) 573-4503

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

Address for notices
One Williams Center, Suite 5000
Tulsa, Oklahoma 74172
Attn: Treasurer
Telephone No.: (918) 573-5551
Facsimile No.: (918) 573-2065

WILLIAMS PRODUCTION HOLDINGS L.L.C.

By: /s/ James G. Ivey
Name: James G. Ivey
Title: Asst. Treasurer

With a copy to:

One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attn: Associate General Counsel
Telephone No.: (918) 573-2613
Facsimile No.: (918) 573-4503

[SIGNATURE PAGE TO FIFTH AMENDMENT
TO TERM LOAN AGREEMENT]

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

1301 Avenue of the Americas
New York, New York 10019

CREDIT LYONNAIS NEW YORK BRANCH,
as Administrative Agent and as a Lender

By: /s/ Bernard Waymuller
Name: Bernard Waymuller
Title: Senior Vice President

With a copy to:

1000 Louisiana Street, Suite 5360
Houston, Texas 77002
Attention: Mr. Robert LaRocque
Telephone No.: 713-753-8733
Facsimile No.: 713-751-0307

[SIGNATURE PAGE TO FIFTH AMENDMENT
TO TERM LOAN AGREEMENT]

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

1230 Peachtree Street, Suite 3500
Atlanta, Georgia 30309
Attn: Brian Campbell
Telephone: (404) 888-6518
Facsimile: (404) 888-6539

COMMERZBANK AG NEW YORK AND GRAND CAYMAN BRANCHES, as Syndication Agent, as a Lender and as a Designating Lender

By: _____
Name: _____
Title: _____

With a copy to:

By: _____
Name: _____
Title: _____

Holland & Knight
1201 West Peachtree Street, Suite 2000
Atlanta, Georgia 30309
Attn: Ms. Sherie Holmes
Telephone: (404) 898-8197
Facsimile: (404) 881-0470

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

FOUR WINDS FUNDING CORPORATION, as a
Designated Lender
By Commerzbank Aktiengesellchaft, as
Administrator and Attorney-in-Fact

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

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1100 Louisiana Street, Suite 3000
Houston, Texas 77002
Attn: Joe Latanzie
Telephone: (713) 759-3435
Facsimile: (713) 752-2425

THE BANK OF NOVA SCOTIA, as
Documentation Agent and as a Lender

By: /s/ Nadine Bell
Name: Nadine Bell
Title: Senior Manager

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1020 19th Street, NW, Suite 500
Washington, DC 20036
Attn: David Young
Telephone: (202) 842-7956
Facsimile: (202) 842-7955

ABU DHABI INTERNATIONAL BANK INC., as a Lender

By: /s/ David J. Young
Name: David J. Young
Title: Vice President

By: /s/ Nagy S. Kolta
Name: Nagy S. Kolta
Title: Executive Vice President

[SIGNATURE PAGE TO FIFTH AMENDMENT
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470 Park Avenue South	BANK POLSKA KASA OFIEKI S.A., as a
32nd Street, 15th Floor	Lender
New York, New York 10016	
Attn: Hussein El-Tawil	By: /s/ Hussein El-Tawil
Telephone: (212) 251-1245	Name: Hussein El-Tawil
Facsimile: (212) 679-5910	Title: Vice President

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Strong Capital Management	STRONG ADVANTAGE FUND, INC. as a
100 Heritage Reserve	Lender
Attn: Joe Ford	
Menomonee Falls, Wisconsin 53201	By: /s/ Gilbert L. Southwell, III
Telephone: (414) 973-5266	Name: Gilbert L. Southwell, III
Facsimile: (414) 973-5239	Title: Assistant Secretary

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685 3rd. Ave. 29th Floor,
New York, New York 10017
Attn: Peter Lien
Telephone: (212) 651-9770
Facsimile: (212) 651-9785

CHANG HWA COMMERCIAL BANK, LTD.,
NEW YORK BRANCH, as a Lender

By:_____
Name: _____
Title:_____

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76 Madison Avenue, 12th Floor
New York, New York 10016
Attn: Max Kwok
Telephone: (212) 684-9248
Facsimile: (212) 684-9315

FIRST COMMERCIAL BANK - NEW YORK AGENCY, as a Lender

By:_____
Name: _____
Title:_____

[SIGNATURE PAGE TO FIFTH AMENDMENT TO TERM LOAN AGREEMENT]

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

380 Madison Avenue, 21St Floor
New York, New York 10017
Attn: Bill Shepard
Telephone: (212) 922-2323
Facsimile: (212) 922-2309

GULF INTERNATIONAL BANK, as a Lender

By:_____
Name: _____
Title:_____

By:_____
Name: _____
Title:_____

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200 Madison Avenue, Suite 20007
New York, New York 10016
Attn: Frank Tang
Telephone: (646) 435-1881
Facsimile: (212) 417-9341

IIUA NAN COMMERCIAL BANK, LTD., as a Lender

By:_____
Name: _____
Title:_____

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150 East 42nd Street, 29th Floor
New York, New York 10017
Attn: Steve Atwell
Telephone: (212) 672-5458
Facsimile: (212) 672-5530

BAYERISCIIIE EIYPO-TJND VEREINSBANK AG,
NEW YORK BRANCH, as a Lender

By: /s/ Steven Atwell
Name: Steven Atwell
Title: Director

By: /s/ Shannon Batchman
Name: Shannon Batchman
Title: Director

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245 Peachtree Center Avenue, Suite 2550 KBC BANK N.V., as a Lender
Atlanta, Georgia 30303
Attn: Filip Ferrante By: /s/ Jean Pierre Diels
Telephone: (404) 584-5466 Name: Jean Pierre Diels
Facsimile: (404) 584-5465 Title:First Vice President

By: /s/ Eric Raskin
Name: Eric Raskin
Title: Vice President

With a copy to:

125 West 55th Street
New York, New York 10019
Attn: Diane Grimmig
Telephone: (212) 541-0707
Facsimile: (212) 541-0784

[SIGNATURE PAGE TO FIFTH AMENDMENT
TO TERM LOAN AGREEMENT]

Signature Page to that certain Fourth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

Grosse Bleiche 54-56
Mainz, Germany 55098
Attn: Wolf-Rudiger Stahl
Telephone: (011) 49-61-31-132747
Facsimile: (011) 49-61-31-132599

LANDESBANK RHEINLAND-PFALZ
- GIROZENTRALE -
as a Lender

By: /s/ Wolf-Rudiger Stahl
Name: Wolf-Rudiger Stahl
Title: Senior Vice President

By: /s/ Beatrix Eberz
Name: Beatrix Eberz
Title: Assistant Vice President

[SIGNATURE PAGE TO FIFTH AMENDMENT
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Ursulinenstrabe 2
66111 Saarbrucken, Germany
Attn: Rolf Buchholz
Telephone: (011)49-681-383-1304
Facsimile: (011) 49-681-383-1208

LANDESBANK SAAR GIROZENTRALE, as a Lender

By: /s/ Ulrich Hildebrandt
Name: Ulrich Hildebrandt
Title: Senior Vice President

By: /s/ Reiner Montag
Name: Reiner Montag
Title: Senior Vice President

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Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

Martensdamm 6
Kiel, Germany 24103
Attn: Kerstin Spaeter
Telephone: (011) 49-431-900-2765
Facsimile: (011) 49-431-900-1794

LANDESBANK SCULES WIG-HOLSTEIN GIROZENTRALE, as a Lender

By: _____
Name: _____
Title:_____

By:_____
Name: _____
Title:_____

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811 Wilshire Boulevard, Suite 1900
Los Angeles, California 90017
Attn: Jonathan Kuo
Telephone: (213) 532-3789
Facsimile: (213) 532-3766

LAND BANK OF TAIWAN, LOS ANGELES BRANCH, as a Lender

By:_____
Name: _____
Title:_____

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2250 East 73rd Street, Suite 200
Tulsa, Oklahoma 74136
Attn: Elisabeth Blue
Telephone: (918) 497-2422
Facsimile: (918) 497-2497

LOCAL OKLAHOMA BANK, N.A., as a Lender

By /s/ Elisabeth F. Blue
Name: Elisabeth F. Blue
Title: Senior Vice President

[SIGNATURE PAGE TO FIFTH AMENDMENT
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299 Park Avenue, 17th Floor
New York; New York 10171
Attn: Wendy Wanninger
Telephone: (212) 303-9807
Facsimile: (212) 888-2958

NATIONAL BANK OF KUWAIT, S.A.K., GRAND CAYMAN BRANCH, as a Lender

By: /s/ Robert J. McNeill
Name: Robert J. McNeill
Title: Executive Manager

By: /s/ Athansasia Stephanides
Name: Athanasia Stephanides
Title: Executive Manager

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1200 Smith Street, Suite 3100
Houston, Texas 77002
Attn: Mark Cox
Telephone: (713) 982-1152
Facsimile: (713) 859-6915

With a copy to:

1200 Smith Street, Suite 3100
Houston, Texas 77002
Attn: David Dodd
Telephone: (713) 982-1156
Facsimile: (713) 859-6915

BNP PARIBAS, as a Lender

By: /s/ Barton D. Schouest
Name: Barton D. Schouest
Title: Managing Director

By: /s/ Greg Smothers
Name: Greg Smothers
Title Vice President

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

135 Bishopsgate
London, England EC2M 3UR
Attn: Jane Woodley
Telephone: (011) 44-207-375-5724
Facsimile: (011) 44-207-375-5919

THE ROYAL BANK OF SCOTLAND plc, as a Lender

By:_____
Name: _____
Title:_____

With a copy to:

JP Morgan Chase Towers
600 Travis, Suite 6070
Houston, Texas 77002
Attn: Adam Pettifer
Telephone: (713) 221-2416
Facsimile: (713) 221-2430

Signature Page to that certain Fifth Amendment to Term Loan Agreement dated effective as of July 31, 2002, among The Williams Companies, Inc., as the Company, the Guarantor named therein, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, and certain Lenders named therein.

277 Park Avenue, 6th Floor
New York, New York 10172
Attn: Kenneth Austin
Telephone: (212) 224-4043
Facsimile: (212) 224-4384

SUMITOMO MITSUI BANKNG
CORPORATION, as a Lender

By: /s/ John C. Kissinger
Name: John C. Kissinger
Tit1e: General Manager

[SIGNATURE PAGE TO FIFTH AMENDMENT
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1221 McKinney Street, Suite 4100
Houston, TX 77010
Attn: Jacques Azagury
Telephone: (713) 650-7845
Facsimile: (713) 759-0717

MIZUHO CORPORATE BANK, LTD. as a Lender

By: /s/ Jacques Azagury
Name: Jacques Azagury
Title: Senior Vice President and Manager

With a copy to:

1221 McKinney Street, Suite 4100
Houston, TX 77010
Attn: Scott Chappell
Telephone: (713) 650-7828
Facsimile: (713) 759-0717

[SIGNATURE PAGE TO FIFTH AMENDMENT
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55 East 52nd Street
New York, New York 10055
Attn: Ryoichi Konishi
Telephone: (212) 339-6172
Facsimile: (212) 754-2360

UFJ BANK LIMITED, as a Lender

By:_____
Name: _____
Title:_____

[SIGNATURE PAGE TO FIFTH AMENDMENT
TO TERM LOAN AGREEMENT]

ANNEX A

Schedule I

PERMITTED LIENS

(a) (i) Any Lien existing on any property at the time of the acquisition thereof and not created in contemplation of such acquisition by the Company or any of its Subsidiaries, whether or not assumed by the Company or any of its Subsidiaries, (ii) purchase money, construction or analogous Liens securing obligations incurred in connection with or financing the direct or indirect costs of or relating to the acquisition, construction (including design, engineering, installation, testing and other related activities), development (including drilling), improvement, repair or replacement of property (including such Liens securing Debt or other obligations incurred in connection with the foregoing or within 30 days of the later of (x) the date on which such Property was acquired or construction, development, improvement, repair or replacement thereof was complete or (y) if applicable, the final "in service" date for commencement of full operations of such property), provided that all such Liens attach only to the property acquired, constructed, developed, improved or repaired or constituting replacement property, and the principal amount of the Debt or other obligations secured by such Lien, together with the principal amount of all other Debt secured by a Lien on such property, shall not exceed the gross acquisition, construction, replacement and other costs specified above of or for the property, (iii) Liens on receivables created pursuant to a sale, securitization or monetization of such receivables, and Liens on rights of the Company or any Subsidiary related to such receivables which are transferred to the purchaser of such receivables in connection with such sale, securitization or monetization; provided that the Liens secure only the obligations of the Company or any of its Subsidiaries in connection with such sale, securitization or monetization, (iv) Liens created by or reserved in any operating lease (whether for real or personal property) entered into in the ordinary course of business (excluding Synthetic Leases) provided that the Liens created thereby (1) attach only to the Property leased to the Company or one of its Subsidiaries, pursuant to such operating lease and (2) secure only the obligations under such lease and supporting documents that do not create obligations other than with respect to the leased property (including for rent and for compliance with the terms of the lease), (v) Liens on property subject to a Capital Lease created by such Capital Lease and securing only obligations under such Capital Lease and supporting documents that do not create obligations other than with respect to the leased property, (vi) any interest or title of a lessor in the property subject to any Capital Lease, Synthetic Lease or operating lease, (vii) Liens in the form of filed Uniform Commercial Code or personal property security statements (or similar filings outside Canada and the United States) to perfect any Permitted Lien, and (viii) Liens on up to four aircraft owned or leased by any Company or any Subsidiary of any the Company.

(b) Any Lien existing on any property of a Subsidiary of the Company at the time it becomes a Subsidiary of the Company and not created in contemplation thereof and any Lien existing on any property of any Person at the time such Person is merged or liquidated into or consolidated with the Company or any Subsidiary thereof and not created in contemplation thereof.

(c) Mechanics', materialmen's, workmen's, warehousemen's, carrier's, landlord's or other similar Liens arising in the ordinary course of business securing amounts incurred in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(d) Liens arising by reason of pledges, deposits or other security to secure payment of workmen's compensation insurance or unemployment insurance, pension plans or systems and other types of social security, and good faith deposits or other security to secure tenders or leases of property or bids, in each

case to secure obligations of the Company or any of its Subsidiaries under such insurance, tender, lease, bid or contract, as the case may be; provided, however, that the only Liens permitted by this paragraph (d) shall be Liens incurred in the ordinary course of business that do not secure any Debt or accounts payable (other than accounts payable to the counterparties or obligees applicable to the foregoing).

(e) Liens on deposits or other security given to secure public or statutory obligations, or to secure or in lieu of surety bonds (other than appeal bonds) and deposits as security for the payment of taxes or assessments or other similar charges, in each case to secure obligations of the Company or any of its Subsidiaries arising in the ordinary course of business; provided, however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (e) shall not exceed 10% of Consolidated Tangible Net Worth of the Company.

(f) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by the Company or any of its Subsidiaries of any business or the exercise by the Company or any of its Subsidiaries of any privilege or license, (ii) to enable the Company or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to the Company or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(g) Liens incurred in the ordinary course of business upon rights-of-way securing obligations (other than Debt and trade payables) of the Company or any of its Subsidiaries.

(h) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(i) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(j) The Lien of taxes, customs duties or other governmental charges or assessments that are not at the time determined (or, if determined, are not at the time delinquent), or that are delinquent but the validity of which is being contested in good faith by the Company or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of the Company or the relevant Subsidiary of any Company, as the case may be.

(k) The Lien reserved in (i) leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real or personal property leasehold estates or (ii) leases and sub-leases granted to others that do not materially interfere with the ordinary course of business of the Company and its Subsidiaries, taken as a whole.

(l) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of the Company and its Subsidiaries, taken as a whole.

(m) Easements, exceptions or reservations in any property of the Company or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, equipment, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, or in favor of governmental authorities or public utilities, in each case above which do not materially impair the use of such property for the purposes for which it is held by the Company or such Subsidiary.

(n) Rights reserved to or vested in any municipality or public authority to control or regulate any property of the Company or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by the Company or such Subsidiary.

(o) Any obligations or duties, affecting the property of the Company or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(p) The Liens of any judgments in an aggregate amount for the Company and all of its Subsidiaries (i) not in excess of $8,500,000, the execution of which has not been stayed and (ii) not in excess of $40,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary, by a stay or appeal bond or other security of similar effect and stay or appeal bonds in respect of the judgments permitted in clause (ii).

(q) Zoning laws and ordinances.

(r) Liens existing on July 1, 2002, that secure only Debt and other obligations incurred or committed and available for draw down on or prior to or outstanding on July 1, 2002.

(s) Liens existing on July 1, 2002 (i) that cover only immaterial assets and (ii) that secure only Debt and other obligations incurred or committed and available for draw down on or prior to or outstanding on July 1, 2002.

(t) Liens reserved in customary oil, gas and/or mineral leases for bonus or rental payments and for compliance with the terms of such leases and Liens reserved in customary operating agreements, farm-out and farm-in agreements, exploration agreements, development agreements and other similar agreements for compliance with the terms of such agreements; provided that (i) such Liens do not secure Debt or accounts payable (other than obligations under such lease or agreement, as the case may be) and (ii) such leases and agreements are entered into in the ordinary course of business.

(u) Liens arising in the ordinary course of business out of all presently existing and future division and transfer orders, advance payment agreements, processing contracts, gas processing plant agreements, operating agreements, gas balancing or deferred production agreements, participation, joint venture, joint operating, pooling, unitization or communitization agreements, pipeline, gathering or transportation agreements, platform agreements, drilling contracts, injection or repressuring agreements, cycling agreements, construction agreements, salt water or other disposal agreements, leases, sub-leases or rental agreements, royalty interests, overriding royalty interests, farm-out and farm-in agreements, exploration and development agreements, and any and all other contracts or agreements covering, arising out of, used or useful in connection with or pertaining to the exploration, development, operation, production, sale, use, purchase, exchange, storage, separation, dehydration, treatment, compression, gathering, transportation, processing, improvement, marketing, disposal or handling of any property of a Person (each such order, agreement or contract being a "Subject Document"), provided that and to the extent that (i) such Subject Documents are entered into the ordinary course of business and contain terms customary for such documents in the industry, (ii) such permitted Liens shall not include any security interests in

accounts receivable or other receivables and do not secure Debt or accounts payable (other than accounts payable arising under the particular Subject Document that creates the Lien), and (iii) such Subject Documents do not create nor do such Liens secure Financing Transactions.

(v) Liens arising by law under Section 9.343 of the Texas Uniform Commercial Code or similar statutes of states other than Texas.

(w) Liens arising pursuant to the L/C Collateral Documents which secure the obligations of the Company and its Subsidiaries under the Primary Credit Agreement and the L/C Agreement and certain public debt of the Company.

(x) Liens in existence prior to the date hereof in the nature of a right of offset or netting of cash amounts owed arising in the ordinary course of business (and Liens on the trading receivables owed by any trading counterparty and/or affiliate thereof to the Company or any affiliate thereof granted by the Company or any such affiliate thereof under agreements commonly in use in the industry of the Company or such affiliate, but solely to secure the offset or netting rights of such trading counterparty and/or affiliates thereof to the payment of such trading receivables arising from and to the extent of the trading obligations of the Company or any affiliate thereof to such trading counterparty or its affiliates).

(y) Any Lien not permitted by paragraphs (a) through (x) above or (z) through (ii) below securing Debt of the Company or any of its Subsidiaries if at the time of, and after giving effect to, the creation or assumption of any such Lien, the aggregate (without duplication) of the principal or equivalent amount of all Debt of the Company and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (x) above or (z) through (ii) below plus the amount of Attributable Obligations (other than those relating to Liens described in clause (a) (viii)) of the Company and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 8.14 does not exceed $100,000,000.

(z) To the extent applicable, any overriding royalties or other rights of Pacific Northwest Pipeline Corporation, a Delaware corporation ("Pacific") and Phillips Petroleum Company ("Phillips") or their respective successors in interest under a contract dated January 9, 1953, as amended, between Phillips and Pacific, to which the Company is successor in interest; and the obligations of the Company to surrender, transfer, release or reassign the leases or interests or rights to which said instruments relate under the conditions and upon the occurrence of the events specified in said instruments.

(aa) Any option or other agreement to purchase any property of any Company or any Subsidiary the purchase, sale or other disposition of which is not prohibited by any other provision of this Agreement.

(bb) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the proceeds and products thereof.

(cc) Liens on the products and proceeds (including insurance, condemnation and eminent domain proceeds) of and accessions to, and contract or other rights (including rights under insurance policies and product warranties) derivative of or relating to, property permitted to be subject to Liens under this Agreement but subject to the same restrictions and limitations herein set forth as to Liens on such property (including the requirement that such Liens on products, proceeds, accessions and rights secure only obligations that such property is permitted to secure).

(dd) Liens on the Property of a Project Finance Subsidiary or the Equity Interests in such Project Finance Subsidiary securing the Non-Recourse Debt of such Project Finance Subsidiary.

(ee) Liens on cash and short-term investments incurred in the ordinary course of business, consistent with past practice and not for the purpose of securing Debt (i) deposited by the Company or any of its Subsidiaries in margin accounts with or on behalf of futures contract brokers or other counterparties or (ii) pledged by the Company or any of its Subsidiaries, in the case of each of clauses (i) and (ii) above, to secure its obligations with respect to (x) contracts (including without limitation, physical delivery, option (whether cash or financial), exchange, swap and futures contracts) for the purchase or sale of any energy-related commodity or (y) interest rate or currency rate management contracts.

(ff) Liens securing Debt of Williams Energy Partners LP and/or its Subsidiaries; provided that such Liens shall only apply to assets owned directly by Williams Energy Partners LP and/or its Subsidiaries.

(gg) Liens securing the Barrett Loan.

(hh) Liens securing Permitted Refinancing Debt (as defined below) (and related obligations) covering the substantially the same collateral) securing (immediately prior to such refinancing) the Debt Refinanced (as defined below) by such Permitted Refinancing Debt; provided that: (i) the principal amount of such Permitted Refinancing Debt does not exceed the principal amount of the Debt Refinanced (plus the amount of penalties, premiums (including required premiums and the amount of any premiums reasonably determined by any Company being in its best economic interest and as necessary to accomplish such Refinancing by means of a tender offer or privately negotiated repurchase), fees, accrued interest and reasonable expenses and other obligations incurred in connection therewith) at the time of refinancing; and (ii) such Debt is incurred either by the Company or by such Subsidiary that is the obligor of the Debt being Refinanced. "Permitted Refinancing Debt" means any Debt (other than Debt referred to clause (gg) above) of any Company or any of its Subsidiaries issued to Refinance other Debt of the Company or any such Subsidiaries. "Refinance" means, in respect of any Debt (other than Debt referred to clause (gg) above), to refinance, extend, renew, refund, repay, prepay, replace, acquire, redeem, defease or retire, or to issue other Debt in exchange or replacement, directly or indirectly for, such Debt in whole or in part.

(ii) Liens extending, renewing or replacing any of the foregoing Liens (other than Liens referred to in clause (gg) above), provided that the principal amount of the Debt or other obligation secured by such Lien is not increased or the maturity thereof shortened and such Lien is not extended to cover any additional Debt, obligations or property, other than like obligations of no greater principal amount and the substitution of like property (or specific categories of property of the same grantor to the extent the terms of the Lien being extended, renewed or replaced, extended to or covered such categories of property) of no greater value.

ANNEX B

Schedule III

PROGENY FACILITIES

$200,000,000 Parent Support Agreement dated as of December 23, 1998, made by The Williams Companies, Inc. in favor of Castle Associates L. P. and Colchester LLC and the other Indemnified Persons listed therein, as amended.

Amended and Restated Guarantee dated as of July 25, 2000, issued by The Williams Companies, Inc. for the benefit of The Commonwealth Plan, Inc. and CBL Capital Corporation, as amended. WFS-Pipeline Company, as lessee and Commonwealth, as lessor entered into a Lease Agreement dated as of December 29, 1995. WFS-Offshore Gathering Company, as lessee, and CBL, as lessor, entered into a Lease Agreement dated December 29, 1995, as amended and restated.

$400,000,000 Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as Borrower, and Credit Lyonnais New York Branch, as Administrative Agent, and the Lenders named therein, as amended.

$192,570,931 aggregate Amended and Restated Participation Agreements (2 separate leases) dated as of January 28, 2002, among Williams Oil Gathering, L.L.C. and Williams Field Services -- Gulf Coast Company, L.P., as Lessees, Williams Field Services Company, as Construction Agent, The Williams Companies, Inc., as Guarantor, First Security Bank, N.A. as Certificate Trustee, Wells Fargo Bank Nevada, N.A., as Collateral Agent, Bank of America, N.A., as Administrative Agent and Administrator, and financial institutions named therein as Certificate Holders, as amended.

$200,000,000 Term Loan Agreement dated as of January 29, 1999, among The Williams Companies, Inc., as Borrower, and The Fuji Bank, Limited, as Administrative Agent, and the Banks named therein, as amended.

$611,788,868 Joint Venture Sponsor Agreement dated as of December 28, 2000, among he Williams Company, Inc., as Sponsor, and Williams Field Services Company, in favor of Prairie Wolf Investors, Arctic Fox Assets, L.L.C., Williams Energy (Canada), Inc. and the other Indemnified Persons listed therein, as amended.

Letter of Credit and Reimbursement Agreement dated as of May 15, 1994, among Tulsa Parking Authority, The Williams Companies, Inc., Bank of Oklahoma, National Association, and Bank of America, N.A. (formerly Nationsbank of Texas, N.A.), relative to Tulsa Parking Authority First Mortgage Revenue Bonds, as amended.

$127,000,000 Master Agreement dated as of March 6, 2000, among The Williams Companies, Inc., as Guarantor, Williams TravelCenters, Inc., as Lessee, Atlantic Financial Group, Ltd., as Lessor, SunTrust Bank, as Agent, and the Lenders named therein, as amended.

$100,000,000 PPH Sponsor Agreement dated as of December 31, 2001, by The Williams Companies, Inc., as Sponsor, in favor of Piceance Production Holdings LLC, Plowshare Investors LLC, and other Indemnified Persons listed in the agreement, as amended.

Legacy L/C's

All documents, instruments, agreements, certificates and notices at any time executed and/or delivered in connection with any of the foregoing.

EXHIBIT 10.38

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN RE

WILLIAMS COMMUNICATIONS GROUP, INC. and CO AUSTRIA, INC.,	Chapter 11 Case No. 02-11957 (BRL) (Jointly Administered)
Debtors.	

SECOND AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF WILLIAMS COMMUNICATIONS GROUP, INC. AND CG AUSTRIA, INC.

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Counsel to Leucadia National Corporation

Dated: August 12, 2002

Williams Communications Group, Inc., a Delaware corporation ("WCG") and CG Austria, Inc., a Delaware corporation ("CG Austria"), each as a debtor and debtor-in-possession (collectively, the "Debtors"), the official committee (the "Committee") of unsecured creditors appointed in the above-captioned chapter 11 cases (the "Chapter 11 Cases"), and Leucadia National Corporation, a New York corporation ("Leucadia") propose the following chapter 11 plan pursuant to section 1121(a) of the Bankruptcy Code:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions.

The capitalized terms used herein shall have the respective meanings set forth below:

(1) "Adequate Protection Claim" means any and all claims of the Lenders or the Administrative Agent arising under paragraph 3 of the Cash Collateral Order.

(2) "Administrative Agent" means Bank of America, N.A., in its capacity as administrative agent under the WCL Credit Documents, or any successor administrative agent.

(3) "Additional Settlement Transactions" means execution, delivery and performance under the agreements annexed to the Settlement Agreement, other than the Leucadia Investment Agreement, the Leucadia Claims Purchase Agreement, and the Building Purchase Agreement

(4) "Administrative Claim" means a claim against a Debtor or its Estate arising on or after the Petition Date and prior to the Effective Date for a cost or expense of administration in the Chapter 11 Cases, that is entitled to priority or superpriority under sections 503(b), 507(a)(1), or 507(b) of the Bankruptcy Code, or paragraph 3 of the Cash Collateral Order including, without limitation, (a) such of the TWC Continuing Contract Claims that are against a Debtor or its Estate, and (b) the Indenture Trustee Fees.

(5) "ADP Claims" means the Causes of Action of TWC against any Person arising from WCL's use or acquisition of the property described in that certain Amended and Restated Participation Agreement, dated as of September 2, 1998, among Williams Communications, Inc., State Street Bank and Trust Company of Connecticut, National Association, as trustee, and the other parties named therein.

(6) "Affiliate" means each direct and indirect subsidiary of WCG.

(7) "Allowed," when used

(a) with respect to any Claim other than an Administrative Claim means any Claim that is not a Disallowed Claim and (i) to the extent it is not a Contested Claim as of the Effective Date; (ii) to the extent it may be set forth pursuant to any stipulation or agreement that has been approved by Final Order (including, but not limited to the Allowed Claim of the Lenders pursuant to the Cash Collateral Order); (iii) to the extent it is a Contested Claim as of the Effective Date, proof of which was filed timely with the Bankruptcy Court, and (A) as to which no objection was filed by the Objection Deadline, or (B) as to which an objection was filed by the Objection Deadline, to the extent allowed by a Final Order; or (iv) which otherwise becomes an Allowed Claim as provided herein or in the TWC Settlement Approval Order; and

(b) with respect to an Administrative Claim, means an Administrative Claim that has become "Allowed" pursuant to the procedures set forth herein.

(8) "Asset" means all of a Debtor's property, rights, and interests that are property of a Debtor's Estate pursuant to section 541 of the Bankruptcy Code.

(9) "Available Proceeds" means the amount of Cash received at any time by WCG from its liquidation of Residual Assets, after the indefeasible payment in full in Cash of (a) all amounts outstanding under the Restated Credit Documents, (b) the reasonable costs and expenses associated with the liquidation (including, without limitation, the payment of any taxes, assessments, insurance premiums, repairs, legal fees and costs, rent, storage and sales commissions), and (c) if applicable, the reasonable costs and expenses associated with the Residual Trust as agreed to by the Administrative Agent.

(10) "Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended, and codified at title 11 of the United States Code and as applicable to the Chapter 11 Cases.

(11) "Bankruptcy Court" means the United States District Court for the Southern District of New York having jurisdiction over the Chapter 11 Cases and, to the extent any reference is made pursuant to section 157 of title 28 of the United States Code, the Bankruptcy Court unit of such District Court, or any court having competent jurisdiction to hear appeals or certiorari petitions therefrom, or any successor thereto that may be established by an act of Congress or otherwise, and that has competent jurisdiction over the Chapter 11 Cases.

(12) "Bankruptcy Rules" means the Federal Rules of Bankruptcy Procedure, as prescribed by the United States Supreme Court pursuant to section 2075 of title 28 of the United States Code and as applicable to the Chapter 11 Cases.

(13) "Building Purchase Agreement" means the agreement dated as of July 26, 2002, annexed to the TWC Settlement Agreement, which shall be filed with the Bankruptcy Court as a Plan Document, pursuant to which, as a component of the TWC Settlement, WTC shall purchase the Building Purchase Assets from WHBC.

(14) "Building Purchase Assets" means all of the real and personal property being acquired by WTC pursuant to the Building Purchase Agreement, including WCG's headquarters building.

(15) "Building Purchase Collateral Documents" means the documents, instruments, agreements, and mortgages granting to WHBC a first lien and security interest in and to all Building Purchase Assets to secure payment of the Building Purchase Note, all of which shall be filed with the Bankruptcy Court as Plan Documents.

(16) "Building Purchase Note" means each promissory note relating to WTC's purchase of the Building Purchase Assets, made payable (with full recourse) by WTC and New WCG (as co-issuers) and guaranteed by WCL, and in the form filed with the Bankruptcy Court as a Plan Document.

(17) "Business Day" means any day except Saturday, Sunday, or a "legal holiday" as such term is defined in Bankruptcy Rule 9006(a).

(18) "Cash" means legal tender of the United States of America.

(19) "Cash Collateral Order" means that certain order entered by the Bankruptcy Court on May 17, 2002, authorizing the Debtors' limited use of the Lenders' cash collateral.

(20) "Causes of Action" means all rights, claims, causes of action, defenses, debts, demands, damages, obligations, and liabilities of any kind or nature under contract, at law or in equity, known or unknown, contingent or matured, liquidated or unliquidated, and all rights and remedies with respect thereto, including, without limitation, causes of action arising under chapter 5 of the Bankruptcy Code or similar state statutes.

(21) "Channeling Injunction" has the meaning set forth in Section 3.3. herein.

(22) "Chapter 11 Cases" has the meaning set forth in the introductory paragraph of the Plan.

(23) "Claim" means any Cause of Action against a Debtor or its Estate arising prior to the Petition Date.

(24) "Class 5/6 Channeled Actions" means all Causes of Action of holders of Class 5 Senior Redeemable Notes Claims and Class 6 Other Unsecured Claims, acting in such capacity, against a TWC Released Party or a WCG Indemnitee (except for Causes of Action to enforce any obligation of a TWC Released Party or WCG Indemnitee under the Plan, a Plan Document, or the TWC Settlement Agreement) that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Effective Date.

(25) "Class 5 Ballot Disapproval" means the receipt of Ballots from holders of a majority in number or more than one-third in amount of Allowed Class 5 Claims indicating that such holders disapprove of the issuance of Lock-Up Consideration Shares to Lock-Up Noteholders.

(26) "Collateral" means any Asset subject to a lien.

(27) "Committee" has the meaning set forth in the introductory paragraph of the Plan.

(28) "Confirmation Date" means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket with respect to the Chapter 11 Cases and all other conditions to confirmation of the Plan set forth herein have been satisfied or waived.

(29) "Confirmation Hearing" means the hearing held by the Bankruptcy Court, as it may be continued from time to time, to consider confirmation of the Plan.

(30) "Confirmation Order" means the order of the Bankruptcy Court conforming the Plan in form and substance acceptable to the Proponents, TWC, and the Administrative Agent

(31) "Contested, when used with respect to a Claim, means a Claim (a) that is not listed in the Schedules; (b) that is listed in the Schedules, but was scheduled as (1) disputed, contingent, or unliquidated (whether in whole or in part); or (ii) undisputed, liquidated, and not contingent if a proof of claim has been filed with the Bankruptcy Court (but only to the extent the proof of claim is of a different nature than (i.e., secured, unsecured, priority, administrative, etc.), or exceeds the amount of, the Claim listed in the Schedules); or (c) as to which an objection has been filed before the Objection Deadline, provided, that a Claim that is Allowed by Final Order or pursuant to the Plan shall not be a Contested Claim.

(32) "Debtors" has the meaning set forth in the introductory paragraph of the Plan.

(33) "Declaration of Trust" means the declaration of trust to be executed and delivered by WCG and accepted by the Residual Trustee on the Effective Date in substantially the form filed by the Debtors with the Bankruptcy Court as a Plan Document

(34) "Disallowed," when used with respect to a Claim, means a Claim that has been disallowed by a Final Order.

(35) "Disbursing Agent" means New WCG or another entity appointed by New WCG to act as Disbursing Agent hereunder.

(36) "Disclosure Statement" means the disclosure statement with respect to the Plan, together with all exhibits and annexes thereto and any amendments or modifications thereof, as approved by the Bankruptcy Court as containing adequate information in accordance with section 1125 of the Bankruptcy Code.

(37) "Distribution Date" means, with respect to a particular Claim, the later of the Effective Date or the date on which such Claim becomes an Allowed Claim.

(38) "Effective Date" means the date upon which the transactions contemplated herein are consummated, which shall be a Business Day selected by the Debtors, with the consent of the Proponents, TWC, and the Administrative Agent, after the first Business Day (a) which is ten (10) days after the Confirmation Date, (b) on which the Confirmation Order is not stayed, and (ii) on which all conditions to the entry of the Confirmation Order and the occurrence of the Effective Date have been satisfied or waived as provided herein.

(39) "Equity Interest" means any share or other instrument evidencing a stock ownership interest in a Debtor, whether or not transferable or denominated "stock", or similar security, and any options, warrants, convertible security, or other rights to acquire such shares or other instruments, or any legal, equitable, or contractual Claim arising therefrom, including but not limited to Claims arising from rescission of the purchase or sale of an Equity Interest, for damages arising from the purchase or sale of an Equity Interest, or for reimbursement or contribution on account of such claim.

(40) "Estate" means the estate of a Debtor created pursuant to section 541 of the Bankruptcy Code.

(41) "Estate Causes of Action" means all Causes of Action of the Estates against any Person.

(42) "Fee Application" means an application or other request for compensation or reimbursement of expenses incurred in connection with the Chapter 11 Cases of a Professional Person under sections 328, 330, or 503 of the Bankruptcy Code.

(43) "Fee Claim" means a Claim Under sections 328, 330, or 503 of the Bankruptcy Code for compensation and reimbursement of expenses incurred in connection with the Chapter 11 Cases.

(44) "Final Order" means (a) an order or judgment of the Bankruptcy Court as to which the time to appeal, petition for certiorari, or other proceedings for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or, (b)in the event that an appeal, petition for certiorari, or motion for rearguxnent or rehearing has been sought, such order of the Bankruptcy Court shall have been affirmed by the highest court to which such order was appealed or from which reargument or rehearing was sought, or certiorari has been denied, and the time to take any further appeal, petition for certiorari or other proceedings for reargument or rehearing shall have expired; provided, however, that no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure or Rule 7024 of the Bankruptcy Rules may be filed with respect to such order.

(45) "Indenture Trustees" means Wells Fargo Bank, National Association, as successor to The Bank of New York, as trustee pursuant to the Senior Reset Note Indenture, and Wilmington Trust Company, as successor to The Bank of New York, as trustee pursuant to the Senior Redeemable Notes Indenture.

(46) "Indenture Trustee Charging Lien" means any lien or other priority in payment to which the Indenture Trustees are entitled (pursuant to the Senior Reset Note Indenture or the Senior Redeemable Notes Indenture, respectively, or otherwise) against distributions to be made to the holders of Senior Reset Note Claims and Senior Redeemable Notes Claims for the payment of any Indenture Trustee Fees.

(47) "Indenture Trustee Fees" means the reasonable compensation, fees, expenses, disbursements, advances and indemnity claims, including, without limitation, attorneys' and agents' fees, expenses, and disbursements, incurred by the Indenture Trustees, whether prior to or after the Petition Date and whether prior to or after the consummation of the Plan and the occurrence of the Effective Date.

(48) "Leucadia" has the meaning set forth in the introductory paragraph of the Plan.

(49) "Leucadia Claims Distribution" means shares of New WCG Common Stock which shall be issued to Leucadia pursuant to the TWC Settlement Agreement and the Plan in respect of the TWC Assigned Claims, in an amount that is equal to the difference between (a) 24.55% of the New Equity and (b) one half of the percentage of New Equity issued to holders of Liquidated Securities Holder Claims, if any, from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures.

(50) "Leucadia Claims Purchase Agreement" means that certain Purchase and Sale Agreement dated as of July 26, 2002, by and between TWC and Leucadia annexed to the TWC Settlement Agreement, which shall be filed with the Bankruptcy Court as a Plan Document, pursuant to which, as a component of the TWC Settlement, Leucadia has agreed to purchase, and TWC has agreed to sell, certain rights associated with the TWC Assigned Claims for $180 million in Cash.

(51) "Leucadia Investment Agreement" means that certain Investment Agreement dated as of July 26,2002, by and between WCG and Leucadia (together with certain other documents and agreements executed in connection therewith) annexed to the TWC Settlement Agreement, which shall be filed with the Bankruptcy Court as Plan Documents, pursuant to which, as a component of the TWC Settlement, Leucadia has agreed to make the New Investment.

(52) "Leucadia Investment Distribution" means 20.45% of the New Equity, which shall be issued to Leucadia pursuant to the Leucadia Investment Agreement in exchange for the New Investment

(53) "Lenders" means the "Lenders" as such term is defined under the WCL Credit Agreement.

(54) "Liquidated Securities Holder Claim" means a Securities Holder Claim that becomes entitled to recovery from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures.

(55) "Lock-Up Consideration Shares" means 5% of the Unsecured Creditor Distribution that is not allocable to holders of Allowed Class 6 Other Unsecured Claims.

(56) "Lock-Up Noteholder Shares" means, with respect to a particular Lock-Up Noteholder, the Lock-Up Consideration Shares multiplied by a fraction, the numerator of which is the aggregate principal amount of Senior Redeemable Notes listed on such Lock-Up Noteholder's signature page to the Restructuring Agreement, and the denominator of which is the aggregate principal amount of Senior Redeemable Notes listed on all of the signature pages to the Restructuring Agreement of all of the Lock-Up Noteholders.

(57) "Lock-Up Noteholders" means the holders of Senior Redeemable Notes who signed the Restructuring Agreement on or before April 22, 2002.

(58) "New Bylaws" means the Bylaws of New WCG substantially in the form filed as a Plan Document.

(59) "New Charter" means the Certificate of Incorporation for New WCG substantially in the form filed as a Plan Document.

(60) "New Equity" means the shares of New WCG Common Stock to be issued under the Plan.

(61) "New Investment" means the purchase of New WCG Common Stock by Leucadia for $150 million in Cash pursuant to the Leucadia Investment Agreement.

(62) "New WCG" means a corporation that is to be incorporated under the laws of the State of Nevada and pursuant to the Plan.

(63) "New WCG Common Stock" means shares of fully paid and non-assessable Class A common stock of New WCG, par value $0.01 per share.

(64) "New WCG Guarantee" means the guarantee by New WCG of WCL's obligations under the Restated Credit Documents, in substantially the form filed as a Plan Document

(65) "Objection Deadline" means the deadline for filing objections to Claims as set forth in Section 6.10 of the Plan.

(66) "Old WCG" means WCG on and after the Effective Date.

(67) "Other Secured Claim" means any Secured Claim that is not a Prepetition Secured Guarantee Claim.

(68) "Other Unsecured Claim" means any Claim that is not an Administrative Claim, a Priority Non-Tax Claim, a Priority Tax Claim, a Secured Claim, a TWC Assigned Claim, a Senior Redeemable Notes Claim, a Subordinated Claim, or a Claim held by an Affiliate.

(69) "Person" means an individual, corporation, partnership, limited liability company, joint venture, trust, estate, unincorporated association, unincorporated organization, governmental entity, or political subdivision thereof, or any other entity.

(70) "Petition Date" means April 22, 2002, the date on which the Chapter 11 Cases were commenced.

(71) "Plan" means this chapter 11 plan, the Plan Schedules, the Plan Documents, and all supplements, appendices, and schedules thereto, either in their present fonn or as any of them may be amended, restated, or modified from time to time, as permitted herein and by the TWC Settlement Agreement.

(72) "Plan Documents" means the documents that aid in effectuating the Plan specifically identified herein, including but not limited to, the New Charter, the New Bylaws, the Plan Schedules, the TWC Settlement Agreement, the Building Purchase Agreement, the Building Purchase Collateral Documents, the Building Purchase Note, the Leucadia Investment Agreement, and the Leucadia Claims Purchase Agreement, each in the form filed with the Bankruptcy Court pursuant to Section 5.4 of the Plan.

(73) "Plan Schedules" means the schedules to the Plan in the form filed as a Plan Document.

(74) "Prepetition Secured Guarantee" means, collectively, the guarantees of WCL's obligations under the WCL Credit Agreement (a) by WCG pursuant to Article 9 of the WCL Credit Agreement; and (b) by CG Austria pursuant to that certain Subsidiary Guarantee Supplement dated November 3, 1999.

(75) "Prepetition Secured Guarantee Claim" means a Claim with respect to the Prepetition Secured Guarantee.

(76) "Pre-Spin Services Agreement" means the Administrative Services Agreement, dated September 30, 1999, by and between certain of the TWC Entities, WCG, and certain of the Affiliates.

(77) "Pre-Spin Services Claims" means all Causes of Action of the TWC Entities against any Person arising under the Pre- Spin Services Agreement.

(78) "Priority Non-Tax Claim" means any Claim accorded priority in right of payment under section 507(a)(3), (4), (5), (6), or (7) of the Bankruptcy Code.

(79) "Priority Tax Claim" means a Claim of a governmental unit of the kind specified in section 507(a)(8) of the Bankruptcy Code.

(80) "Professional Person" means a Person retained or to be compensated pursuant to sections 327, 328, 330, 503(b), or 1103 of the Bankruptcy Code.

(81) "Proponents" means the Debtors, the Committee, and Leucadia.

(82) "Pro Rata Share" means the proportion that the amount of an Allowed Claim bears to the aggregate amount of all Claims in Classes 5 and 6, including Contested Claims, but not including Disallowed Claims.

(83) "Released Lender Parties" means the Administrative Agent, the Lenders, the other Agents (as defined in the WCL Credit Agreement) and the Issuing Banks (as defined in the WCL Credit Agreement), and each of their respective present or former directors, officers, employees, attorneys, accountants, underwriters, investment bankers, financial advisors, and agents, acting in such capacity.

(84) "Reorganized CG Austria" means CG Austria, from and after the Effective Date.

(85) "Residual Assets" means, with the exception of any Causes of Action against or equity interests in any Affiliate, any and all Assets of WCG, including, but not limited to, any and all Causes of Action against any Person other than an Affiliate.

(86) "Residual Claims" means the Claims assigned to the Residual Trust pursuant to the provisions herein, but only to the extent the amount of such assigned Claims exceeds the value, as of the Effective Date, of the New WCG Common Stock distributed to the Residual Trust

(87) "Residual Share" means the authorized capital stock of Old WCG, which shall consist of a single share of common stock, $0.01 par value.

(88) "Residual Trust" means the grantor trust to be created on the Effective Date to hold the equity interests in Old WCG for the benefit of holders of Allowed Claims in Classes 5, and 6.

(89) "Residual Trustee" means the Person appointed by the Administrative Agent pursuant to the Declaration of Trust to serve as trustee of the Residual Trust.

(90) "Restated Credit Agreement" means the WCL Credit Agreement as amended or amended and restated in a manner that is consistent with the requirements of Section 2 of the Restructuring Agreement, in the form filed as a Plan Document.

(91) "Restated Credit Documents" means the WCL Credit Documents and all other agreements, instruments and documents executed in connection therewith, each as may be amended or amended and restated in a manner that is consistent with the requirements of Section 2 of the Restructuring Agreement, in the form filed as a Plan Document

(92) "Restated Guarantee" means the Prepetition Secured Guarantee as amended or amended and restated pursuant to the Plan and the Restated Credit Agreement.

(93) "Restructuring Agreement" means that certain agreement, dated as of April 19, 2002, among the Debtors, WCL, certain Affiliates, the Lenders who are signatories thereto, and the holders of Senior Redeemable Notes Claims who are signatories thereto, a copy of which agreement was attached as an Exhibit to the Debtors' disclosure statement dated May 20, 2002.

(94) "SBC" means SBC Communications, Inc., and each of its direct an indirect subsidiaries.

(95) "SBC Authorization" means either the SBC Consent or an order of a court of competent jurisdiction in form and substance reasonably satisfactory to Leucadia and WCG providing that SBC does not and will not have a

right to terminate the Master Alliance Agreement between SBC and WCL dated February 12, 1999, by reason of (a) the transactions contemplated by the Leucadia Investment Agreement and the Leucadia Claims Purchase Agreement; (b) the transactions contemplated by the Plan; and (c) the Spin-Off.

(96) "SBC Consent" means the consent by SBC to (a) the transactions contemplated by the Leucadia Investment Agreement and the Leucadia Claims Purchase Agreement; (b) the transactions contemplated by the Plan; and (c) the Spin-Off, in form and substance reasonably satisfactory to the Committee, Leucadia, and WCG.

(97) "Schedules" means the Debtors' schedules of assets and liabilities and the statements of financial affairs on file with the Bankruptcy Court pursuant to section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, as such schedules and statements have been or may be supplemented or amended from time to time.

(98) "Secured Claim" means (a) a Claim secured by a lien on any Asset, which lien is valid, perfected, and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or other applicable non-bankruptcy law, but only to the extent of the value of the Collateral that secures payment of the Claim; (b) a Claim that is subject to a valid right of setoff under section 553 of the Bankruptcy Code; and (c) a Claim Allowed under the Plan as a Secured Claim.

(99) "Securities Holder" means all current and former holders of securities issued by the WCG Entities (and all options, agreements, and derivatives thereof) acting in such capacity,provided, however, that "Securities Holder" shall not include holders of Allowed Claims in Classes 5 and 6 under the Plan, acting in such capacity.

(100) "Securities Holder Channeled Action" means any Cause of Action of a Securities Holder against a WCG Indemnitee that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Effective Date.

(101) "Securities Holder Channeling Fund" means (a) the right to receive up to 2% of the New WCG Common Stock (on a fully-diluted basis), to the extent that holders of Securities Holder Channeled Actions become entitled to receive such stock pursuant to the Securities Holder Channeling Fund Distribution Procedures; and/or (b) any recoveries that can be obtained from officer/director liability insurance policies of the Company that cover officers and directors of the Company or the Company's obligation to indemnify its officers and directors.

(102) "Securities Holder Channeling Fund Distribution Procedures" means the procedures set forth in a Plan Document for distributions from the Securities Holder Channeling Fund providing, among other things, that all recoveries from the Securities Holder Channeling Fund shall be pro rata based on the ratio that a particular Liquidated Securities Holder Action bears to all Liquidated Securities Holder Claims.

(103) "Senior Redeemable Note" means any note issued by WCG pursuant to the Senior Redeemable Notes Indenture.

(104) "Senior Redeemable Notes Claim" means any Claim that is not a Subordinated Claim and that arises under or in connection with a Senior Redeemable Note or the Senior Redeemable Notes Indenture.

(105) "Senior Redeemable Notes Indenture" means, collectively, (a) that certain indenture pertaining to those certain 10.70% senior redeemable notes due 2007 and 10.875% senior redeemable notes due 2009 issued, respectively, in the aggregate principal amounts of $500 million and $1.5 billion, dated as of October 6, 1999 (as subsequently amended, restated, modified or otherwise supplemented), between WCG, as Issuer and The Bank of New York, as Trustee; and (b) that certain indenture pertaining to those certain 11.70% senior redeemable notes due 2008 and 11.875% senior redeemable notes due 2010 issued, respectively, in the aggregate principal amounts of $575 million and $425 million, dated as of August 8, 2000 (as subsequently

amended, restated, modified or otherwise supplemented), between WCG, as Issuer, and The Bank of New York, as Trustee.

(106) "Senior Reset Note" means that certain 8.25% senior reset note due 2008 in the original principal amount of $1.5 billion, issued by WCG to WCG Note Trust pursuant to the Senior Reset Note Indenture.

(107) "Senior Reset Note Claim" means any Claim that arises under or in connection with the Senior Reset Note or the Senior Reset Note Indenture.

(108) "Senior Reset Note Indenture" means that certain indenture dated as of March 28, 2001 (as subsequently amended, restated, modified or supplemented), between WCG as Issuer and the United States Trust Company of New York as Trustee, pursuant to which WCG issued the Senior Reset Note to WCG Note Trust.

(109) "Single Holder" means (a) any individual or group of individuals which would, if such individual or group owned 5% or more of stock, be a "5-percent shareholder" of New WCG Common Stock (other than a "public group") pursuant to Treasury Regulations Section 1.382-2T(g) (including indirectly through family members or interests in corporations, partnerships, trusts, or other entities which directly own New WCG Common Stock, pursuant to Treasury Regulations Section 1.382-2T(h)), but treating any options to acquire New WCG Common Stock as exercised only if such exercise would result in treating the individual or group as a "5-percent shareholder" which was not a "qualified creditor" within the meaning of Treasury Regulations Section 1.382-9(d); and (b) any group of Persons who acquired their Claims as a "coordinated group" described in Treasury Regulations Section 1.382-9(d)(3)(ii)(A), provided, however, that TWC and Leucadia shall be excluded from this definition of "Single Holder" for any Claims that they may hold other than Senior Redeemable Notes Claims.

(110) "Spin-Off" means the tax-free spin-off of WCG from TWC that became effective on April 23, 2001.

(111) "Subordinated Claim" means any Claim that (a) pursuant to a Final Order of the Bankruptcy Court, is found to be subordinate in priority of payment, whether contractually, equitably, or otherwise, to Allowed Claims in Classes 4, 5, and 6; or (b) is a Claim arising from rescission of the purchase or sale of a Senior Redeemable Note, for damages arising from the purchase or sale of a Senior Redeemable Note, or for reimbursement or contribution allowed under Section 502 of the Bankruptcy Code on account of such Claim.

(112) "Trust Agreement" means that certain Amended and Restated Trust Agreement dated as of March 28, 2001, among Wilmington Trust Company, WCL and WCG Note Trust, as amended, restated, modified or otherwise supplemented from time to time.

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

(114) "TWC Assigned Claims" means Causes of Action that are (a) ADP Claims, (b) Pre-Spin Services Claims, or (c) Senior Reset Note Claims.

(115) "TWC Continuing Contract" means any contract between any of the TWC Entities and a Debtor or an Affiliate that is listed in the Plan Schedules as either being assumed and assigned under the Plan or as being unaffected by the Plan.

(116) "TWC Continuing Contract Claims" means the Causes of Action of the TWC Entities against WCG and the Affiliates under the TWC Continuing Contracts, in such amounts, if any, as are set forth in the Plan Schedules.

(117) "TWC Contributed Distribution" means the difference between (a) 55% of the New Equity and (b) the proportion that the aggregate amount of all Allowed Claims in Classes 5 and 6 bears to the aggregate amount of all Allowed Claims in Classes 4, 5, and 6 multiplied by the difference between (i) the New Equity and (ii) the Leucadia Investment Distribution.

(118) "TWC Entities" means TWC, together with all of its direct and indirect subsidiaries and affiliates.

(119) "TWC Plan Support Agreement" means that certain agreement, dated February 23,2002, by and between TWC and WCG, pursuant to which, among other things, TWC agreed to support a chapter 11 plan with respect to WCG.

(120) "TWC Released Parties" means the TWC Entities and each of their respective present and fonner shareholders, members, partners, directors, managers, officers, employees, agents, attorneys, advisors, and accountants, acting in such capacity.

(121) "TWC Settlement" has the meaning set forth in Section 3.1 herein.

(122) "TWC Settlement Agreement" means that certain Settlement Agreement dated as of July 26,2002, as amended, among the Debtors, the Committee, TWC, and Leucadia (including all agreements annexed as Exhibits thereto), which, together with all agreements annexed thereto, shall be filed with the Bankruptcy Court as Plan Documents.

(123) "TWC Settlement Approval Order" means the order of the Bankruptcy Court, in form and substance reasonably acceptable to the Debtors, the Committee, TWC, and Leucadia, granting the TWC Settlement Motion pursuant to Bankruptcy Rule 9019, and authorizing the Debtors' entry into the TWC Settlement Agreement and approving the transactions, compromises, and settlements set forth therein.

(124) "TWC Settlement Releasee" means a TWC Released Party or a WCG Indemnitee, in each case as the context requires.

(125) "Unsecured Creditor Distribution" means the difference between (a) 55% of the New Equity and (b) one half of the percentage of New Equity issued to holders of Liquidated Securities Holder Claims, if any, from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures.

(126) "TWC Settlement Motion" means the joint motion of the Debtors and the Committee for entry of the TWC Settlement Approval Order.

(127) "WCG" has the meaning set forth in the introductory paragraph of the Plan.

(128) "WCG Note Trust"means WCG Note Trust, a statutory business trust established under the laws of the State of Delaware pursuant to the Trust Agreement.

(129) "WCG Entities" means the Debtors and the Affiliates.

(130) "WCG Indemnitee" means each of the present and former directors, managers, officers, employees, agents, attorneys, advisors, and accountants of the WCG Entities, acting in such capacity, excluding Persons who serve or served as officers of SBC, to the extent such Persons possessed conflicts of interest with respect to the WCG Entities while acting as directors of WCG in connection with the Spin-Off provided, however, that if the SBC Consent shall have been obtained, then such officers of SBC shall be deemed to be WCG Indemnitees.

(131) "WCL" means Williams Communications, LLC, a Delaware limited liability company.

(132) "WCL Credit Agreement" means the amended and restated credit agreement, dated as of September 8, 1999, among WCL, WCG, the Lenders, the Administrative Agent, JP Morgan Chase Bank (f/k/a The Chase Manhattan Bank), as Syndication Agent and Salomon Smith Barney, Inc. and Lehman Brothers, Inc. as Joint

Lead Arrangers and Joint Bookrunners with respect to the Incremental Facility referred to therein, and Salomon Smith Barney, Inc., Lehman Brothers, Inc. and Merrill Lynch & Co., as Co-Documentation Agents, as amended, amended and restated, supplemented, or otherwise modified from time to time.

(133) "WCL Credit Documents" means the WCL Credit Agreement, the WCL Security Agreement, and all other documents, instruments, agreements, and liens executed and delivered in connection therewith, as amended, amended and restated, supplemented, or otherwise modified from time to time.

(134) "WCL Security Agreement" means the security agreement, dated as of April 23, 2001, among WCL, WCG, the Subsidiary Loan Parties (as defined therein), and the Administrative Agent, as amended, amended and restated, supplemented, or otherwise modified from time to time.

(135) "WHBC" means Williams Headquarters Building Company, a wholly-owned subsidiary of TWC. (136) "WTC" means Williams Technology Center, LLC, an indirect wholly-owned subsidiary of WCG.

SECTION 1.2 INTERPRETATION.

Unless otherwise specified, all section, article, and exhibit references in the Plan are to the respective section in, article of, or exhibit to, the Plan, as the same may be amended, waived, or modified from time to time. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions of the Plan. Words denoting the singular number shall include the plural number and vice versa, and words denoting one gender shall include the other gender. In the event of an inconsistency between the Plan and any other document or agreement, the terms and provisions of the Plan shall govern and control. However, to the extent any term or provision of the Plan is determined by the Bankruptcy Court to be ambiguous, the Disclosure Statement may be referred to for purposes of interpreting such ambiguous term or provision.

SECTION 1.3 APPLICATION OF DEFINITIONS AND RULES OF CONSTRUCTION CONTAINED IN THE BANKRUPTCY CODE,

A term used herein that is not defined herein shall have the meaning ascribed to that term, if any, in the Bankruptcy Code and interpretive case law. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan.

SECTION 1.4 OTHER TERMS.

The words "herein," "hereof," "hereto," "hereunder," and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan.

SECTION 1.5 PLAN SCHEDULES AND PLAN DOCUMENTS.

All Plan Schedules and Plan Documents are incorporated into the Plan by this reference and are a part of the Plan as if set forth in full herein.

ARTICLE II

CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

SECTION 2.1 NO CLASSIFICATION OF ADMINISTRATIVE CLAIMS AND PRIORITY TAX CLAIMS.

As provided in section 1 123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims shall not be classified for purposes of voting or receiving distributions under the Plan. All such Claims shall be treated separately as unclassified Claims on the terms set forth herein.

SECTION 2.2 TREATMENT OF ADMINISTRATIVE CLAIMS.

(a) Time for Filing Administrative Claims. Except with respect to (i) a Fee Claim, (ii) an Adequate Protection Claim, (iii) a TWC Continuing Contract Claim, (iv) a liability incurred and paid in the ordinary course f business by a Debtor, or (v) an Administrative Claim that has been allowed on or before the Effective Date, within ten (10) days after service of notice of entry of the Confirmation Order, the holder of an Administrative Claim must file with the Bankruptcy Court and serve notice of such Administrative Claim upon counsel to the Debtors, the Administrative Agent, and the Committee. Such notice must include at a minimum (I) the name of the holder of the Claim, (2) the amount of the Claim, and (3) the basis of the Claim. Failure to file this notice timely and properly shall result in the Administrative Claim being forever barred and discharged.

(b) Time for Filing Fee Claims. Each Professional Person or other entity that holds or asserts an Administrative Claim that is a Fee Claim incurred before the Effective Date shall be required to file with the Bankruptcy Court, and serve on all parties required In receive notice, a Fee Application within forty~five (45) days after the Effective Date. The failure to file timely the Fee Application shall result in the Fee Claim being forever barred and discharged.

(c) Allowance of Administrative Claims. An Administrative Claim with respect to which notice has been properly filed pursuant to Section 2.2(a) herein shall become an Allowed Administrative Claim if no objection is filed within thirty (30) days after the deadline for filing and serving a notice of such Administrative Claim specified in Section 2.2(a) herein, or such later date as may be approved by the Bankruptcy Court on motion of a Debtor. If an objection is filed within such thirty-day period (or any, extension thereof), the Administrative Claim shall become an Allowed Administrative Claim only to the extent allowed by Final Order or as agreed to by a Debtor after consultation with the other Proponents and the Administrative Agent An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed pursuant to Section 2.2(b) herein, shall become an Allowed Administrative Claim only to the extent allowed by Final Order. An Administrative Claim as to which no notice need be filed as set forth in Section 2.2(a)(iii), (iv) or (v) shall be an Allowed Administrative Claim on the Effective Date.

(d) Payment of Allowed Administrative Claims. Each holder of an Allowed Administrative Claim shall receive (i) an amount equal to such holder's Allowed Claim in one Cash payment on the Distribution Date, or (ii) such other treatment as may be agreed upon in writing by such holder and a Debtor after consultation with the Proponents and the Administrative Agent; provided, however, that an Administrative Claim representing a liability incurred in the ordinary course of business of a Debtor may be paid at a Debtor's election in the ordinary course of business by such Debtor. All Allowed Administrative Claims shall be paid by, and shall be the sole responsibility of, the Debtors.

(e) Payment of Indenture Trustees.

(i) Indenture Trustee Fees. All Allowed Indenture Trustee Fees shall be paid in Cash as an Administrative Claim.

(ii) Additional Indenture Trustee Fees. To the extent that the Indenture Trustees provide services of any kind or nature on or following the Effective Date, the Indenture Trustees will receive from the Debtors or New WCG, without the need for application to, or approval of, the Bankruptcy Court, all Indenture Trustee Fees incurred from and after the Effective Date, subject to approval by the Debtors or New WCG and the Administrative Agent

(f) Extinguishment of Adequate Protection Claim. Upon the occurrence of the Effective Date, the Adequate Protection Claim shall be extinguished in consideration for the treatment afforded the Prepetition Secured Guarantee Claims hereunder.

SECTION 2.3 TREATMENT OF PRIORITY TAX CLAIMS.

Each holder of an Allowed Priority Tax Claim shall receive, in full satisfaction of such holder's Allowed Priority Tax Claim, (a) the amount of such holder's Allowed Priority Tax Claim, with simple interest at the rate of 6.00% per annum or such other rate as the Bankruptcy Court may determine at the Confirmation Hearing is appropriate, in equal annual Cash payments, beginning on the Distribution Date and continuing on each anniversary of the Distribution Date, until the sixth anniversary of the date of assessment of such Claim (provided that, after consultation with the other Proponents and the Administrative Agent, New WCG may prepay the balance of any such Allowed Priority Tax Claim at any time without penalty); (ii) a lesser amount in one Cash payment as may be agreed upon in writing by such holder after consultation with the other Proponents and the Administrative Agent; or (iii) such other treatment as may be agreed upon in writing by such holder and the Debtor, after consultation with the other Proponents and the Administrative Agent. The Confirmation Order shall constitute and provide for an injunction by the Bankruptcy Court as of the Effective Date against any holder of a Priority Tax Claim from commencing or continuing any action or proceeding against any responsible person or officer or director of a Debtor or New WCG that otherwise would be liable to such holder for payment of a Priority Tax Claim so long as New WCG is not in default of its obligations with respect to such Claim under this Section.

SECTION 2.4 CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS CLASSIFIED.

For purposes of organization, voting, distributions, and all confirmation matters, except as otherwise provided herein, all Claims and Equity Interests shall be classified and treated as follows:

a) Class I: Priority Non-Tax Claims. Each holder of an Allowed Priority Non-Tax Claim shall be unimpaired under the Plan and, pursuant to section 1124 of the Bankruptcy Code, all of the legal, equitable and contractual rights of each holder of an Allowed Priority Non-Tax Claim in respect of such Claim shall be fully reinstated and retained as though the Chapter 11 Cases had not been filed. Holders of Allowed Class 1 Claims shall not be entitled to vote on the Plan and, instead, shall be deemed to have accepted the Plan.

b) Class 2: Prepetition Secured Guarantee Claims. On the Effective Date, in full and complete satisfaction of all Allowed Prepetition Secured Guarantee Claims, the Administrative Agent shall receive the New WCG Guarantee and the Restated Guarantee. Any demand under the New WCG Guarantee or the Restated Guarantee shall be made in accordance with the terms and conditions of the Restated Credit Documents. Notwithstanding any additional security interest that may be granted pursuant to the Restated Credit Documents, the Administrative Agent, for its benefit and the benefit of the Lenders, shall retain any and all security interests in the Assets that were in existence on the Petition Date under the WCL Credit Documents and such security interests shall continue in full force and effect as if the Chapter 11 Cases had not been filed. If the requisite number of Lenders do not agree before the Voting Deadline to be impaired under the Plan, Class 2 Claims are not impaired under the Plan and holders of Allowed Class 2 Claims shall not be entitled to vote on the Plan and, instead, shall be deemed to have accepted the Plan. If the requisite number of Lenders agree before the Voting Deadline to be impaired under the Plan, Class 2 Claims shall be impaired under the Plan and holders of Allowed Class 2 Claims shall be entitled to vote to accept or reject the Plan.

c) Class 3: Other Secured Claims. On the Distribution Date, in full and complete satisfaction of all Other Secured Claims, each holder of an Allowed Other Secured Claim shall, in the Debtors' discretion after consultation with the Administrative Agent, (i) receive deferred Cash payments totaling the Allowed amount of such Claim of a value as of the Effective Date at least equal to the value of such holder's interest in the Collateral securing its Claim, and shall retain the lien securing such Claim and all rights under any instrument evidencing such Claim until paid as provided herein; (ii) receive, pursuant to abandonment by the Debtors, possession of and the right to foreclose its lien; or (iii) be treated in accordance with an agreement between

the Debtors and the holder of such Allowed Other Secured Claim, after consultation with the Administrative Agent Class 3 Claims are impaired by the Plan and holders of Allowed Class 3 Claims shall be entitled to vote to accept or reject the Plan.

d) Class 4: TWC Assigned Claims. On the Effective Date, the TWC Assigned Claims shall be Allowed Claims in the aggregate amount of $2.36 billion, shall have the same priority for all purposes under the Plan as Class 5: Senior Redeemable Notes Claims and Class 6: Other Unsecured Claims, and shall not be subject to defense, offset, reduction, objection, subordination, recharacterization, or any other Cause of Action that would reduce, delay, or impede distributions under the Plan in respect of the TWC Assigned Claims. On the Effective Date, in full and complete satisfaction of all holders' TWC Assigned Claims, the TWC Assigned Claims shall be deemed conclusively to have been assigned to the Residual Trust, in exchange for the Leucadia Claims Distribution and the TWC Contributed Distribution; provided, however, that in accordance with the TWC Settlement and as provided in Section 3.2 of the Plan, New WCG shall issue only the Leucadia Claims Distribution and all holders of TWC Assigned Claims shall forever forego, waive, and release any and all other Causes of Action against the WCG Entities and the WCG Indemnitees with respect to the TWC Assigned Claims, including any claim or right to the TWC Contributed Distribution. Class 4 Claims are impaired by the Plan and holders of Class 4 Claims shall be entitled to vote to accept or reject the Plan.

e) Class 5: Senior Redeemable Notes Claims. On the Effective Date, each Senior Redeemable Notes Claim held by an Affiliate on or after the Petition Date shall be disallowed in its entirety. Allowed Senior Redeemable Notes shall have the same priority for all purposes under the Plan as Class 4: TWC Assigned Claims and Class 6: Other Unsecured Claims and, on the Distribution Date, in full and complete satisfaction of all holders' Senior Redeemable Notes Claims, each holder of an Allowed Senior Redeemable Note: (i) shall be deemed conclusively to have assigned its entire Allowed Senior Redeemable Notes Claim, together with any and all rights related thereto, to the Residual Trust in exchange for such holder's Pro Rats Share of the beneficial interests in the Residual Trust and (ii) will receive from the Residual Trust such holder's Pro Rats Share of (A) the difference between the Unsecured Creditor Distribution and any Lock-Up Consideration Shares (but limited to 4.99% of outstanding New WCG Common Stock as of the Effective Date to any Single Holder regardless of the Allowed amount of such Single Holder's Claim) and (B) any Available Proceeds. Class 5 Claims are impaired by the Plan and holders of Allowed Class 5 Claims shall be entitled to vote to accept or reject the Plan.

(f) Class 6: Other Unsecured Claims. Allowed Other Unsecured Claims shall have the same priority for all purposes under the Plan as Class 4: TWC Assigned Claims and Class 5: Senior Redeemable Notes Chains. On the Distribution Date, in full and complete satisfaction of all holders' Other Unsecured Claims, each holder of an Allowed Other Unsecured Claim: (1) shall be deemed conclusively to have assigned its entire Allowed Unsecured Claim, together with any and all rights related thereto, to the Residual Trust in exchange for such holder's Pro Rats Share of the beneficial interests in the Residual Trust, and (ii) shall receive from the Residual Trust such holder's Pro Rats Share of(A) the Unsecured Creditor Distribution (but limited to 4.99% of outstanding New WCG Common Stock as of the Effective Date to any Single Holder regardless of the Allowed amount of such Single Holder's Claim) and (B) any Available Proceeds. Class 6 Claims are impaired by the Plan and holders of Allowed Class 6 Claims shall be entitled to vote to accept or reject the Plan.

(g) Class 7: Subordinated Claims. On the Effective Date, each and every Subordinated Claim shall be fully and completely discharged and the holder thereof shall receive no distribution under the Plan on account of such Class 7 Claims. Class 7 Claims are impaired by the Plan and holders of such Claims shall not be entitled to vote on the Plan and, instead, shall be deemed to have rejected the Plan.

(h) Class 8: WCG Equity Interests. On the Effective Date, each and every Equity Interest in WCG shall be cancelled and discharged and the holder thereof shall receive no distribution under the Plan on account of such Class 8 WCG Equity Interest Class 8 Equity Interests are impaired by the Plan and holders of such Equity Interests shall not be entitled to vote on the Plan and, instead, shall be deemed to have rejected the Plan.

(i) Class 9: CG Austria Equity Interests. On the Effective Date, each and every Equity Interest in CG Austria shall be reinstated as though the Chapter 11 Cases had not been filed. Class 9 Equity Interests shall be unimpaired by the Plan. WCL, the sole holder of Class 9 Equity Interests, shall not be entitled to vote on the Plan and, instead, shall be deemed to have accepted the Plan.

SECTION 2.5 MAXIMUM DISTRIBUTION.

Notwithstanding the provisions of Section 2.4(e) and 2.4(f) herein, the maximum aggregate amount of all distributions of New WCG Common Stock under the Plan to a Single Holder shall be 4.99% and under no circumstances shall a Single Holder receive New WCG Common Stock under the Plan in excess of such amount regardless of the Allowed amount or amounts of such Single Holder's Claim or Claims.

SECTION 2.6 LOCK-UP NOTEHOLDER CONSIDERATION

On the Effective Date, if there has not been a Class 5 Ballot Disapproval, then in consideration for each Lock-Up Noteholder's agreement to be bound by the Restructuring Agreement and agreement not to transfer its holdings of Senior Redeemable Notes (except as provided in the Restructuring Agreement), New WCG will issue to each Lock-Up Noteholder its Lock-Up Noteholder Shares; provided, however, to the extent that (a) the Proponents determine that such distribution would unduly jeopardize tax assets of New WCG or (b) the Bankruptcy Court determines that such distribution would cause unfair discrimination among holders of Allowed Claims or otherwise cause the Plan to violate or be inconsistent with the provisions of the Bankruptcy Code, then no distribution of Lock-Up Consideration Shares (or such lesser amount of the Lock-Up Consideration Shares as may be determined by the Bankruptcy Court or the Proponents) shall be made.

SECTION 2.7 SEPARATE CLASSIFICATION OF CLAIMS.

Although class treatments are set forth in consolidated fashion in the Plan, votes will be tabulated and treatment will be implemented on a Debtor-by-Debtor basis. In addition, although placed in one category for purposes of convenience, each Claim that is determined to be an Other Secured Claim against a Debtor shall be treated as such in a separate Class for purposes of voting and receiving distributions under the Plan.

SECTION 2.8 CLASSIFICATION RULES.

A Claim is in a particular Class only to the extent that the Claim qualifies within the description of Claims of that Class, and such Claim is in a different Class to the extent that the remainder of the Claim qualifies within the description of a different Class. Pursuant to section 1 123(a)(4) of the Bankruptcy Code, all Allowed Claims of a particular Class shall receive the same treatment unless the Holder of a particular Allowed Claim agrees to a less favorable treatment for such Allowed Claim. Except with respect to the Leucadia Claims Distribution, this Plan shall give effect to subordination agreements which are enforceable under applicable nonbankruptcy law, pursuant to section 510(a) of the Bankruptcy Code, except to the extent the beneficiary or beneficiaries thereof agree to less favorable treatment This Plan shall also give effect to the subordination rules of sections 510(b) and (c) of the Bankruptcy Code. The inclusion of a creditor by name or status in any Class is for purposes of general description only and includes all Persons claiming as beneficial interest holders, assignees, heirs, devisees, transferees, or successors in interest of any kind of the creditor named.

SECTION 2.9 IMPAIRMENT CONTROVERSIES

If a controversy arises as to whether any Claim or Equity Interest, or any class of Claims or Class of Equity Interests, is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy.

SECTION 2.10 CONFIRMATION WITHOUT ACCEPTANCE BY ALL IMPAIRED CLASSES

Classes 7 and 8 are classes of Claims or Equity Interests that are deemed to have rejected the Plan. Notwithstanding such rejections (or the rejection by one or more other impaired classes under the Plan), the Proponents intend to seek confirmation of the Plan in accordance with section 1129(b) of the Bankruptcy Code.

SECTION 2.11 TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

(a) Rejection of Executory Contracts and Unexpired Leases. Pursuant to Section 365(a) of the Bankruptcy Code, the Plan constitutes a motion to reject, upon the occurrence of the Effective Date, each and every executory contract and unexpired lease (i) that is listed in the Plan Schedules as being rejected pursuant to the Plan, and (ii) except for TWC Continuing Contracts, all contracts and leases to which one or more TWC Entities are the only parties that are neither a Debtor nor an Affiliate. The Confirmation Order shall constitute the Bankruptcy Court's approval of such rejections pursuant to section 365(a) of the Bankruptcy Code and findings by the Bankruptcy Court that the requirements of section 365(a) of the Bankruptcy Code have been satisfied with respect to each rejected executory contract or lease, and that each such rejection is in the best interests of the Debtors and their Estates.

(b) Assumptions If Not Rejected. The Plan constitutes a motion pursuant to section 365(a) of the Bankruptcy Code by WCG to assume and assign to New WCG, and by CG Austria to assume, each and every executory contract and unexpired lease of such Debtor (including, without limitation, the TWC Continuing Contracts to the extent a Debtor is a party thereto) that has not been rejected or that is not being rejected, either pursuant to the Plan or by separate motion. The Confirmation Order shall constitute the Bankruptcy Court's approval of such assumptions and assignments pursuant to section 365(a) of the Bankruptcy Code and findings by the Bankruptcy Court that the requirements of section 365(b) of the Bankruptcy Code have been satisfied with respect to each assumed and assigned contract and lease, and that each such assumption and assignment is in the best interests of the Debtors and their Estates.

(c) Indemnification Obligations. The obligations of a Debtor to indemnify, defend, advance litigation expenses, reimburse, or limit the liability of any person serving on and after the Petition Date as an employee, officer, or director of a Debtor by reason of such person's service in such capacity or as may be otherwise provided in a Debtor's constituent documents, in a written agreement with a Debtor, or in applicable law, each as applicable, shall be treated as executory contracts that are being assumed and assigned to New WCG pursuant to the Plan and Section 365(a) of the Bankruptcy Code. Accordingly, such obligations shall be unimpaired by the Plan irrespective of whether such indemnification is owed with respect to an act or event occurring before or after the Petition Date;provided, however, that such assignment shall in no way release or affect any obligation of Old WCG to indemnify, defend, advance litigation expenses, reimburse, or limit the liability of such a person.

(d) Cure Payments. Any Claim for amounts owed pursuant to section 365(b)(l) of the Bankruptcy Code or as a consequence of a Debtor's assumption or assignment of an executory contract or lease (excluding the TWC Continuing Contracts and claims arising from the assumptions of indemnification obligations pursuant to Section 2.11(c) herein) must be timely filed and served as provided in Section 2.2(a) of the Plan. Any Claim for amounts owed pursuant to section 365(b)(l) of the Bankruptcy Code as a consequence of a Debtor's assumption or assignment of an executory contract or lease (excluding the TWC Continuing Contracts and claims arising from the assumptions of indemnification obligations pursuant to Section 2.11(c) herein) that is not filed and served within such time will be forever barred from assertion and shall not be enforceable against New WCG or its assets, nor against a Debtor, its Estate, its Assets or Old WCG. Unless otherwise ordered by the Bankruptcy Court, all such Claims for amounts owed pursuant to section 365(b)(1) of the Bankruptcy Code as a consequence of a Debtor's assumption or assignment of an executory contract or lease that are timely filed as provided herein shall be treated as Administrative Claims.

(e) Claims Arising from Rejection. A Claim arising from the rejection of an executory contract or unexpired lease must be filed with the Bankruptcy Court and served on the Debtors (i) in the case of an order approving such rejection entered prior to the Confirmation Date, in accordance with the such order but in no case more than thirty (30) days after the Confirmation Date, (ii) in the case of an executory contract or unexpired lease that is rejected hereunder, no later than thirty (30) days after the Confirmation Date, or (iii) in the case of an order approving such rejection entered after the Confirmation Date, in accordance with such order. Any Claim arising from the rejection of an executory contract or unexpired lease for which a proof of claim is not filed and served within such time will be forever barred from assertion and shall not be enforceable against a Debtor, its Estate or its Assets. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be treated as Other Unsecured Claims under the Plan.

ARTICLE III

THE TWC SETTLEMENT

SECTION 3.1 IMPLEMENTATION OF TWC SETTLEMENT AGREEMENT

The Confirmation Order shall authorize the consummation and implementation of all of the transactions contemplated by the TWC Settlement Agreement and which comprise the global compromise and settlement embodied therein (the "TWC Settlement"). In connection therewith, as provided in the TWC Settlement Approval Order, on the Effective Date,

(a) Except for Causes of Action arising under the TWC Settlement Agreement, the TWC Continuing Contracts, the Plan, or the Plan Documents, each TWC Released Party shall forever waive, release, and discharge any and all Causes of Action against any and all of the WCG Entities and the WCG Indemnitees that are based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Effective Date of the Plan, and (solely, with respect to the WCG Indemnitees) arising out of or relating in any way to a WCG Indemnitee's relationship with, or transactions involving a WCG Entity;

(b) Except for Causes of Action arising under the Settlement Agreement, the TWC Continuing Contracts, the Plan, or the Plan Documents, the Committee, each WCG Entity, and each WCG Indemnitee shall forever waive, release, and discharge any and all Causes of Action against any and all TWC Released Parties that are based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Plan Effective Date and arising out of or relating in any way to a WCG Entity or its present or former assets, or a TWC Released Party's relationship with, or transactions involving a WCG Entity or its present or former assets.

SECTION 3.2 TWC CONTRIBUTED DISTRIBUTION.

On the Effective Date, pursuant to the TWC Settlement Agreement and the Plan, the TWC Contributed Distribution shall be forgone by TWC for the benefit of all holders of Class 5/6 Channeled Actions, and the value thereof shall be deemed to support the Channeling Injunction.

SECTION 3.3 CHANNELING INJUNCTION.

Pursuant to the TWC Settlement Agreement, the Confirmation Order shall contain an injunction (the "Channeling Injunction") (i) providing that (A) all Class 5/6 Channeled Actions shall be shall be channeled to and fully and completely satisfied as a result of the TWC Contributed Distribution and the other consideration provided by the TWC Entities under the

TWC Settlement Agreement; and (B) all Securities Holder Channeled Actions shall be channeled to and fully and completely satisfied from the Securities Holder Channeling Fund; and (ii) enjoining (except as may be required for recovery from officer/director insurance policies of the Company) the holders of Class 5/6 Channeled Actions and Securities Holder Channeled Actions from:

(a) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind against a TWC Settlement Releasee or its direct or indirect successor in interest (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date, which must be withdrawn or dismissed with prejudice) except as may be necessary to access the Securities Holder Channeling Fund;

(b) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order against a TWC Settlement Releasee or its assets or property, or its direct or indirect successor in interest, or any assets or property of such transferee or successor,

(c) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any lien against a TWC Settlement Releasee or its assets or property, or its indirect or indirect successors in interest, or any assets or property of such transferee or successor,

(d) asserting any set-off, right of subrogation or recoupment of any kind, directly or indirectly against any obligation due a TWC Settlement Releasee or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor, and

(e) proceeding in any manner that does not conform or comply with the provisions of the Plan (including the Securities Holder Channeling Fund Distribution Procedures), the TWC Settlement Approval Order, or the Settlement Agreement.

ARTICLE IV

CONFIRMATION OF THE PLAN

SECTION 4.1 CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN.

It is a condition to confirmation of the Plan that the Clerk of the Bankruptcy Court shall have entered:

(a) the TWC Settlement Approval Order which, among other things, shall:

(i) approve in all respects the TWC Settlement Agreement and the compromises and transactions contemplated thereby and contain findings and conclusions in support of the components thereof that are reasonably satisfactory to the Proponents, TWC, and the Administrative Agent, and

(ii) authorize and approve in all respects (A) the Leucadia Investment Agreement and the transactions contemplated thereby, (B) the Leucadia Claims Purchase Agreement and the transactions contemplated thereby, (C) the Building Purchase Agreement and the transactions contemplated thereby, and (D) the Additional Settlement Transactions;

(b) the Confirmation Order which, among other things, shall:

(i) authorize the implementation and consummation of all of the compromises and transactions contemplated by the TWC Settlement Agreement, including, without limitation, all of the releases and the Channeling Injunction contemplated thereby;

(ii) authorize each Debtor to (A) assume and assign all executory contracts and unexpired leases that such Debtor may seek to assume and assign under the Plan (including any TWC Continuing Contract), and (B) reject all unexpired leases and executory contracts that such Debtor may seek to reject under the Plan: and (iii) contain findings and conclusions in support of confirmation of the Plan that are reasonably satisfactory to the Proponents, TWC, and the Administrative Agent.

(iii) contain findings and conclusions in support of confirmation of the Plan that are reasonably satisfactory to the Proponents, TWC and the Administrative Agent.

SECTION 4.2 CONDITIONS PRECEDENT TO THE OCCURRENCE OF THE EFFECTIVE DATE.

It is a condition to the occurrence of the Effective Date that the following shall have occurred on or before October 14, 2002:

(a) the Confirmation Order and the TWC Settlement Approval Order shall have been entered and become Final Orders;

(b) all necessary and material consents, authorizations, and approvals, including, without limitation, the SBC Authorization, consents and authorizations under the WCL Credit Documents, the Restated Credit Documents, and each Plan Document, shall have been given or waived for the transfers and transactions described in the Plan, including, without limitation, the transfers of property and the payments described in the Plan, as applicable;

(c) all conditions to the consummation of the transactions contemplated by the Leucadia Investment Agreement, the Leucadia Claims Purchase Agreement, the Building Purchase Agreement, and the Additional Settlement Transactions shall have been satisfied or waived;

(d) all components of the TWC Settlement Agreement shall have been consummated;

(e) the Restated Credit Documents shall have been executed and delivered by the parties thereto and all conditions therein shall have been satisfied or waived;

(f) WCL shall have paid the Extension Payment and the Subsequent Payment (as such terms are defined in the Restructuring Agreement) indefeasibly, in full in Cash; and

(g) all conditions of the Restructuring Agreement with respect to the Lenders shall have been satisfied or waived by the requisite number of Lenders.

SECTION 4.3 WAIVER OF CONDITIONS.

(a) The Debtors, with the consent of the Proponents and the Administrative Agent, may waive the conditions to confirmation of the Plan described in Section 4.1(b)(ii),provided, however, that the condition with respect to the assumption and assignment of the TWC Continuing Contracts may only be waived with the consent of TWC.

(b) The Debtors, with the consent of the Proponents and the Administrative Agent, may waive the conditions to the occurrence of the Effective Date described in Section 4.2(e), 4.2(f), and 4.2(g).

(c) Except as set forth herein, none of the conditions to confirmation of the Plan or the occurrence of the Effective Date may be waived without the consent of the Proponents, the Administrative Agent, and TWC.

SECTION 4.4 EFFECT OF CONFIRMATION OF THE PLAN

(a) Debtors' Authority. Until the Effective Date, the Bankruptcy Court shall retain custody and jurisdiction of the Debtors and their respective Assets and operations. On and after the Effective Date, the Debtors and their respective Assets and operations shall be released from the custody and jurisdiction of the Bankruptcy Court, except for those matters as to which the Bankruptcy Court specifically retains jurisdiction under the Plan or the Confirmation Order,provided, however, that the Cash and New WCG Common Stock to be distributed pursuant to the Plan will remain subject to the jurisdiction and custody of the Bankruptcy Court until they are. distributed or become unclaimed property as provided herein.

(b) Vesting of Assets. On the Effective Date, title to: (i) 100% of WCG's Causes of Action against and equity interests in WCL shall vest.in New WCG, (ii) all Assets of CG Austria shall vest in CG Austria, and (iii) all Residual Assets, including any and all Causes of Action of the Debtors (whether arising under chapter 5 of the Bankruptcy Code or otherwise) that are in existence on the Effective Date and not explicitly released hereunder or pursuant to the Cash Collateral Order, shall be preserved and unaffected by the occurrence of the Effective Date and shall vest in Old WCG, in each case free and clear of all liens, Causes of Action, and interests against, in, or on such Assets except as may be provided in Section 2.4(b) herein or in the Restated Credit Documents.

(c) Dissolution of the Committee. On the Effective Date, the Committee shall be dissolved arid its members shall be released of all of their duties, responsibilities, and obligations in connection with the Chapter 11 Cases. On the Effective Date, the Residual Trustee shall be substituted for the Committee as party in interest with respect to any pending objections to Claims or other litigation filed by or against the Committee.

(d) Discharge of the Debtors. Except for the Residual Claims, or as may be otherwise provided herein, in the Confirmation Order, or in the Restated Credit Documents, the rights afforded in the Plan and the payments and distributions to be made hereunder shall discharge all Causes of Action against a Debtor or its Estate that arose before the Effective Date to the extent permitted by section 1141 of the Bankruptcy Code, including but not limited to all Causes of Action of the kind specified in section 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not (i) a proof of claim based upon such debt is filed or deemed filed under section 501 of the Bankruptcy Code; (ii) a Claim based upon such debt is allowed under section 502 of the Bankruptcy Code; or (iii) the holder of a Claim based upon such debt has accepted the Plan. The Confirmation Order, except as provided herein or therein, shall be a judicial determination of discharge of all Causes of Action against a Debtor, such discharge shall void any judgment against a Debtor at any time obtained to the extent it relates to a discharged Cause of Action, and all Persons shall be precluded from asserting against a Debtor, or any of the Assets, any Cause of Action based upon any act or omission, transaction, or other activity of any kind or nature that occurred. prior to the Effective Date, whether or not such holder filed a proof of claim. As provided in section 524 of the Bankruptcy Code, entry of the Confirmation Order shall operate as an injunction against the prosecution of any action against a Debtor or its property to the extent it relates to a discharged Cause of Action.

(e) Injunction. On the Effective Date, except as otherwise provided herein or in the Confirmation Order, all Persons who have been, are, or may be holders of Claims against or Equity Interests in a Debtor shall be enjoined from taking any of the following actions against or affecting a Debtor, its Estate, or the Assets and property with respect to such Claims or Equity Interests (other than actions brought to enforce any rights or obligations under the Plan and appeals, if any, from the Confirmation Order):

(i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind against a Debtor, its Estate, or the Assets, or any direct or indirect successor in interest to a Debtor (including New WCG), or any assets or property of such transferee or successor (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date, which must be withdrawn or dismissed with prejudice);

(ii) enforcing, levying, attaching, collecting, or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order against a Debtor, its Estate, or the Assets, or any direct or indirect successor in interest to a Debtor (including

New WCG), or any assets or property of such transferee or successor,

(iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any lien against a Debtor, its Estate, or the Assets, or any direct or indirect successor in interest to any of a Debtor (including New WCG), or any assets or property of such transferee or successor other than as contemplated by the Plan;

(iv) except as provided herein, asserting any setoff, right of subrogation, or recoupment of any kind, directly or indirectly against any obligation due a Debtor, its Estate, or its Assets, or any direct or indirect successor in interest to a Debtor (including New WCG), or any assets or property of such transferee or successor~ and

(v)proceeding in any manner in any place whatsoever that does not conform to or comply with the provisions of the Plan or the settlements set forth herein to the extent such settlements have been approved by the Bankruptcy Court in connection with confirmation of the Plan;

provided, however, that nothing in this Section shall affect the rights of the Administrative Agent or Lenders under the New WCG Guarantee, the Restated Guarantee, the WCL Credit Documents, or the Restated Credit -Documents, or the rights of the TWC entities under the TWC Continuing Contracts or any of the other agreements entered into in connection with the TWC Settlement Agreement.

(f) Retention of CG Austria Equity Interests. Upon the occurrence of the Effective Date, all Equity Interests of CG Austria shall be retained by and shall vest in WCL (subject to the Restated Credit Documents) as if the Chapter 11 Cases had not been commenced.

(g) Cancellation of Instruments and Agreements. Upon the occurrence of the Effective Date, except as may be assigned to the Residual Trust or as otherwise provided herein, in the WCL Credit Documents, or in the Confirmation Order, all agreements, instruments, indentures, notes, warrants, options, share certificates, or other documents (other than the Restated Credit Documents, the WCL Credit Documents, and any insurance policy of a Debtor) evidencing, giving rise to, or governing any Claim or Equity Interest shall be deemed canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or rule, and the obligations of a Debtor under such agreements, instruments, indentures, notes, warrants, options, share certificates, or other documents shall be discharged; provided however, that the Senior Reset Note Indenture and the Senior Redeemable Notes Indenture shall continue in effect solely for the purposes of (a) allowing the holders of the Senior Reset Note Claims and Senior Redeemable Notes Claims to receive their distributions hereunder, (b) allowing the Indenture Trustees to make the distributions to be made on account of the Senior Reset Notes and Senior Redeemable Notes, and (c) permitting the Indenture Trustees to recover the Indenture Trustee Fees in accordance with Section 2.2(e) of this Plan and, if necessary for any reason, in the sole determination of the Indenture Trustees, to assert their Indenture Trustee Charging Lien against such distributions for payment of the Indenture Trustee Fees.

(h) Disallowance of Affiliate Senior Redeemable Notes. Upon the occurrence of the Effective Date, any Senior Redeemable Note that was held by an Affiliate on the Petition Date shall be disallowed in its entirety and the holder of such Note shall not receive any distribution on account of such Senior Redeemable Note.

(i) Treatment of Affiliate Claims. Except for Senior Redeemable Notes Claims and as otherwise expressly provided herein or in the Restated Credit Documents, all rights, claims, Causes of Action, obligations, and liabilities between and among each Debtor and its Affiliates shall be reinstated and/or unimpaired on the Effective Date as if the Chapter II Cases had not been filed.

(j) Exculpation.

(i) From and after the Effective Date, neither the Debtors, their Affiliates, the Administrative Agent, the Lenders, the Committee, Leucadia, the TWC Entities, nor any of their respective directors, officers, employees, members, attorneys, consultants, advisors, and agents (acting in such capacity), shall have or incur any liability to any Person for any act taken or omitted to be taken in connection with the Debtors' restructuring, including the formulation, preparation, dissemination, implementation, confirmation or approval of the Restructuring Agreement, the TWC Plan Support Agreement, the TWC Settlement Agreement, the Plan, the Plan Documents, the Disclosure Statement, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan; provided, however, that the foregoing provisions shall not affect the liability of any Person that otherwise would result from any such act or omission to the extent that act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct. Any of the foregoing parties in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

(ii) From and after the Effective Date, the Indenture Trustees and their agents, attorneys, and advisors shall be exculpated by all Persons and entities, including, without limitation, all holders of Senior Reset Note Claims and Senior Redeemable Notes Claims and other parties in interest, from any and all claims, causes of action, and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Indenture Trustees by the Senior Reset Note Indenture, the Senior Redeemable Notes Indenture or the Plan or any order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law, except for actions or omissions to act arising out of the gross negligence or willful misconduct of the Indenture Trustees. No holder of a Senior Reset Note Claim and Senior Redeemable Notes Claim or other party in interest shall have or pursue any claim or cause of action against the Indenture Trustees and their agents, attorneys and advisors for making distributions in accordance with this Plan or for implementing the provisions of this Plan.

(k) Release By Holders. As of the Effective Date, each holder of a Senior Reset Note Claim and Senior Redeemable Notes Claim to the fullest extent permissible under applicable law, as such law may be extended or interpreted subsequent to the Effective Date, shall be deemed to forever release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen or then existing or thereafter arising in law, equity or otherwise, that are based in whole or in part on any act, omission, transaction, or other occurrence taking place on or prior to the Effective Date in any way relating to the Indenture Trustees or their agents, attorneys, and advisors that such entity has, had or may have, against the Indenture Trustees or their agents, attorneys, and advisors, or all Persons or entities claiming through them, and any of their respective present or former directors, officers, employees, agents, representatives, attorneys, accountants, underwriters, investment bankers or financial advisors and any of their respective successors or assigns. This release, waiver and discharge will be in addition to the discharge of claims and termination of interests provided herein and under the Confirmation Order and the Bankruptcy Code.

(1) Release By Debtors. As of and on the Effective Date, the Debtors, their Estates, all Persons claiming through them, all Persons or entities who have held, hold or may hold Claims against or allowed interests in the Debtors, and any of their successors, assigns or representatives, shall be deemed to have waived, released and discharged all rights or claims, whether based upon tort, fraud, contract, or otherwise, and whether arising out of the Debtors' restructuring, including the formulation, preparation, dissemination, implementation, confirmation or approval of the Restructuring Agreement, the Plan Support Agreement, the Leucadia Investment Agreement, the Leucadia Claims Agreement, the Building Purchase Agreement, the TWC Settlement, the Plan, the Disclosure Statement or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan, which they possessed or may possess prior to the Effective Date against the Indenture Trustees, and

its present or former directors, officers, employees, agents, representatives, attorneys, accountants, underwriters, investment bankers, or financial advisors, and any of their respective successors or assigns. This release, waiver, and discharge will be in addition to the discharge of Claims and termination of interests provided herein and under the Confirmation Order and the Bankruptcy Code.

(m) Lender Releases. As of the Effective Date, the Debtors and their Estates, every holder of a Claim or Equity Interest, and the TWC Entities, forever release, waive and discharge the Released Lender Parties (and the Released Lender Parties forever release, waive and discharge the Proponents and the TWC Settlement Releasees) from all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, liabilities, rights of contribution, and rights of indemnification, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or in part on any act, omission, transaction, or other occurrence taking place on, or prior to, the Effective Date in any way relating to the Debtors and their business affairs (including, without limitation, any extensions of credit or other financial services or accommodations made or not made to the Debtors prior to the Effective Date), the Chapter 11 Cases, the Plan, the WCL Credit Agreement, the WCL Credit Documents, and the Restructuring Agreement. The Confirmation Order shall specifically provide for the foregoing releases and shall enjoin the prosecution of any such released claim, causes of action, or liability.

(n) Limited Release of Directors. Officers, and Employees. As of the Effective Date, each of the Debtors shall be deemed to have waived and released its present and former directors, officers, employees, members, attorneys, consultants, advisors, and agents (acting in such capacity) who were directors, officers, employees, members, attorneys, consultants, advisors or agents, respectively, at any time during the Chapter 11 Cases from any and all Causes of Action of the Debtors, including without limitation, Causes of Action which a Debtor as a debtor in possession otherwise has legal power to assert, compromise, or settle in connection with the Chapter 11 Cases, arising on or prior to the Effective Date; provided, however, that the foregoing provisions shall not operate as a waiver or release of (i) amounts due under any loan, advance or similar payment by a Debtor to any such person, (ii) contractual obligations owed by such person to a Debtor, (iii) Causes of Action relating to such person's actions or omissions determined in a Final Order to have constituted gross negligence or willful misconduct.

(o) Receipt of New Equity. The New Equity being issued under the Plan shall be distributed to and received by holders of Allowed Claims in Classes 4, 5, and 6 free and clear of any liens, encumbrances, or Causes of Action relating in any way to WCG or Old WCG.

ARTICLE V

MEANS FOR IMPLEMENTATION OF THE PLAN

SECTION 5.1 CORPORATE EXISTENCE.

On the Effective Date: (a) New WCG shall be incorporated and shall exist thereafter as a separate corporate entity, with all corporate powers in accordance with the laws of the State of Nevada, the New Charter, and the New Bylaws, (b) the Residual Trust shall be settled and exist as a grantor trust under the laws of the State of Delaware and pursuant to the Declaration of Trust, (c) CG Austria shall continue to exist as a separate corporate entity, with all corporate powers in accordance with the laws of the State of Delaware and pursuant to its existing certificate of incorporation and bylaws, and (d) Old WCG shall continue to exist as a separate corporate entity, with corporate powers, in accordance with the laws of the State of Delaware and pursuant to its certificate of incorporation and bylaws, each of which shall be amended and restated to limit Old WCG's activity to the liquidation of its Residual Assets and the winding-up of its affairs.

SECTION 5.2 GOVERNANCE.

(a) Selection of Directors and Officers of New WCG

(i) Immediately following the Effective Date, the initial board of directors of New WCG shall be composed of nine individuals, consisting of the Chief Executive Officer of WCG, at least one director of WCG to be selected by WCG's board of directors (the 'WCG Independent Director"), two individuals to be selected by Leucadia, and five individuals to be selected by the Committee after consultation with the Leucadia (the "Committee Independent Directors").

(ii) In selecting the five Committee Independent Directors, at least 30 days prior to the Effective Date, the Committee shall provide to Leucadia a list of at least five and no more than 10 individuals who are qualified to serve as the Committee Independent Directors. Such individuals shall not be partners, members, officers, directors, controlling shareholders or employees of any holder of Allowed Claims in Class 5. Within 10 days of receipt of such list, Leucadia shall advise WCG and the Committee in writing which individuals on such list shall serve as the five Committee Independent Directors. If, however, the list provided by the Committee to Leucadia contains less than 10 individuals and if Leucadia provides written notice to the Committee within 10 days of receipt of the list that it does not find at least 5 individuals on the list acceptable to serve as Committee Independent Directors, then the Committee shall notify Leucadia in writing of the name of at least one additional individual to serve as a Committee Independent Director, which Leucadia shall be permitted to accept or reject in writing. If Leucadia determines such additional individual is not acceptable, and provides written notice of same to the Committee within 10 days of receipt of the notice of the proposal of such additional individual, then the Committee shall again notify Leucadia in writing of the name of at least one additional individual to serve as a Committee Independent Director, which Leucadia can decide to accept or reject within 10 days of receipt of the notice of the proposal of such additional individual. Notwithstanding the foregoing, at no time shall the Committee be required to provide to Leucadia a list of more than 10 proposed Committee Independent Directors, and at no time shall Leucadia be permitted to reject more than five proposed Committee Independent Directors.

(iii) The WCG Independent Director and the Committee Independent Directors must (A) be independent of New WCG within the meaning of the rules of the New York Stock Exchange or, if New WCG is listed or traded on another stock exchange, the stock exchange on which New WCG's securities are listed or traded, and the applicable rules of the SEC; (B) be independent of Leucadia; and (C) not be an officer or employee of New WCG or any of its affiliates.

(iv) An individual is not independent of Leucadia if he or she (A) is not "independent" of Leucadia within the meaning of the rules of the New York Stock Exchange or the SEC; (B) is an affiliate or an officer, director, or employee of Leucadia; (C) is a beneficial owner of more than 10% of the voting power of Leucadia; (D) has any relationship with Leucadia that would typically be required to be disclosed in a Leucadia proxy statement; or (E) is designated by Leucadia for election to the Board of Directors of New WCG in accordance with the Stockholders Agreement.

(v) After the initial Board is selected, the terms and manner of selection of directors of New WCG shall be as provided in the New Bylaws and the New Charter and in accordance with the terms of the Stockholders Agreement

(b) Upon the occurrence of the Effective Date and subject to the provisions of the Plan, the management, control, and operation of: (i) New WCG shall become the general responsibility of its board of directors, as constituted herein and pursuant to the New Charter and the New Bylaws, (ii) CG Austria shall become the general responsibility of its board of directors as such is constituted pursuant to CG Austria's existing certificate of incorporation and bylaws and (iii) Old WCG shall become the general responsibility of its board of directors as such is constituted by the Residual Trustee on behalf of the Residual Trust as the sole shareholder of Old WCG and pursuant to Old WCG's amended and restated certificate of incorporation and bylaws.

SECTION 5.3 THE NEW CHARTER; NEW BYLAWS, AMENDED OLD WCG CHARTER AND THE AMENDED OLD WCG BYLAWS.

Upon the occurrence of the Effective Date, the New Charter and the New Bylaws shall become effective and Old WCG's certificate of incorporation and bylaws shall be amended and restated in substantially the form filed as a Plan Document.

SECTION 5.4 EFFECTUATING DOCUMENTS,

On or before ten (10) Business Days prior to the deadline for parties to vote to accept or reject the Plan, the Debtors shall file with the Bankruptcy Court substantially final forms of the agreements, instruments, and other documents that have been identified herein as Plan Documents, which agreements, instruments, and documents shall implement and be governed by the Plan. Entry of the Confirmation Order shall authorize the officers of the Debtors and New WCG to execute, enter into, and deliver all documents, instruments, and agreements, including, but not limited to, the Plan Documents, and to take all actions necessary or appropriate to implement the Plan. To the extent the terms of any of the Plan Documents conflict with the terms of the Plan, the Plan shall control.

SECTION 5.5 TRANSACTIONS ON THE EFFECTIVE DATE.

On the Effective Date, unless otherwise provided by the Confirmation Order, the following shall occur, shall be deemed to have occurred simultaneously, and shall constitute substantial consummation of the Plan:

(a) the New Charter and New Bylaws shall be authorized, approved and effective in all respects without further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by the stockholders or directors of Old WCG or New WCG. On the Effective Date or as soon thereafter as is practicable, the New Charter shall be filed with the Secretary of State of the State of Nevada;

(b) the Residual Trust shall be established, and the Residual Assets shall automatically vest in Old WCG without further action on the part of Old WCG, or the Residual Trustee;

(c) the Residual Trustee shall be identified by the Administrative Agent and shall be duly appointed and qualified to serve;

(d) the property to be retained by and/or transferred to a Debtor or New WCG shall automatically vest in such Debtor or New WCG without further action on the part of such Debtor or any other Person;

(e) Old WCG shall issue the Residual Share to the Residual Trust;

(f) all of the Restated Credit Documents shall be executed, delivered, and shall become effective;

(g) all payments, deliveries, and other distributions to be made pursuant to the Plan or the Restated Credit Documents on or as soon as practicable after the Effective Date shall be made or duly provided for,

(h) each of the transactions that comprise the TWC Settlement shall occur or be implemented and shall become binding and effective in all respects, including, without limitation; (i) Leucadia shall make the New Investment pursuant to the Leucadia Investment Agreement; (ii) Leucadia shall purchase the TWC Assigned Claims pursuant to the Leucadia Claims Purchase Agreement; (iii) Leucadia shall receive the Leucadia Claims Distribution and the Leucadia Investment Distribution; (iv) TWC shall contribute the TWC Contributed Distribution for the benefit of holders of Class 5/6 Channeled Actions; (v) WHBC shall sell the Building Purchase Assets to WTC pursuant to the Building Purchase Agreement; (vi) all of the Additional Settlement Transactions shall be consummated; and (vii) all of the releases contemplated by the TWC Settlement shall become binding and effective.

ARTICLE VI

PROVISIONS GOVERNING DISTRIBUTIONS AND FOR RESOLVING AND TREATING CONTESTED CLAIMS

SECTION 6.1 POWERS AND DUTIES OF THE DISBURSING AGENT.

Pursuant to the terms and provisions of the Plan, the Disbursing Agent shall be empowered and directed to (a) take all steps and execute all instruments and documents necessary to make distributions on account of Allowed Claims; (b) make distributions contemplated by the Plan; (c) comply with the Plan and the obligations thereunder; (d) employ, retain, or replace professionals to represent it with respect to its responsibilities; (e) object to Claims as specified herein, and prosecute such objections; (f) make annual and other periodic reports regarding the status of distributions under the Plan to the holders of Allowed Claims (such reports to be made available upon request to the holders of any Contested Claim); and (g) exercise such other powers as may be vested in the Disbursing Agent pursuant to an order of the Bankruptcy Court or the Plan.

SECTION 6.2 DISBURSING AGENT/RESIDUAL TRUSTEE.

The Disbursing Agent shall make or direct all distributions required under this Plan, except for distributions that are explicitly to be made by the Residual Trustee.

SECTION 6.3 MEANS OF CASH PAYMENT.

Subject to the provisions of the Plan, the WCL Credit Documents, and the Restated Credit Documents, Cash payments made pursuant to the Plan shall be by check drawn on a domestic bank, or by wire transfer from a domestic bank, except that payments made to foreign creditors holding Allowed Claims or to foreign governmental units holding Allowed Priority Tax Claims shall be in such funds and by such means as are customary or as may be necessary in a particular foreign jurisdiction.

SECTION 6.4 DELIVERY OF DISTRIBUTIONS.

Subject to Bankruptcy Rule 9010, distributions and deliveries to holders of Allowed Claims shall be made at

the address of each such holder (a) as set forth on the proof of Claim filed by such holder, or (b) at the last known address of such holder if the Disbursing Agent or the Residual Trustee (as applicable) have been notified of a change of address, except as otherwise provided herein. If any holder's distribution is returned as undeliverable, no further distributions to such holder shall be made unless and until the Disbursing Agent or the Residual Trustee (as applicable) receives notification of such holder's then-current address, at which time any missed distributions shall be made to such holder without interest. Amounts in respect of undeliverable distributions shall be returned to the Disbursing Agent or the Residual Trustee (as applicable) until such distributions are claimed. All claims for undeliverable distributions shall be made on or before the first anniversary of the Distribution Date. After such date, all unclaimed property shall revert to NewWCG.

SECTION 6.5 SURRENDER OF NOTES. INSTRUMENTS, AND SECURITIES.

Subject to the provisions of the Plan, the Confirmation Order, or the Restated Credit Documents, as a condition to receiving distributions provided for by the Plan, each holder of a promissory note or other instrument evidencing a Claim (other than the holder of a Senior Redeemable Notes Claim) shall surrender such promissory note or instrument to the Disbursing Agent (or, if applicable, the Residual Trustee) within sixty (60) days of the Effective Date. AJI promissory notes and other instruments surrendered pursuant to the preceding sentence shall be marked "Compromised and Settled Only as Provided in the Plan." Except as set forth above or unless waived by the Disbursing Agent or the Residual Trustee (as applicable), any Person seeking the benefits of being a holder of an Allowed Claim evidenced by a promissory note or other instrument (other than the holder of a Senior Redeemable Notes Claim), that fails to surrender such promissory note or other instrument must (a) establish the unavailability of such promissory note or other instrument to the reasonable satisfaction of the Disbursing Agent or the Residual Trustee (as applicable), and (b) provide an indemnity bond in form and amount acceptable to the Disbursing Agent (or, if applicable, the Residual Trustee) holding harmless the Debtors and the Disbursing Agent (or, if applicable, the Residual Trustee) from any damages, liabilities, or costs incurred a result of treating such Person as a holder of an Allowed Claim. Thereafter, such Person shall be treated as the holder of an Allowed Claim for all purposes under the Plan. Notwithstanding the foregoing, any holder of a promissory note, share certificate, or other instrument evidencing a Claim (other than a holder of a Senior Redeemable Notes Claim) that fails within one year of the Effective Date to surrender to the Debtors (or, if applicable, the Residual Trustee) such note or other instrument or, alternatively, fails to satisfy the requirements of the second sentence of this paragraph shall be deemed to have forfeited all rights and Claims against the Debtors and shall not be entitled to receive any distribution under the Plan.

SECTION 6.6 EXPENSES INCURRED ON OR AFTER THE EFFECTIVE DATE AND CLAIMS OF THE DISBURSING AGENT AND THE RESIDUAL TRUSTEE.

Subject to approval by the requisite number of Lenders for the use of any of the Lenders' cash collateral, the amount of any expenses incurred by the Disbursing Agent or the Residual Trustee on or after the Effective Date (including, but not limited to, taxes) and any compensation and expenses (including any post-confirmation fees, costs, expenses, or taxes) to be paid to or by the Disbursing Agent or the Residual Trustee shall be borne by New WCG and the Residual Trust, respectively. Reasonable professional fees and expenses incurred by the Disbursing Agent or the Residual Trustee after the Effective Date in connection with the effectuation of the Plan shall be paid by each in the ordinary course of business.

SECTION 6.7 TIME BAR TO CASH PAYMENTS.

Checks issued by the Disbursing Agent or the Residual Trustee in respect of Allowed Claims shall be null and void if not negotiated within one hundred eighty (180) days after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the Disbursing Agent or, if applicable, the Residual Trustee, by the holder of the Allowed Claim to whom such check originally was issued. Any claim with respect to such a voided check shall be made on or before the later of (a) the first anniversary of the Distribution Date or (b) one hundred eighty (180) days after the date of issuance of such check. After such date, all claims in respect of void checks shall be discharged and forever barred.

SECTION 6.8 EXCULPATION OF THE DISBURSING AGENT.

Subject to the provisions of this Section, each of the Disbursing Agent and the Residual Trustee, in its capacity as such, together with its officers, directors, employees, agents, and representatives (acting in that capacity), are hereby exculpated by all Persons, holders of Claims and Equity Interests, and parties in interest, from any and all causes of action, and other assertions of liability (including breach of fiduciary duty) arising out of the discharge of the powers and duties conferred upon the Disbursing Agent or the Residual Trustee, as the case may be, by the Plan, any Final Order of the Bankruptcy Court entered pursuant to or in the furtherance of the Plan, or applicable law, except solely for actions or omissions arising out of the Disbursing Agent's or Residual Trustee's gross negligence or willful misconduct. No holder of a Claim or an Equity Interest, or representative thereof, shall have or pursue any claim or Cause of Action (a) against either the Disbursing Agent or the Residual Trustee, in its capacity as such, or its officers, directors, employees, agents, and representatives (acting in that capacity) for making payments in accordance with the Plan, or for liquidating assets to make payments under the Plan, or (b) against any holder of a Claim or an Equity Interest for receiving or retaining payments or transfers of assets as provided for by the Plan. Nothing contained in this Section shall preclude or impair any holder of an Allowed Claim from bringing an action in the Bankruptcy Court to compel the making of distributions contemplated by the Plan on account of such Claim against a Debtor or New WCG.

SECTION 6.9. NO DISTRIBUTIONS PENDING ALLOWANCE.

Notwithstanding any other provision of the Plan, no payment or distribution shall be made with respect to any Claim to the extent it is a Contested Claim unless and until it becomes an Allowed Claim. Any distributions and deliveries to be made under the Plan on account of an Allowed Claim shall be made on the Distribution Date with respect to such Allowed Claim, as otherwise provided for herein, or as may be ordered by the Bankruptcy Court and shall be made in accordance with the provision of the Plan governing the class of Claims to which such Allowed Claim belongs.

SECTION 6.10 OBJECTION DEADLINE.

As soon as practicable, but in no event later than sixty (60) days after the Effective Date (subject to being extended by the Bankruptcy Court upon motion of a Debtor with notice and a hearing), objections to Claims shall be filed with the Bankruptcy Court and served upon the holder of each of the Claims to which objections are made; provided, however, that no objection may be filed with respect to any Claim that is Allowed on or before the Effective Date.

SECTION 6.11 PROSECUTION OF OBJECTIONS.

Upon occurrence of the Effective Date, only the Disbursing Agent and the Residual Trustee shall have authority to file, litigate, settle, or withdraw objections to Claims.

SECTION 6.12 ESTIMATION OF CLAIMS.

The Disbursing Agent or the Residual Trustee may, at any time and from time to time, request that the Bankruptcy Court estimate any Contested Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Disbursing Agent, the Residual Trustee, or the Committee (as applicable) previously objected to such Claim, or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any Contested Claim, that estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Disbursing Agent, the Residual Trustee, or the Committee may elect to pursue any supplemental proceedings to object to any ultimate payment on such Claim. All of the objection, estimation, settlement, and resolution procedures set forth in the Plan are cumulative and not necessarily exclusive of one another.

Claims may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

SECTION 6.13 INDENTURE TRUSTEES AS CLAIM HOLDER.

Consistent with Bankruptcy Rule 3003(c), the Debtors shall recognize proofs of claim filed by the Indenture Trustees with respect to the Senior Reset Note Claims and Senior Redeemable Notes Claims. Accordingly, any Claim, proof of which is filed by the registered or beneficial holder of a Claim, may be disallowed as duplicative of the Claim of the Indenture Trustees, without need for any further action or Bankruptcy Court order.

ARTICLE VII

RETENTION OF JURISDICTION

SECTION 7.1 SCOPE OF JURISDICTION.

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain such jurisdiction over the Chapter 11 Cases after the Effective Date so long as is legally permissible, including, but not limited to, jurisdiction to:

(a) Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any and all objections to the allowance or priority of Claims;

(b) Grant or deny any applications for allowance and payment of any Fee Claim for periods ending on or before the Effective Date;

(c) Resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which a Debtor is a party or with respect to which a Debtor may be liable and to hear, determine and, if necessary, liquidate, any Claims arising therefrom;

(d) Ensure that distributions to holders of Allowed Claims are accomplished pursuant to the provisions of the Plan, including ruling on any motion or other pleading filed pursuant to the Plan;

(e) Decide or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters, and grant or deny any applications involving a Debtor, the Disbursing Agent, or the Residual Trust that may be pending on or commenced after the Effective Date;

(f) Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, indentures, and other agreements or documents created in connection with the Plan or the Disclosure Statement, or to correct any defect, cure any omission, or reconcile any inconsistency therein;

(g) Resolve any cases, controversies, suits, or disputes that may arise in connection with the consummation, interpretation, or enforcement of the Plan, the TWC Settlement, the Declaration of Trust, the liquidation of the Residual Assets, the distribution of Available Proceeds, if any, and the winding-up of Old WCG or any Person's obligations incurred in connection therewith, or any other agreements governing, instruments evidencing, or documents relating to any of the foregoing, including the interpretation or enforcement of any rights, remedies, or obligations under any of the foregoing;

(h) Issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any entity with consummation or enforcement of the Plan, including, without limitation, to enforce the TWC Settlement and the Channeling Injunction, except as otherwise provided herein;

(i) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;

(j) Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order, the TWC Settlement, the Channeling Injunction, the liquidation of the Residual Assets, the distribution of Available Proceeds, if any, and the winding-up of Old WCG, or any contract, instrument, release, indenture, or other agreement or document created in connection with the Plan, the Disclosure Statement, or the TWC Settlement including without limitation the Declaration of Trust

(k) Enter a Final Decree as contemplated by Bankruptcy Rule 3022; and

(l) Effectuate payment of the Indenture Trustee Fees as contemplated by Section 2.2(e) of this Plan.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 8.1 PAYMENT OF STATUTORY FEES.

All fees payable pursuant to section 1930 of title 28 of the United States Code that come due prior to the Effective Date, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date. After the Effective Date, and until the Chapter 11 Cases are closed, converted, or dismissed, the Disbursing Agent shall pay fees pursuant to section 1930 of title 28 of the United States Code as they become due.

SECTION 8.2 NO INTEREST OR ATTORNEYS' FEES.

Subject to the provisions of the Plan, the Cash Collateral Order, the WCL Credit Documents, the Restated Credit Documents, or as allowed by the Bankruptcy Court, no interest, penalty, or late charge arising after the Petition Date, and no award or reimbursement of attorneys fees or related expenses or disbursements, shall be allowed on, or in connection with, any Claim.

SECTION 8.3 MODIFICATIONS TO THE PLAN.

(a) The Debtors reserve the right, with the consent of each of the other Proponents, TWC, and the Administrative Agent (which consent may not be unreasonably withheld), to amend or modify the Plan at any time prior to the entry of the Confirmation Order in accordance with the Bankruptcy Code and Bankruptcy Rules.

(b) After the entry of the Confirmation Order, the Debtors may, with the consent of each of the other Proponents, TWC, and the Administrative Agent (which consent shall not be unreasonably withheld) amend or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan, in accordance with the provisions of the Bankruptcy Code and Bankruptcy Rules.

(c) A holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim of such holder.

SECTION 8.4 REVOCATION OF PLAN.

The Debtors reserve the right in the good faith exercise of their fiduciary duties to revoke and withdraw the Plan prior to the occurrence of the Effective Date in accordance with Section 1127 of the Bankruptcy Code. If the Debtors revoke or withdraw the Plan., or if the Effective Date does not occur, then the Plan and all settlements set forth in the Plan (including the TWC Settlement) shall be deemed null and void and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against a Debtor or any other Person or to prejudice in any manner the sights of a Debtor or any Person in any proceedings involving a Debtor.

SECTION 8.5 EXEMPTION FROM TRANSFER TAXES.

Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with, the Plan, including, without limitation, those contemplated by the TWC Settlement Agreement, the Restated Credit Documents, or any agreements of consolidation, deeds, bills of sale, or assignments executed in connection with any of the transactions contemplated under the Plan shall not be subject to any stamp, real estate, transfer, mortgage recording, use, or other similar tax.

SECTION 8.6 SETOFF RIGHTS.

Subject to the provisions of section 553 of the Bankruptcy Code, in the event that a Debtor has a Cause of Action of any nature whatsoever against the holder of a Claim, such Debtor may, but is not required to, setoff against the Claim (and any payments or other distributions to be made in respect of such Claim hereunder) a Debtor's Cause of Action against the holder. Neither the failure to set off nor the allowance of any Claim under the Plan shall constitute a waiver or release by a Debtor of any Cause of Action that a Debtor has against the holder of a Claim.

SECTION 8.7 COMPLIANCE WITH TAX REQUIREMENTS.

In connection with the Plan, the Debtors, the Disbursing Agent, and the Residual Trustee shall comply with all withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities and all distributions hereunder shall be subject to such withholding and reporting requirements.

SECTION 8.8 RECOGNITION OF GUARANTY RIGHTS.

The classification of and manner of satisfying all Claims under the Plan take into consideration (a) the existence of guaranties by a Debtor of obligations of other Persons, and (b) the fact that a Debtor may be a joint obligor with other Persons with respect to an obligation. Subject to the provisions of the Confirmation Order, the New WCG Guarantee, or the Restated Credit Documents, all Claims against a Debtor based upon any such guaranties or joint obligations shall be discharged to the extent and in the manner provided in the Plan; provided, however, that no creditor shall be entitled to receive more than one recovery with respect to any of its Allowed Claims.

SECTION 8.9 COMPLIANCE WITH ALL APPLICABLE LAWS.

If notified by any governmental authority that it is in violation of any applicable law, rule, regulation, or order of such governmental authority relating to its businesses, the Debtors shall take whatever action as may be required to comply with such law, rule, regulation, or order,provided. however, that nothing contained herein shall require such compliance if the legality or applicability of any such requirement is being contested in good faith and, if appropriate, an adequate reserve for such requirement has been set aside.

SECTION 8.10 BINDING EFFECT.

The Plan shall be binding upon and inure to the benefit of the Debtors, the WCG Entities, the WCG Indemnitees, the TWC Entities, the holders of all Claims and Equity Interests, Class 5/6 Channeled Actions, and Securities Holder Channeled Actions, and their respective successors and assigns.

SECTION 8.11 NOTICES.

Whenever service is required in the Plan, such service shall be made so as to be received by 5:00 p.m. Eastern Time on or before the date required.

SECTION 8.12 GOVERNING LAW.

Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules), the laws of the State of New York shall govern the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan or the Chapter 11 Cases, including the Plan Documents, except as may otherwise be provided in such agreements, documents, instruments, and Plan Documents.

SECTION 8.13 SEVERABILITY.

If the Bankruptcy Court determines that any provision of the Plan would be unenforceable or would prevent the Plan from being confirmed, either on its face or as applied to any Claim or Equity Interest or transaction, the Debtors, with the consent of TWC, the Proponents, and the Administrative Agent, may modify the Plan so that such provision shall not be applicable to the holder of any Claim or Equity Interest or in such manner as will allow the Plan to be confirmed. Such a determination by the Bankruptcy Court and modification by the Debtors shall not (a) limit or affect the enforceability and operative effect of any other provision of the Plan, or (b) require the resolicitation of any acceptance or rejection of the Plan.

Dated: August 12, 2002

[SIGNATURE PAGE FOLLOWS]

WILLIAMS COMMUNICATIONS GROUP, INC.

/s/ Scott E. Schubert
By: Scott E. Schubert
Its:

CG AUSTRIA, INC.

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS

By:
Its:

LEUCADIA NATIONAL CORPORATION

/s/ Joseph A. Orlando
By: Joseph A. Orlando
Its: Vice President

WILLIAMS COMMUNICATIONS GROUP, INC.

By:
Its:

CG AUSTRIA, INC.

By:
Its:

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS

By A(2) INVESTMENTS, LDC

By: Amalgamated Gadget, L.P. as investment manager

By: Scepter Holdings, Inc. its General Partner

/s/ DAVID GILLESPIE
By: David Gillespie
Its: CFO

LEUCADIA NATIONAL CORPORATION

By:
Its

EXHIBIT 10.39

ATTACHMENT I

MODIFICATIONS TO SECOND AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF WILLIAMS COMMUNICATIONS GROUP, INC. AND CG AUSTRIA, INC.

Section 1.1 Definitions.

(24) "Class 5/6 Channeled Actions" means all Causes of Action of holders of Allowed Class 5 Senior Redeemable Notes Claims and Allowed Class 6 Other Unsecured Claims, acting in such capacity, against a TWC Released Party or a WCG Indemnitee (except for Causes of Action to enforce any obligation of a TWC Released Party or WCG Indemnitee under the Plan, a Plan Document, or the TWC Settlement Agreement) that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Effective Date.

(85) "Residual Assets" means, with the exception of any (i) Assets necessary for the operation of the business of New WCG and its subsidiaries, including all cash and cash equivalents and amounts maintained in securities accounts by old WCG on the Effective Date less the amount required to satisfy all Administrative Claims and (ii) Causes of Action against or equity interests in any Affiliate, any and all assets of WCG, including, but not limited to, any and all Causes of Action against any Person other than an Affiliate.

(96) "SBC Consent" means the consent by SBC, pursuant to the SBC Stipulation, to (a) the transactions contemplated by the Leucadia Investment Agreement and the Leucadia Claims Purchase Agreement; (b) the transactions contemplated by the Plan: and (c) the Spin-Off.

(97) "SBC Stipulation" means that certain Stipulation, dated September 23, 2002, by and between SBC Leucadia, and the Debtors.

(100) "Securities Holder" means any current or former holder of security issued by a WCG Entity without limitation, Equity Interests and/or Senior Redeemable Notes) acting in such capacity, provided, however, that "Securities Holder" shall not include of a holder an Allowed Claim in Class 5 or 6 under the Plan, acting in such capacity.

(101) "Securities Holder Channeled Action" means any Cause of Action (i) of a Securities Holder against a WCG Indemnitee that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in past prior to the Effective Date or (ii) of any Person for contribution, reimbursement, or indemnity from old WCG, New WCC, or a WCG Indemnitee, relating to a Cause of Action of a Securities Holder, and that in not otherwise discharged, satisfied, released, exculpated, or otherwise provided for in or by the Plan or the Confirmation Order.

(102) "Securities Holder Channeling Fund" means (a) the right to receive 2% of the New WCG Common Stock (on a fully-diluted basis), to the extent that holders of Securities Holder Channeled Actions become entitled to receive such stock pursuant to the Securities Holder Channeling Fund Distribution Procedures; and/or (b) any recoveries that can be obtained from officer/director liability insurance policies of the Company or insurance carriers that cover officers and directors of the Company or the Company's obligation to indemnify its officers and directors.

(131) "WCG Indemnitee" means any Affiliate and each of the present and former directors, managers, officers, employees, agents, and attorneys, of a WCG Entity acting in such capacity, excluding Persons who serve or served as officers of SBC to the extent such Persons possessed

conflicts of interest with respect to the WCG Entities while acting as directors of WCG in connection with the Spin-Off, provided, however, that upon written notification by SBC that the conditions to effectiveness contained in paragraph 14 of the SBC Stipulation have been satisfied or waived, then such officers of SBC shall be deemed to be WCG Indemnitees.

SECTION 2.2 TREATMENT OF ADMINISTRATIVE CLAIMS.

(a) Time for Filing Administrative Claims. Except with respect to (i) a Fee Claim, (ii) an Adequate Protection Claim, (iii) a TWC Continuing Contract Claim, (iv) a liability incurred and paid in the ordinary course of business by a Debtor, or (v) an Administrative Claim that has been allowed on or before the Effective Date, within ten (10) days after service of notice of entry of the Confirmation Order, the holder of an Administrative Claim must file with the Bankruptcy Court and serve notice of such Administrative Claim upon counsel to the Debtors, the Administrative Agent, and the Committee, provided, however, that an Indenture Trustee seeking an Administrative Claim for Indenture Trustees Fees must file with the Bankruptcy Court within four (4) business days of entry of the Confirmation Order and serve notice of Administrative Claim being for Indenture Trustees Fees upon Counsel to the Debtors, the Administrative Agent and the Committee. Such notice must include at a minimum (1) the name of the holder of the Claim, (2) the amount of the Claim, and (3) the basis of the Claim. Failure to file this notice timely and properly shall result in the Administrative Claim being forever barred and discharged.

(c) Allowance of Administrative Claims. An Administrative Claim with respect to which notice has been properly filed pursuant to Section 2.2(a) herein shall become an Allowed Administrative Claim if no objection is filed within thirty (30) days after the deadline for filing and serving a notice of such Administrative Claim specified in Section 2.2(a) herein, or such later date as may be approved by the Bankruptcy Court on motion of a Debtor. An Administrative Claim for Indenture Trustees Fees with respect to which notice has been properly filed pursuant to Section 2.2(a) herein shall become an Allowed Administrative Claim for Allowed Indenture Trustees Fees if no objection is filed within four (4) business days after the deadline for filing and serving a notice of such Administrative Claim for Indenture Trustees Fees specified in Section 2.2(a) herein. If an objection is filed within such thirty-day period (or any extension thereof), or four business day period in the case of an Administrative Claim for Indenture Trustees Fees, the Administrative Claim shall become an Allowed Administrative Claim only to the extent allowed by Final Order or as agreed to by a Debtor after consultation with the other Proponents and the Administrative Agent. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed pursuant to Section 2.2(b) herein, shall become an Allowed Administrative Claim only to the extent allowed by Final Order. An Administrative Claim as to which no notice need be filed as set forth in Section 2.2(a)(iii), (iv) or (v) shall be an Allowed Administrative Claim on the Effective Date.

SECTION 3.3 CHANNELING INJUNCTION.

Pursuant to the TWC Settlement Agreement, the Confirmation Order shall contain an injunction (the "Channeling Injunction") (1) providing that (A) all Class 5/6 Channeled Actions shall be shall be channeled to and fully and completely satisfied as a result of the TWC Contributed Distribution and the other consideration provided by the TWC Entities under the TWC Settlement Agreement; and (B) all Securities Holder Channeled Actions shall be channeled to and fully and completely satisfied from the Securities Holder Channeling Fund; and (ii) enjoining (except as may be required for recovery from officer/director insurance policies or officer/director insurance carriers of a WCG Entity, and without prejudice to the power or jurisdiction of any court, forum, or tribunal to issue an order judgement, or determination of liability necessary to mandate such coverage) the holders of Class 5/6 Channeled Actions and Securities Holder Channeled Actions from:

(a) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind against a TWC Settlement Releasee or its direct or indirect successor in interest (including, without limitation, all suits, actions, and proceedings that are pending as of

the Effective Date, which must be withdrawn or dismissed with prejudice) except as may be necessary to access the Securities Holder Channeling Fund, provided, however, the foregoing shall not affect or enjoin a Securities Holder (acting in such capacity) from commencing, conducting, or continuing any suit, action or other proceeding of any kind against a TWC Released Party;

(b) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order against a TWC Settlement Releasee or its assets or property, or its direct or indirect successor in interest, or any assets or property of such transferee or successor, provided, however, the foregoing shall not affect or enjoin a Securities Holder (acting in such capacity) from enforcing, levying, attaching, collecting or otherwise recovering any judgment, award, decree or order against a TWC Released Party;

(c) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any lien against a TWC Settlement Releasee or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor, provided. however, the foregoing shall not affect or enjoin a Securities Holder (acting in such capacity) from creating, perfecting or otherwise enforcing any lien against a TWC Released Party;

(d) asserting any set-off, right of subrogation or recoupment of any kind, directly or indirectly against any obligation due a TWC Settlement Releasee or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor, provided, however, the foregoing shall not affect or enjoin a Securities Holder (acting in such capacity) from asserting, any set-off, right of subrogation or recoupment of any kind against any obligation due a TWC Released Party; and

SECTION 4.2 CONDITIONS PRECEDENT TO THE OCCURRENCE OF THE EFFECTIVE DATE.

(b) all material statutory, regulatory or other consents, authorizations, and approvals, including, without limitation (i) all special temporary authority for the consents, authorizations, and/or approvals required to be granted by the Federal Communications Commission ("FCC") to effectuate the transfer of control of WCL's licenses, without material modifications from their current form, to New WCG; (ii) the SBC Authorization and (iii) consents and authorizations under the WCL Credit Documents, the Restated Credit Documents and each Plan Document, shall have been given or waived for the transfers and transactions described in the Plan, including, without limitation, the transfers of property and the payments described in the Plan, as applicable;

(f) (intentionally omitted)

(g) (intentionally omitted)

SECTION 4.3 WAIVER OF CONDITIONS.

(b) Leucadia, in its sole discretion, may waive, in whole or in part, the conditions precedent to the occurrence of The Effective Date of the Plan described in Sections 4.2(b)(i).

(c) The Debtors, with the consent of the Proponents and the Administrative Agent, may waive the conditions to the occurrence of the Effective Date described in Section 4.2(e).

SECTION 4.4 EFFECTS OF CONFIRMATION.

(j) Exculpation.

(i) Except to the extent such would violate any applicable professional disciplinary rules, including DR 6-102 of the Code of Professional Conduct, from and after the Effective Date, neither the Debtors, their Affiliates, the Administrative Agent, the Lenders, the Committee, Leucadia, the TWC Entities, nor any of their respective directors, officers, employees, members, attorneys, consultants, advisors, and agents (acting in such capacity), shall have or incur any liability to any Person for any act taken or omitted to be taken in connection with the Debtors' restructuring, including the formulation, preparation, dissemination, implementation, confirmation or approval of the Restructuring Agreement, the TWC Plan Support Agreement, the TWC Settlement Agreement, the Plan, the Plan Documents, the Disclosure Statement, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan; provided, however, that the foregoing provisions shall not affect the liability of any Person that otherwise would result from any such act or omission to the extent that act or omission is determined in a Final Order to have constituted gross negligence, willful misconduct, breach of fiduciary duty in bad faith or breach of fiduciary duty for personal profit. Any of the foregoing parties in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

(ii) From and after the Effective Date, the Indenture Trustees and their agents, attorneys, and advisors shall be exculpated by all Persons and entities, including, without limitation, all holders of Senior Reset Note Claims and Senior Redeemable Notes Claims and other parties in interest, from any and all claims, causes of action, and other assertions of liability in connection with the Debtors' restructuring arising out of the discharge of the powers and duties conferred upon such Indenture Trustees by the Senior Reset Note Indenture, the Senior Redeemable Notes indenture or the Plan or any order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law, except for actions or omissions to act arising out of the gross negligence or willful misconduct of the Indenture Trustees. No holder of a Senior Reset Note Claim and Senior Redeemable Notes Claim or other party in interest shall have or pursue any claim or cause of action against the Indenture Trustees and their agents, attorneys and advisors for making distributions in accordance with this Plan or for implementing the provisions of this Plan. extent for actions or omission to act of Indenture Trustees arising out of its gross negligence, willful misconduct, or breach of a fiduciary duty (other than from ordinary negligence) that results in personal profit or harm to the Estates and their creditors.

(k) Release By Holders. As of the Effective Date, each holder of a Senior Reset Note Claim and Senior Redeemable Notes Claim to the fullest extent permissible under applicable law, as such law may be extended or interpreted subsequent to the Effective Date, shall be deemed to forever release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities, whether liquidated or unliquidated fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, or then existing or thereafter arising in law, equity or otherwise, that against the Indenture Trustees or their agents, attorneys, and advisors, that are based in whole or in part on any act taken or omitted to be taken in connection with the Debtors' restructuring, except for actions or omissions to act of an Indenture Trustee arising out of its gross negligence, willful misconduct, or breach of a fiduciary duty (other than from ordinary negligence) that results in personal profit or harm to the Estates and creditors.

This release, waiver and discharge will be in addition to the discharge of claims and termination of interests provided herein and under the Confirmation Order and the Bankruptcy Code (other than from ordinary negligence.)

(m) Lender Releases. As of the Effective Date, their Proponents. The Estates, every holder of a Claim or Equity Interest, and the TWC Entities, forever release, waive and discharge the Released Lender Parties (and the Released Lender Parties forever release, waive and discharge the Proponents and the TWC Settlement Releases) from all claims (as such term is defined in Section 101(5) of the Bankruptcy Code), obligations, suits, judgments, damages, demands, debts, rights, causes of action, liabilities, rights of contribution, and rights of indemnification, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or in part on any act, omission, transaction, or other occurrence taking place on, or prior to, the Effective Date in any way relating to the Debtors and their business affairs (including, without limitation, any extensions of credit or other financial services or accommodations made or not made to the Debtors and affiliates prior to the Effective Date), the Chapter 11 Cases, the Plan, the WCG Credit Agreement, the WCL Credit Documents, and the Restructuring Agreement and all documents and instruments relating to any of the foregoing. The Confirmation Order shall specifically provide for the foregoing releases and shall enjoin the prosecution of any such released claim, causes of action, or liability.

SECTION 5.2 GOVERNANCE.

(a) SELECTION OF DIRECTORS AND OFFICERS OF NEW WCG

(i) Immediately following the Effective Date, the initial board of directors of New WCG shall be composed of nine individuals, consisting of the Chief Executive Officer of WCG, the following four individuals selected by Leucadia (the "Leucadia Directors") Ian M. Cumming, Joseph S. Steinberg, Jeffrey C. Keil and Alan J. Hirschfield and the following four individuals to be selected by the Committee (the "Committee Independent Directors") John Patrick Collins, William H. Cunningham, Michael Diament, and Michael P. Ressner.

(ii) The Committee Independent Directors and two of the Leucadia Directors must (A) be independent of New WCG within the meaning of the rules of the New York Stock Exchange or, if New WCG is listed or traded on another stock exchange, the stock exchange on which New WCG's securities are listed or traded, and the applicable rules of the SEC; (B) be independent of Leucadia; and, (C) not be an officer or employee of New WCG or any of its affiliates.

(iii) An individual is not independent of Leucadia if he or she (A) is not "independent" of Leucadia within the meaning of the rules of the New York Stock Exchange or the SEC; (B) is an affiliate or an officer, director, or employee of Leucadia; (C) is a beneficial owner of more than 10% of the voting power of Leucadia or,(D) has any relationship with Leucadia that would typically be required to be disclosed in a Leucadia proxy statement;

After the initial Board is selected, the terms and manner of selection of directors of New WCG shall be as provided in the New Bylaws and the New Charter and in accordance with the terms of the Stockholders Agreement.

Except as specifically set forth in the Stockholders Agreement, the Stockholders Agreement to be entered into between New WCG and Leucadia (the "Stockholders Agreement") shall not restrict or limit the ability of Leucadia to vote its securities in its sole discretion on all matters provided to the stockholders of New WCG for a vote at a stockholders meeting or pursuant to any written consent, except that, until the second anniversary of the Effective Date, Leucadia and its affiliates have agreed to vote their securities for the election of Committee Independent Directors as set forth in the Stockholders Agreement and otherwise subject to the terms and conditions thereof.

SECTION 5.4 EFFECTUATING DOCUMENTS.

On or before date of the commencement of the Confirmation Hearing, the Debtors shall file with the Bankruptcy Court substantially final forms of the agreements, instruments, and other documents that have been identified herein as Plan Documents, which agreements, instruments, and documents shall implement and be governed by the Plan. Entry of the Confirmation Order shall authorize the officers of the Debtors and New WCG to execute, enter into, and deliver all documents, instruments, and agreements, including but not limited to the Plan Documents, and to take all actions necessary or appropriate to implement the Plan including; but not limited to, filing with the Secretary of State of the State of Nevada the New WCG Charter or any other document, instrument, or agreement that may necessary or appropriate to ensure the valid existence of New WCG on the Effective Date. To the extent the terms of any of the Plan Documents conflict with the terms of the Plan, the Plan shall control.

SECTION 5.5 TRANSACTIONS ON THE EFFECTIVE DATE.

(a) the New Charter and New Bylaws shall be authorized, approved and effective in all respects without further action under applicable law, regulation, order, or rule including, without express or implied limitation, any action by the stockholders or directors of Old WCG or New WCG.

(b) each of the transactions that comprise the TWC Settlement shall occur or be implemented and shall become binding and effective in all respects, including, without limitation; (i) Leucadia shall make the New Investment pursuant to the Leucadia Investment Agreement; (ii) Leucadia shall purchase the TWC Assigned Claims pursuant to the Leucadia Claims Purchase Agreement; (iii) Leucadia shall receive from the Residual Trust the Leucadia Claims Distribution and from New WCG the Leucadia Investment Distribution; (iv) TWC shall contribute the TWC Contributed Distribution for the benefit of holders of Class 5/6 Channeled Actions, (v) WHBC shall sell the Building Purchase Assets to WTC pursuant to the

Building Purchase Agreement; (vi) all of the Additional Settlement Transactions shall be consummated; and (vii) all of the releases contemplated by the TWC Settlement shall become binding and effective.

SECTION 7.1 SCOPE OF JURISDICTION.

(a) Resolve any cases, controversies, suits, or disputes that may arise in connection with the consummation, interpretation, or enforcement of the Plan, the TWC Settlement, the Declaration of Trust, the liquidation of the Residual Assets, the distribution of Available Proceeds, if any, the Securities Holder Channeling Fund the Securities Holder Channeling Funds Distribution Procedures (except without divesting the plenary jurisdiction of any court, forum or tribunal with respect to the adjudication or determination of any Securities Holder Channeled Action or action involving any claim by or on behalf of a Securities Holder to recover from officer/director insurance policies of a WCG entity or insurance carriers that cover officers and directors of a WCG entity and the winding-up of Old WCG or any Person's obligations incurred in connection therewith, or any other agreements governing, instruments evidencing, or documents relating to any of the foregoing, including the interpretation or enforcement of any rights, remedies, or obligations under any of the foregoing;

SECTION 8.3(b) MODIFICATIONS TO THE PLAN.

(b) After the entry of the Confirmation Order, the Debtors may, with the consent of each of the other Proponents, TWC, and the Administrative Agent (which consent shall not be unreasonably withheld) (i) amend or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan, in accordance with the provisions of the Bankruptcy Code and Bankruptcy Rules or (ii) extend any period of time or deadline provided in the Plan in order to carry out the purpose and intent of the Plan.

Each Proponent of the Second Amended Joint Chapter 11 Plan of Williams Communications Group, Inc. and CG Austria, Inc., dated August 12, 2002, hereby agree and consent to the foregoing modifications.

WILLIAMS COMMUNICATIONS GROUP, INC.

/s/ Howard Janzen

By: Howard Janzen
Its: President

CG AUSTRIA,INC.

/s/ Howard Janzen

By: Howard Janzen
Its: President and CEO

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

By: Amalgamated Gadget, L.P.,
as Investment Manager
By: Scepter Holdings, Inc.,
General Partner

/s/ David R. Gillespie

By: David R. Gillespie, CFO
By: R2 INVESTMENTS, LPC
Its: Chairperson

LEUCADIA NATIONAL CORPORATION

/s/ Joseph A. Orlando

By: Joseph A. Orlando
Its: Vice President and CFO

THE WILLIAMS COMPANIES, INC.

/s/ Jack D. McCarthy

By: Jack D. McCarthy
Its: Senior Vice President
and Chief Financial Officer

EXHIBIT 10.40

EXECUTION COPY

SETTLEMENT AGREEMENT

This Settlement Agreement (the "Agreement") is entered into as of July 26, 2002, by and among The Williams Companies Inc. ("TWC", and, collectively with its direct and indirect subsidiaries, the "TWC Entities"); Williams Communications Group, Inc. ("WCG" and, collectively with its direct and indirect subsidiaries, the "Company" or the "WCG Entities") and CG Austria, Inc. ("CG Austria") each as a debtor and debtor in possession in cases commenced (the "Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") the official committee of unsecured creditors (the "Committee") appointed in the Chapter 11 Cases; and Leucadia National Corporation ("Leucadia") (collectively, the "Parties").

WHEREAS, WCG was initially incorporated as a wholly-owned subsidiary of TWC;

WHEREAS, in September 1999, WCG raised approximately $1.5 billion through an initial public offering and certain private placements of WCG stock;

WHEREAS, on April 23, 2001, TWC distributed to its shareholders substantially all of its remaining WCG stock pursuant to a tax-free spin-off (the "Spin-Off");

WHEREAS, prior to the Spin-Off, WCG (i) issued certain unsecured senior redeemable notes in the aggregate amount of $3 billion (the "Senior Redeemable Notes"), approximately $2.45 billion of which is currently publicly held and $550 million of which was acquired (and is currently held) by an indirect wholly-owned subsidiary of WCG in September and October of 2001; (ii) guaranteed the obligations of WCG's wholly-owned operating subsidiary and principal asset, Williams Communications, LLC ("WCL"), under an Amended and Restated Credit Agreement, dated as of September 8, 1999 (as subsequently amended and restated, the "WCL Credit Agreement") (iii) issued a promissory note in the amount of $1.5 billion (the "Senior Reset Note") which was pledged to secure payment of $1.4 billion of notes that were issued by subsidiaries of WCG and guaranteed by TWC; (iv) incurred obligations of approximately $120 million for various administrative services that were provided by the TWC Entities prior to the Spin-Off (the "Pre-Spin Services Claim") and (v) agreed to reimburse TWC for all amounts paid by TWC in respect of WCL's $750 million lease of a portion of the Company's fiber optic network (the "ADP Claim")

WHEREAS, in September 2001, following the Spin-Off, TWC provided additional financing to the Company in the form of a sale/leaseback transaction (the "Sale/Leaseback") pursuant to which the Company (i) sold to TWC its headquarters building (the "Headquarters Building"), related real estate, and certain ancillary assets for approximately $276 million in cash, and (ii) agreed to lease that property back from TWC for periods ranging from three to ten years;

WHEREAS, in the fourth quarter of 2001 and early 2002, as the financial markets in general and the telecom market in particular experienced significant deterioration, the Company began discussing a restructuring of its balance sheet with the lenders (the "Lenders") under the WCL Credit Agreement with the goal of reducing the overall leverage of the Company in order to enhance its financial flexibility;

WHEREAS, in late February, 2002, certain holders of the Senior Redeemable Notes formed an informal committee (the "Ad Hoc Committee"), retained legal and financial advisors, and began negotiating with WCG for a comprehensive restructuring of WCG's balance sheet. In addition, the Ad

Hoc Committee's advisors commenced legal and financial diligence with respect to both the Spin-Off and all other relationships and transactions between TWC and the Company;

WHEREAS, the Ad Hoc Committee had informed the Company that it was essential that a chapter 11 case be commenced within one year of the Spin-Off in order to preserve all defenses and claims with respect to the Spin-Off and the claims that TWC was asserting against the Company;

WHEREAS, the Lenders had asserted their right to set-off their debt against WCG and WCL and such set-off against the Company's existing cash would have threatened the future viability of the Company;

WHEREAS, certain members of the Ad Hoc Committee had prepared an involuntary chapter 11 filing against the Company in order to prevent the asserted set-off;

WHEREAS, all parties worked to negotiate the Restructuring Agreement in order to prevent a set-off followed by extensive litigation or in the alternative, an uncontrolled voluntary or involuntary chapter 11 case;

WHEREAS, it was not until 8:30 p.m. (EDT) on April 22, 2002 that the Restructuring Agreement was finalized and signed by sufficient parties for it to become effective thus averting both the threatened set-off and the involuntary bankruptcy filing and facilitating the voluntary chapter 11 process for WCG only obviating the necessity for a much more complex WCL bankruptcy case;

WHEREAS, following extensive negotiations among WCG, the Ad Hoc Committee, and. the Lenders, those parties entered into a certain agreement dated as of April 19, 2002 (the "Restructuring Agreement"), pursuant to which the members of the Ad Hoc Committee and over 90% of the Lenders agreed to support a chapter 11 plan for WCG that provided for (i) the conversion of all of WCG's unsecured debt into the common stock of a reorganized WCG ("New WCG"); (ii) the prepayment of $450 million under the WCL Credit Agreement ($200 million of which was paid upon execution of the Restructuring Agreement, $50 million of which was paid on July 15, 2002, and $200 million of which must be paid as a condition to consummation of WCG's chapter 11 plan) so that the Company's obligations to the Lenders will be reduced to $525 million upon the completion of the restructuring process; (iii) the continued operation of WCL outside of bankruptcy, to minimize any negative impact of the Company's balance sheet restructuring on WCL's customers, vendors, suppliers, employees, or the communities in which WCL does business;

WHEREAS, the Restructuring Agreement requires, among other things, that (i) WCG obtain $150 million in new capital (the "New Investment") to supplement the Company's cash resources upon emergence from chapter Il, and (ii) the Debtors have consummated their chapter 11 plan by October 15, 2002;

WHEREAS, on April 22, 2002, the Debtors commenced these chapter 11 cases for the purposes of restructuring their financial affairs on terms consistent with the Restructuring Agreement;

WHEREAS, as of the petition date, the Company's (i) secured indebtedness consisted of approximately $775 million owed to the Lenders under the WCL Credit Agreement and (ii) funded unsecured indebtedness owed to third parties totaled approximately $5.5 billion, including (a) approximately $2.45 billion account of the Senior Redeemable Notes; (b) $1.5 billion owed under the Senior Reset Note; (c) approximately $750 million owed with respect to the ADP Claim; (d) approximately $120 million owed with respect to the Pre-Spin Services Claim; (e) various unliquidated obligations owed to TWC arising from certain post-Spin-Off arrangements between the Company and TWC; and (1) approximately $275 million owed to TWC under the Sale/Leaseback;

WHEREAS on May 1, 2002, the Committee was appointed (and was comprised of a majority of members who were former members of the Ad Hoc Committee) and retained the same legal and financial advisors as had been utilized by the Ad Hoc Committee;

WHEREAS, TWC, on behalf of all of the TWC Entities, has asserted various rights and claims against the Company, including, without limitation, (i) not less than $2.3 billion in obligations owed by WCG as a consequence of certain guarantees, services provided, and other financial accommodations, including the Senior Reset Note, the ADP Claim, and Pre-Spin Services Claim; and (ii) the right to act on defaults under the Sale/Leaseback that entitle TWC to evict the Company from the Headquarters Building and repossess those premises and other assets subject to the Sale/Leaseback

WHEREAS, the Committee has asserted that the Company and its creditors may have various claims against TWC, and rights, remedies, defenses, and offsets with respect to the claims asserted by TWC, which, if successful, could result in a recovery against TWC or the reduction, disallowance, subordination, recharacterization, or elimination of some or all of TWC's claims;

WHEREAS, the litigation of the disputes between and among the Company, TWC, and the Committee would be complex and expensive and could delay or otherwise impair the Debtors' ability to emerge from chapter 11 in a timely fashion;

WHEREAS, Leucadia is willing to provide $150 million in new equity capital to satisfy the requirement that the New Investment be obtained and, as more fully set forth in the Leucadia Claims Purchase Agreement (as such term is hereinafter defined), to purchase certain of TWC's claims for a cash payment of $180 million to TWC, so that upon WCG's emergence from chapter 11, (i) TWC will forego the distribution of the stock of New WCG (the "New WCG Common Stock") to which TWC otherwise would be entitled on account of its claims against WCG, and will release all claims and causes of action against the WCG Entities and the WCG Indemnitees (as such term is hereinafter defined), except those arising under the Plan and this Agreement; (ii) Leucadia will own 45% of the New Common Stock; and (iii) WCG's unsecured creditors (other than TWC) will own the remaining 55% of the New Common Stock (with Leucadia and the unsecured creditors' ownership shares subject to dilution from the issuance of additional shares of up to 2% of the New WCG Common Stock to support a portion of a channeling injunction contained in the Plan (as such term is hereinafter defined));

WHEREAS, Leucadia's willingness to make the New Investment and purchase the TWC claims is conditioned on (i) the Parties' entry into, and the Bankruptcy Court's approval of, this Agreement, which provides for the settlement of all disputes between the Company, the Committee, and the TWC Entities, on the terms and conditions set forth herein and in the related agreements annexed hereto and made a part hereof; (ii) the implementation of the transactions contemplated hereby (including the repurchase of the Headquarters Building and related assets for $50 million in cash and a $100 million mortgage) and (iii) the confirmation and consummation of the Plan, including the entry of a channeling injunction as set forth herein;

WHEREAS, the Parties wish to settle and compromise the disputes and issues between and among them on the terms set forth herein in order to avoid the expense, delay, uncertainty, and risks of litigation, and to enable the New Investment to be consummated so that the Debtors can emerge successfully from chapter 11;

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby consent and agree as follows:

I. TWC Settlement Transactions. Upon the occurrence of the Plan Effective Date, and subject to the satisfaction or waiver of all conditions thereto and the consummation of each of the transactions contemplated hereby, all disputes and issues between the WCG Entities and the TWC Entities shall be settled and compromised as follows:

(a) Treatment of the TWC Assigned Claims. The Causes of Action arising under the Senior Reset Note, the ADP Claims, and the Pre-Spin Services Claims (the "TWC Assigned Claims") shall be treated as follows:

(i) The TWC Assigned Claims shall be Allowed Claims that are valid and enforceable against WCG in an aggregate amount equal to $2.36 billion and not subject to any defense, offset, reduction, objection, subordination, recharacterization, or any other Cause of Action that would reduce, delay, or impede any right of the holder thereof to receive distributions tinder the Plan on the Plan Effective Date;

(ii) In accordance with the terms of the Leucadia Claims Purchase Agreement, TWC shall sell, and Leucadia shall purchase the TWC Assigned Claims in exchange for Leucadia's payment to TWC of $180 million in Cash;

(iii) In respect of the TWC Assigned Claims, Leucadia shall receive 24.55% of the New WCG Common Stock issued under the Plan (subject to reduction to 23.55% by the issuance of up to 2% of additional New WCG Common Stock to the extent such stock is issued to holders of Liquidated Securities Holder Claims from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures) free and clear of all liens, claims, encumbrances, and rights of any third parties (the "Leucadia Claims Distribution") and

(iv) Except for the distribution of the Leucadia Claims Distribution to Leucadia, all other Causes of Action against the WCG Entities and the WCG Indemnitees in respect of the TWC Assigned Claims shall be deemed to be waived, released, and discharged, and TWC shall forego the TWC Contributed Distribution for the benefit of general unsecured creditors of WCG under the Plan (i.e., the holders of Allowed Class 5 Senior Redeemable Notes Claims and Allowed Class 6 Other Unsecured Claims).

(b) The Building Purchase. In accordance with the Building Purchase Agreement, WHBC shall transfer and convey the Building Purchase Assets to WTC for (i) $50 million in Cash (subject to an adjustment for certain unfunded obligations owed by TWC as set forth in the Building Purchase Agreement), and (ii) the execution and delivery of (A) a 10-year promissory note made payable (with full recourse) by WTC and New WCG (as co-makers) and guaranteed by WCL in the original principal amount of $100 million (subject to reduction upon certain Dispositions as provided in the Building Purchase Agreement), with interest at the rate of 7% per annum and principal to be amortized on the basis of a 30-year schedule, such note to be in a form mutually agreed upon by the Debtors, TWC, the Committee, and Leucadia (the "Building Purchase Note") and (B) various documents, instruments, agreements and mortgages granting to WHBC a first lien and security interest in and to all Building Purchase Assets to secure payment of the Building Purchase Note, all of which shall be in a form to be mutually agreed upon by the Debtors, TWC, the Committee, and Leucadia (the "Building Purchase Collateral Documents"). In connection with the closing of the Building Purchase Agreement, the Lenders shall be granted a fully subordinated, second priority lien on the Building Purchase Assets, the terms of which shall be mutually agreed upon by the Debtors,

TWC, Leucadia, the Committee and the Administrative Agent (the "Lender Second Mortgage").

(c) The TWC Continuing Contracts. The TWC Continuing Contracts and all Causes of Action thereunder (the "TWC Continuing Contract Claims") shall be treated as follows:

(i) Pursuant to section 365 of the Bankruptcy Code, WCG shall assume and assign to New WCG, and CG Austria shall assume, each TWC Continuing Contract to which it is a party;

(ii) The applicable WCG Entities (other than WCG and CG Austria) that are parties to any TWC Continuing Contract shall reaffirm their obligations thereunder as of the Plan Effective Date and, except as set forth in Section 1 (d)(iv) of this Agreement, all such obligations shall be unaffected by the Chapter 11 Cases;

(iii) Any and all Causes of Action arising under the TWC Continuing Contracts prior to the Plan Effective Date shall be deemed to be satisfied, and all defaults occurring prior to the Plan Effective Date, shall be deemed to be cured, by the WCG Entities' payment in Cash in full on the Plan Effective Date of the (A) amounts set forth in Exhibit 6 hereto, if any, plus (B) any net unpaid amounts that become due during the period from June 30, 2002 through the Plan Effective Date; and

(iv) The TWC Continuing Contracts shall be modified as described in Exhibit 6 hereto.

(d) Additional Settlement Transactions. The following additional transactions shall occur:

(i) The Tax Sharing Agreement, dated September 30, 1999, by and between TWC and WCG, as amended and restated from time to time, shall be cancelled and all Causes of Action arising thereunder among the TWC Entities, on the one hand, and the WCG Entities, on the other hand, shall be forever waived, released, and discharged;

(ii) WCG shall assume and assign to New WCG the agreement attached hereto as Exhibit 7 setting forth the terms on which TWC and New WCG (as successor to WCG) will cooperate with each other regarding tax matters arising on or prior to April 23, 2001 (the "Tax Cooperation Agreement")

(iii) WCG shall assume and assign to New WCG the Trademark License Agreement, dated April 23, 2001, by and between TWC and WCG, providing that the rights of New WCG (as successor to WCG) under the Trademark License Agreement shall terminate on the second anniversary of the Plan Effective Date (as amended by Exhibit 8 hereto, the "License Amendment")

(iv) WCG shall assume and assign to New WCG the agreement attached hereto as Exhibit 9 under which TWC is assigning its rights with respect to the "WilTel" trademark (the "WilTel Assignment")

(v) The Amended and Restated Indemnification Agreement, dated April 23, 2001, by and between TWC and WCG, as amended and restated from time to time, shall be cancelled and all Causes of Action arising thereunder among the TWC Entities, on the one hand, and the WCG Entities, on the other hand, shall be forever waived, released, and discharged;

(vi) WCG shall assume and assign to New WCG the agreement attached hereto as Exhibit 10 setting forth the terms on which New WCG (as successor to WCG) shall indemnify TWC with respect to certain outstanding guarantees issued by TWC in respect of certain obligations of the WCG Entities (the "Guaranty Indemnification Agreement") and

(vii) WCG and/or New WCG, as applicable, shall execute and deliver such consents and other documents or instruments as shall be reasonably necessary to effect the assignment of the Senior Reset Note to Leucadia as contemplated by the Leucadia Claims Purchase Agreement.

(e) Mutual Releases. The following releases shall be exchanged and become binding and effective:

(i) (A) Except for Causes of Action arising under this Agreement, the TWC Continuing Contracts, the Plan, or the Plan Documents, each TWC Released Party shall forever waive, release, and discharge any and all Causes of Action against any and all of the WCG Entities and the WCG Indemnitees that are based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Plan Effective Date, and (solely, with respect to the WCG Indemnitees) arising out of or relating in any way to a WCG indemnitee's relationship with, or transactions involving a WCG Entity; and (B) TWC, on behalf of itself and the other TWC Entities, (I) represents that the TWC Entities have not sold, conveyed, assigned, or in any other way transferred the Causes of Action to be released in the immediately preceding clause (l)(e)(i)(A); and (H) agrees that the TWC Entities will not sell, convey, assign, or in any other way transfer such Causes of Action prior to the effectiveness of such releases.

(ii) (A) Except for Causes of Action arising under this Agreement, the TWC Continuing Contracts, the Plan, or the Plan Documents, the Committee, each WCG Entity, and each WCG Indemnitee shall forever waive, release, and discharge any and all Causes of Action against any and all TWC Released Parties that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Plan Effective Date and arising out of or relating in anyway to a WCG Entity or its present or former assets, or a TWC Released Party's relationship with, or transactions involving a WCG Entity or its present or former assets; and (B) WCG, on behalf of itself and the other WCG Entities (1) represent that the WCG Entities have not sold, conveyed, assigned, or in any other way transferred the Causes of Action to be released in the immediately preceding clause (1)(e)(ii)(A); and (II) agree that the WCG Entities will not sell, convey, assign, or in any other way transfer such Causes of Action prior to the effectiveness of such releases.

2. The New Investment. Upon the occurrence of the Plan Effective Date, and subject to the satisfaction or waiver of all conditions thereto and the consummation of each of the transactions contemplated hereby, Leucadia shall invest $150 million in Cash in New WCG and, in exchange therefor, shall receive 20.45% of the New WCG Common Stock to be issued under the Plan (the "Leucadia Investment Distribution") in accordance with the terms of the Leucadia Investment Agreement. By signing below, the Committee hereby agrees that the terms and conditions of the Leucadia Investment are acceptable to the Committee for purposes of Section 11(a) of the Restructuring Agreement.

3. Treatment of Unsecured Claims. Upon the occurrence of the Plan Effective Date, and subject to the satisfaction or waiver of all conditions thereto and the consummation of each of the transactions contemplated hereby, each holder of an Allowed Class 5 Senior Redeemable Notes Claim and a Class 6 Other. Unsecured Claims (other than the Senior Redeemable Notes acquired by CGI, which shall be deemed cancelled under the Plan) shall receive a Pro Rata Share of 55% of the New WCG Common Stock issued under the Plan (subject to reduction to 51.3% by (a) the issuance of additional New WCG Common Stock to the extent such stock is issued to holders of Liquidated Securities Holder Claims from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures and (b) the issuance of New WCG Common Stock to certain members of the Ad

Hoc Committee that executed the Restructuring Agreement) (the "Unsecured Creditor Distribution").

4. Channeling Injunction. It is an essential element of, and a condition to the effectiveness of, this Agreement and the Plan that the Confirmation Order shall contain an injunction (the "Channeling Injunction")

(a) providing that (i) all Class 5/6 Channeled Actions shall be channeled to and fully and completely satisfied as a result of the TWC Contributed Distribution and the other consideration provided by the TWC Entities hereunder; and (ii) all Securities Holder Channeled Actions shall be channeled to and fully and completely satisfied from the Securities Holder Channeling Fund; and

(b) enjoining (except as may be required for recovery from officer/director insurance policies of the Company) the holders of Class 5/6 Channeled Actions and Securities Holder Channeled Actions from:

(i) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind against a TWC Settlement Releasee or its direct or indirect successor in interest (including, without limitation, all suits, actions, and proceedings that are pending as of the Plan Effective Date, which must be withdrawn or dismissed with prejudice), except as may be set forth in the Securities Holder Channeling Fund Distribution Procedures;

(ii) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order against a TWC Settlement Releasee or its assets or property, or its direct or indirect successor in interest, or any assets or property of such transferee or successor,

(iii) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any lien against a TWC Settlement Releasee or its assets or property, or its indirect or indirect successors in interest, or any assets or property of such transferee or successor,

(iv) asserting any set-off, right of subrogation or recoupment of any kind, directly or indirectly against any obligation due to a TWC Settlement Releasee or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor; and

(v) proceeding in any manner that does not conform or comply with the provisions of the Plan (including the Securities Holder Channeling Fund Distribution Procedures), the Approval Order or this Agreement.

5. The Settlement Motion: the Plan; TWC Approval Rights. Promptly after the execution and delivery of this Agreement by the Parties, (a) the Debtors and the Committee shall (i) file with the Bankruptcy Court a joint motion seeking entry of the Approval Order, and (ii) use their commercially reasonable efforts to obtain entry of the Approval Order, and (b) the Debtors, the Committee, and Leucadia shall (i) file with the Bankruptcy Court the Plan, and (ii) use their commercially reasonable efforts to confirm and consummate the Plan. From and upon the execution of this Agreement, without the prior written consent of TWC (a) the Plan may not be modified or amended (including, without limitation, pursuant to Section 8.3 and 8.13 of the Plan), and (b) the conditions to confirmation of the Plan and the occurrence of the Plan Effective Date (including, without limitation, those conditions set forth in Article IV of the Plan) may not be waived.

6. Committee Encouragement Efforts. The Committee shall use commercially reasonable efforts to encourage holders of Claims in Classes 5 and 6 under the Plan to (a) support the Plan; (b) support, and not oppose, entry by the Bankruptcy Court of the Approval Order; and (c) subject to the Bankruptcy Court's entry of an order approving a disclosure statement with respect to the Plan as containing "adequate information" as required by section 1125 of the Bankruptcy Code, vote to accept the Plan.

7. Non-Interference. The Committee, Leucadia, and TWC shall not (a) take any action that would delay entry of the Approval Order or the confirmation and consummation of the Plan; (b) solicitor encourage offers or proposals, or entertain or engage in discussions with respect to any unsolicited offer or proposal, or enter into any agreements, arrangements, or understandings relating to any other chapter 11 plan with respect to WCG or enter into any transaction involving the WCG Entities or their assets that would reasonably be expected to be inconsistent with this Agreement, the Plan, or the transactions contemplated hereby; (c) consent to, support, or participate in any formulation of a chapter 11 plan for WCG other than the Plan; (d) encourage or support in any fashion any person to (i) object to the entry of the Approval Order, or (ii) vote against or object to the Plan; or (e) take any action directly or indirectly for the purpose of delaying, preventing, frustrating, or impeding entry of the Approval Order, or acceptance, confirmation, and consummation of the Plan; provided, however, nothing herein shall prevent the Committee from taking such actions as it determines in good faith to be necessary under applicable law to fulfill its fiduciary duties in the event it receives a Notice Concerning Negotiations; provided further, that nothing herein shall prevent the Committee from informing itself in connection with the good faith exercise of its fiduciary duties. Leucadia and the Company each agrees to promptly give written notice to the Committee with a copy to TWC (with such notice being herein referred to as a "Notice Concerning Negotiations", and with the giving of such notice being deemed not to be a breach of the Settlement Agreement or any related agreement) in the event that, in its good faith judgment (i) the negotiations with the Lenders to obtain their consents in connection with the transactions contemplated by the Settlement Agreement and the Plan are unlikely to be successful or (ii) neither the negotiations with SBC to obtain its consent, nor the efforts to obtain a court order providing that SBC does not have the right to terminate its agreements with the Company, in connection with the transactions contemplated by the Settlement Agreement and the Plan is likely to be successful.

8. TWC to Accept the Plan. Subject to the Bankruptcy Court's entry of an order approving a disclosure statement with respect to the Plan as containing "adequate information" as required by section 1125 of the Bankruptcy Code, TWC shall vote the TWC Assigned Claims to accept the Plan.

9. Authority. Subject only to such approval of the Bankruptcy Court as is required with respect to the Debtors entry herein, each signatory to this Agreement warrants that it has the authority to execute this Agreement on behalf of the Party noted; provided, however, that the Parties hereto acknowledge that (a) the Company has not obtained such waivers or consents, if any, that may be required under the WCL Credit Agreement to implement the transactions contemplated by this Agreement; and (b) none of the Parties hereto (including the Debtors) will assert or use this Agreement or its approval by the Bankruptcy Court as waiving or otherwise annulling or satisfying any requirement under the WCL Credit Agreement that such waivers or consents as are required to implement the transactions contemplated by this Agreement be obtained.

10. Binding Effect Subject only to approval of the Bankruptcy Court with respect to the Debtors' obligations under Section 1, the provisions of this Agreement are binding on and inure to the benefit of the Parties to this Agreement and to each Party's respective successors and assigns.

11. Fiduciary Duties. Based on the facts and circumstances known to WCG and the

Committee as of the date hereof, WCG and the Committee acknowledge that their entry into this Agreement and the consummation of the compromises and settlements contemplated hereby are within the exercise of their respective fiduciary duties. Notwithstanding the foregoing, nothing in this Agreement, including in Sections 6 or 7 or in the preceding sentence, shall impair or prevent the Debtors or the Committee from exercising their fiduciary duties and taking such steps as each may determine in good faith to be necessary under applicable law to fulfill such duties. Without limiting by implication the generality of the forgoing, the Parties acknowledge that the Committee has retained conflicts counsel to advise it with regard to certain issues, and that the acknowledgment by the Committee in the next preceding sentence is qualified to the extent of any contrary advice of such counsel with respect to such issues and that the agreements of the Committee in Sections 6 and 7 of this Agreement are subject to any actions which the Committee determines in good faith to be necessary under applicable law to fulfill its fiduciary duties based on the advice of such counsel with respect to such issues.

12. Governing Law: Jurisdiction. This Agreement will be governed by the laws of the State of New York, without regard to its conflicts of laws principles. Each of the Parties irrevocably (a) submits and consents in advance to the exclusive jurisdiction of the Bankruptcy Court for the purpose of any action or proceeding in which any WCG Entity is a party arising out of or relating to this Agreement; (b) agrees that all claims in respect to such action or proceeding may be heard and determined exclusively in such court; and (c) waives any objection that such Party may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens. To the extent that any action or proceeding among the Parties, other than a WCG Entity, arising out of or relating to this Agreement is commenced, those Parties (and not the WCG Entities) hereby irrevocably and unconditionally submit to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof.

13. Entire Agreement This Agreement, the Exhibits hereto, and the applicable provisions in the Plan constitute the complete and entire agreement between the Parties with respect to the matters contained in this Agreement, and supersedes all prior agreements, negotiations, and discussions between the Parties, with respect thereto; provided, however, that nothing in this Agreement shall (a) be deemed to have modified or superseded the TWC Plan Support Agreement and the Restructuring Agreement; or (b) be a waiver or release of any Party from any disclosure or other obligation or restriction regarding the sale, purchase, assignment, or other trading in claims against any of the WCG Entities, which must be the subject of a separate agreement and otherwise conform to any orders that may be entered by the Bankruptcy Court.

14. Non-Reliance. Each of the Parties acknowledges that, in entering into this Agreement, it is not relying upon any representations or warranties made by anyone other than those terms and provisions expressly set forth in this Agreement, the Exhibits hereto, and the applicable provisions in the Plan.

15. Amendment. It is expressly understood and agreed that this Agreement may not be altered, amended, waived, modified or otherwise changed in any respect or particular whatsoever except by a writing duly executed by authorized representatives of each of the Parties, and the Parties further acknowledge and agree that they will make no claim at any time or place that this Agreement has been orally supplemented, modified, or altered in any respect whatsoever.

16. No Admissions. This Agreement shall in no event be construed as or be deemed to be evidence of an admission or concession on the part of the TWC Entities, the WCG Entities, or the WCG Indemnitees of any claim or any fault or liability or damages whatsoever. Each of them denies any and all wrongdoing or liability of any kind, and does not concede any infirmity in the claims or defenses which it has asserted or would assert.

17. Termination. This Agreement and all of the provisions hereof (and of the Approval Order), including, without limitation, the allowance of the TWC Assigned Claims, shall terminate

(a) automatically if the Plan Effective Date has not occurred on or before February 28, 2003; or

(b) by written notice of any Party to this Agreement to the other Parties (i) if the Plan is withdrawn pursuant to Section 8.4 of the Plan; (ii) if confirmation of the Plan is denied by Final Order, or (iii) if either of the Leucadia Investment Agreement or the Leucadia Claims Purchase Agreement is terminated by its terms.

Upon such termination, this Agreement shall be of no further force or effect, nothing in this Agreement shall survive, and all matters, rights, and Causes of Action between and among the Parties shall be restored as if they had not negotiated and entered into this Agreement, it being understood that nothing in this Section 17 is intended to nor shall it (i) alter the rights of the Parties accruing under other agreements, including but not limited to the Leucadia Investment Agreement and the Leucadia Claims Purchase Agreement (irrespective of whether any such other agreements have also been terminated according to their terms), or (ii) relieve any Party for any breach of this Agreement.

[Signature Pages Follow]

WILLIAMS COMMUNICATIONS GROUP, INC.

/s/ HOWARD E. JANZEN
By: Howard E. Janzen

ITS: PRESIDENT AND CEO

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

By:

Its:

CG AUSTRIA, INC.

/s/ HOWARD E. JANZEN
By: Howard E. Janzen

ITS: PRESIDENT & CEO

LEUCADIA NATIONAL CORPORATION

By:

ITS:

THE WILLIAMS COMPANIES, INC.

By:

Its:

WILLIAMS COMMUNICATIONS GROUP, INC.

- ----------
BY:

Its:

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS BY: R(2) INVESTMENTS, LPC;
BY: AMALGAMATED GADGET, L.P., AS INVESTMENT MANAGER;
BY: SCEPTOR HOLDINGS, INC., ITS GENERAL PARTNER
BY: /s/ DAVID GILLESPIE
Its: Chairperson

CG AUSTRIA, INC.

- ----------
By:

Its:

LEUCADIA NATIONAL CORPORATION

By:

Its:

THE WILLIAMS COMPANIES, INC.

By:

Its:

WILLIAMS COMMUNICATIONS GROUP, INC.

By: _____

Its: _____

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

By: _____

Its: _____

CG AUSTRIA, INC.

By: _____

ITS: _____

LEUCADIA NATIONAL CORPORATION

/s/ Barbara L. Lowenthal

By: Barbara L. Lowenthal

Its: Vice President

THE WILLIAMS COMPANIES, INC.

By: _____

Its: _____

WILLIAMS COMMUNICATIONS GROUP, INC.

By: _____

Its: _____

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

By: _____

Its: _____

CG AUSTRIA, INC.

By: _____

Its: _____

LEUCADIA NATIONAL CORPORATION

By: _____

Its: _____

THE WILLIAMS COMPANIES, INC.

/s/ JACK D. McCARTHY
By: JACK D. McCARTHY

Its: SENIOR VICE PRESIDENT - FINANCE, CHIEF FINANCIAL OFFICER

Glossary of Settlement Agreement Defined Terms

Capitalized terms used in this Agreement herein shall have the meanings set forth in the Plan, unless otherwise defined in the recitals to this Agreement or as follows:

(a) "Agreement" means this Settlement Agreement and all agreements that are Exhibits hereto.

(b) "Approval Order" means an order of the Bankruptcy Court, in form and substance reasonably acceptable to the Parties, authorizing the Debtors' entry into this Agreement and approving the settlements and transactions contemplated hereby pursuant to Bankruptcy Rule 9019.

(c) "Building Purchase Agreement" means the agreement dated as of July 26, 2002, a true and correct copy of which is annexed hereto as Exhibit 4, pursuant to which, as a component of the TWC Settlement, WTC shall purchase, the Building Purchase Assets from WHBC.

(d) "Building Purchase Assets" means all of the real and personal property being acquired by WTC pursuant to the Building Purchase Agreement, including the Headquarters Building.

(e) "Building Purchase Collateral Documents" shall have the meaning set forth in Section (l)(b) of this Agreement.

(f) "Building Purchase Note" shall have the meaning set forth in Section (l)(b) of this Agreement.

(g) "Channeling Injunction" shall have the meaning set forth in Section 4 of this Agreement.

(h) "Class 5/6 Channeled Actions" means all Causes of Action of holders of Class 5 Senior Redeemable Notes Claims and Class 6 Other Unsecured Claims, acting in such capacity, against a TWC Releasee or a WCG Indemnitee (except for Causes of Action to enforce any obligation of a TWC Releasee or WCG Indemnitee under the Plan, a Plan Document, or this Agreement) that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Plan Effective Date.

(i) "Guaranty Indemnification Agreement" shall have the meaning set forth in Section (I)(d)(vi) of this Agreement.

(j) "Lender Second Mortgage" shall have the meaning set forth in Section 1(b) of this Agreement.

(k) "Leucadia Claims Purchase Agreement" means that certain Purchase and Sale Agreement dated as of July 26, 2002, a true and correct copy of which is annexed hereto as Exhibit 3, pursuant to which, as a component of the TWC Settlement, Leucadia has agreed to purchase, and TWC has agreed to sell, certain rights associated with the TWC Assigned Claims for $180 million in Cash.

(1) "Leucadia Investment Agreement" means the agreement and all related exhibits and agreements dated as of July 26, 2002, a true and correct copy of which is annexed hereto as Exhibit 2, by and between WCG, WCL, and Leucadia, pursuant to which, as a component of the TWC Settlement, Leucadia shall make the New Investment.

(m) "Leucadia Claims Distribution" shall have the meaning set forth in Section (1)(a)(iii) of this Agreement.

(n) "Leucadia Investment Distribution" shall have the meaning set forth in Section 2 of this Agreement.

(o) "License Amendment" shall have the meaning set forth in Section (1)(d)(iii) of this Agreement.

(p) "Liquidated Securities Holder Claim" means a Securities Holder Claim that becomes entitled to recovery from the Securities Holder Channeling Fund pursuant to the Securities Holder Channeling Fund Distribution Procedures.

(q) "Plan" means the First Amended Joint Chapter 11 Plan with Respect to the Debtors, dated July 26, 2002, a true and correct copy of which is attached hereto as Exhibit 1.

(r) "Plan Effective Date" means the date upon which the transactions contemplated in the Plan are consummated, which shall be a Business Day selected by the Debtors, with the consent of the Committee, Leucadia, and TWC, after the first Business Day (i) which is ten (10) days after the date the Confirmation Order has been entered, (ii) on which the Confirmation Order is not stayed, and (iii) on which all conditions to the entry of the Confirmation Order and the occurrence of the Plan Effective Date have been satisfied or waived.

(s) "Proportional Share" means the proportion that the amount of an Allowed Claim bears to the aggregate of all Allowed Claims in Classes 4, 5, and 6 under the Plan.

(t) "SBC" means SBC Communications, Inc. and each of its direct and indirect subsidiaries.

(u) "SBC Consent" means the consent by SBC to (a) the transactions contemplated by the Leucadia Investment Agreement and the Leucadia Claims Purchase Agreement; (b) the transactions contemplated by the Plan; and (c) the Spin-Off, in form and substance reasonably satisfactory to the Committee, Leucadia and WCG.

(v) "Securities Holder" means all current and former holders of securities issued by the WCG Entities (and all options, agreements, and derivatives thereof) acting in such capacity; provided, however, that "Securities Holder" shall not include holders of Allowed Claims in Classes 5 and 6 under the Plan, acting in such capacity.

(w) "Securities Holder Channeled Actions" means all Causes of Action of a Securities Holder against a WCG Indemnitee that is based in whole or in part on any act, omission, event, condition, or thing in existence or that occurred in whole or in part prior to the Plan Effective Date.

(x) "Securities Holder Channeling Fund" means (i) the right to receive up to 2% of the New WCG Common Stock (on a fully-diluted basis), to the extent that holders of Securities Holder Channeled Actions become entitled to receive such stock pursuant to the Securities Holder Channeling Fund Distribution Procedures; and/or (ii) such recoveries that can be obtained from officer/director liability insurance policies of the Company that cover officers and directors of the Company or the Company's obligations to indemnify its officers and directors.

(y) "Securities Holder Channeling Fund Distribution Procedures" means those procedures set forth in a Plan Document for distributions from the Securities Holder Channeling Fund providing,

among other things, that all recoveries from the Securities Holder Channeling Fund shall be pro rata based on the ratio that a particular Liquidated Securities Holder Action bears to all Liquidated Securities Holder Actions.

(z) "Settlement Contracts" means the Building Purchase Agreement, the Building Purchase Note, the Building Purchase Collateral Documents, the License Amendment, the Tax Cooperation Agreement, the Guaranty Indemnification Agreement, and the WilTel Assignment.

(aa) "Tax Cooperation Agreement" shall have the meaning set forth in Section (1)(d)(ii) of this Agreement.

(bb) "TWC Assigned Claims" shall have the meaning set forth in Section (l)(a) of this Agreement.

(cc) "TWC Continuing Contracts" means the contracts listed on Exhibit 5 and the contracts attached hereto as Exhibits 4, 6, 7, 8, 9, and 10.

(dd) "TWC Continuing Contract Claims" shall have the meaning set forth in Section (l)(c) of this Agreement.

(ee) "TWC Contributed Distribution" means (i) the amount of New WCG Common Stock TWC would otherwise be entitled to recover on account of the face amount of the TWC Assigned Claims (i.e., the Proportional Share attributable to the TWC Assigned Claims) minus (ii) the Leucadia Claims Distribution.

(ff) "TWC Released Parties" means the TWC Entities and each of their respective present and former directors, managers, officers, employees, agents, attorneys, advisors and accountants, acting in such capacity.

(gg) "TWC Settlement" means all of the compromises and transactions contemplated by this Agreement.

(hh) "TWC Settlement Releasee" means a TWC Released Party or a WCG Indemnitee, in each case as the context requires.

(ii) "Unsecured Creditor Distribution" shall have the meaning set forth in Section 3 of this Agreement.

(jj) "WCG" shall have the meaning ascribed thereto in the opening paragraph of this Agreement.

(kk) "WCG Entities" means WCG and each of its direct and indirect subsidiaries.

(ll) "WCG Indemnitee" means each of the present and former directors, managers, officers, employees, agents, attorneys, advisors, and accountants of the WCG Entities, acting in such capacity, excluding Persons who serve or served as officers of SBC Communications, Inc., or any of its subsidiaries, to the extent such Persons possessed conflicts of interest with respect to the WCG Entities while acting as directors of WCG in connection with the spin-off of WCG from TWC, provided, however, that if the SBC Consent shall have been obtained, then such officers of SBC shall be deemed to be WCG Indemnitees.

(mm) "WCL" means Williams Communications, LLC, a wholly-owned subsidiary of WCG.

(nn) "WHBC" means Williams Headquarters Building Company, a wholly-owned subsidiary of TWC.

(oo) "WilTel Assignment" shall have the meaning set forth in Section (l)(d)(iv) of this Agreement.

(pp) "WTC" means Williams Technology Center, LLC, an indirect wholly-owned subsidiary of WCG.

List of Exhibits to Settlement Agreement

Exhibit 1 -- First Amended Joint Chapter 11 Plan

Exhibit 2-- Leucadia Investment Agreement

Exhibit 3-- Leucadia Claims Purchase Agreement

Exhibit 4-- Building Purchase Agreement

Exhibit 5-- List of TWC Continuing Contracts

Exhibit 6-- Agreement for the Resolutions of Continuing Contract Disputes

Exhibit 7-- Tax Cooperation Agreement

Exhibit 8-- License Amendment

Exhibit 9 -- WilTel Assignment

Exhibit 10-- Guaranty Indemnification Agreement

EXHIBIT 10.41

FIRST AMENDMENT TO SETTLEMENT AGREEMENT

THIS FIRST AMENDMENT dated as of August 13 , 2002 (the "Amendment") to the Settlement Agreement (the "Agreement") dated as of July 26, 2002, by and among The Williams Companies Inc. ("TWC", and, collectively with its direct and indirect subsidiaries, the "TWC Entities") Williams Communications Group, Inc. ("WCG" and, collectively with its direct and indirect subsidiaries, the "Company" or the "WCG Entities") and CG Austria, Inc. ("CG Austria") each as a debtor and debtor in possession in cases commenced (the "Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") the official committee of unsecured creditors (the "Committee") appointed in the Chapter 11 Cases; and Leucadia National Corporation ("Leucadia") (collectively, the "Parties"). All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

WHEREAS, the parties wish to modify the provisions in the Agreement relating to the payment of the purchase price under the Building Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and obligations contained herein, the Parties hereto hereby agree as follows:

1. The twenty-second Whereas clause is hereby deleted in its entirety and replaced with the following:

> WHEREAS, Leucadia's willingness to make the New Investment and purchase the 1'WC claims is conditioned on (i) the Parties' entry into, and the Bankruptcy Court's approval of, this Agreement, which provides for the settlement of all disputes between the Company, the Committee, and the TWC Entities, on the terms and conditions set forth herein and in the related agreements annexed hereto and made a part hereof; (ii) the implementation of the transactions contemplated hereby (including the repurchase of the Headquarters Building and related assets for an aggregate amount of $150 million secured by a mortgage) and (iii) the confirmation and consummation of the Plan, including the entry of a channeling injunction as set forth herein;

2. Section 1(b) of the Agreement is hereby deleted in its entirety and replaced with the following:

> (b) The Building Purchase. In accordance with the Building Purchase Agreement, WHBC shall transfer and convey the Building Purchase Assets to WTC for the execution and delivery of (i) an 18-month promissory note made payable (with full recourse) by WTC and New WCG (as co-issuers) and guaranteed by WCL in the original principal amount of $50 million (subject to an adjustment for certain unfunded obligations owed by TWC as set forth in the Building Purchase Agreement), with interest at the rate of 10% per annum and principal to be amortized over the term of the note, (ii) a 7 1/2-year promissory note made payable (with full recourse) by WTC and New WCG (as co-issuers) and guaranteed by WCL in the original principal amount of $100 million (subject to reduction upon certain Dispositions as provided and defined in the Building Purchase Agreement), with interest at the rate of 7% per annum and principal to be amortized on the basis of a 30-year schedule, such notes to be in a form mutually agreed upon by the Debtors, TWC, the Committee, and Leucadia (collectively (i) and (ii), the "Building Purchase Notes") and (iii) various documents, instruments, agreements and mortgages granting to WHBC a first lien and security interest in and

to all Building Purchase Assets to secure payment of the Building Purchase Notes, all of which shall be in a form to be mutually agreed upon by the Debtors, TWC, the Committee, and Leucadia (the "Building Purchase Collateral Documents"). In connection with the closing of the Building Purchase Agreement, the Lenders shall be granted a fully subordinated, second priority lien on the Building Purchase Assets, the terms of which shall be mutually agreed upon by the Debtors, TWC, Leucadia, the Committee and the Administrative Agent (the "Lender Second Mortgage").

3. The definition of "Building Purchase Agreement" in the Glossary of Settlement Agreement Defined Terms shall be deleted in its entirety and replaced with the following:

"Building Purchase Agreement" means the agreement dated as of July 26, 2002, a true and correct copy of which is annexed hereto as Exhibit 4, pursuant to which, as a component of the TWC Settlement, WTC shall purchase, the Building Purchase Assets from WHBC, as such agreement is amended from time to time.

4. All references in the Agreement to "Building Purchase Note" shall be replaced with the term "Building Purchase Notes", as defined in this Amendment.

5. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

6. Except as specifically amended hereby, the Agreement is in all respects confirmed, ratified and approved.

IN WITNESS WHEREOF, the Parties hereto have executed this Amendment on and as of the date and year first above written.

[SIGNATURE PAGES FOLLOW]

WILLIAMS COMMUNICATIONS GROUP, INC.

BY: ----------
Its:

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS BY: R(2) INVESTMENTS, LC;
BY: AMALGAMATED GADGET, L.P., AS INVESTMENT MANAGER;
BY: SCEPTOR HOLDINGS, INC., ITS GENERAL PARTNER

/s/ DAVID GILLESPIE
BY: David Gillespie
Its: CFO

CG AUSTRIA, INC.

- ----------
By: ----------
Its: ----------

LEUCADIA NATIONAL CORPORATION

By: ----------
Its: ----------

THE WILLIAMS COMPANIES, INC.

By: ----------
Its: ----------

WILLIAMS COMMUNICATIONS GROUP, INC.

(signature illegible)

CG AUSTRIA, INC.

(signature illegible)

By: ---
Its: ---

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

LEUCADIA NATIONAL CORPORATION

By: ---
Its: ---

THE WILLIAMS COMPANIES, INC.

By: ---
Its: ---

WILLIAMS COMMUNICATIONS GROUP, INC.

- ----------

By:

Its:

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

CG AUSTRIA, INC.

- ----------

By:

Its:

LEUCADIA NATIONAL CORPORATION

By:

Its:

THE WILLIAMS COMPANIES, INC.

/s/ JACK D. MCCARTHY

By: JACK D. MCCARTHY

Its: Senior Vice President, Chief Financial Officer

WILLIAMS COMMUNICATIONS GROUP, INC.

- ----------

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

CG AUSTRIA, INC.

- ----------

By: ----------

Its: ----------

LEUCADIA NATIONAL CORPORATION

/s/ JOSEPH A. ORLANDO

By: Joseph A. Orlando

Its: Vice President

THE WILLIAMS COMPANIES, INC.

By: ----------

Its: ----------

EXHIBIT 10.42

SECOND AMENDMENT TO SETTLEMENT AGREEMENT

THIS SECOND AMENDMENT dated as of September 30, 2002 (the "Amendment") to the Settlement Agreement (the "Agreement") dated as of July 26, 2002, as amended, by and among The Williams Companies Inc. ("TWC", and, collectively with its direct and indirect subsidiaries, the "TWC Entities") Williams Communications Group, Inc. ("WCG" and, collectively with its direct and indirect subsidiaries, the "Company" or the "WCG Entities") and CG Austria, Inc. ("CG Austria") each as a debtor and debtor in possession in cases commenced (the "Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") the official committee of unsecured creditors (the "Committee") appointed in the Chapter 11 Cases; and Leucadia National Corporation ("Leucadia") (collectively, the "Parties"). All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

WHEREAS, the parties wish to modify the provisions in the Agreement relating to the payment of the purchase price under the Building Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and obligations contained herein, the Parties hereto hereby agree as follows:

1. Section 1(b) of the Agreement is hereby deleted in its entirety and replaced with the following:

> (b) The Building Purchase. In accordance with the Building Purchase Agreement, WKBC shall transfer and convey the Building Purchase Assets to WTC for the consideration specified therein. WTC's obligations to WHBC under the Building Purchase Agreement will be evidenced by (i) a long term note in the original principal amount of $100,000,000, and (ii) a short term note in the accreted principal amount of $74,360,295.30 (collectively, the "Building Purchase Notes"). The obligations under the Building Purchase Notes will be secured by the following (the documents evidencing the following will be referred to, collectively, as the "Building Purchase Collateral Documents"): (a) a first priority mortgage on and lien in the Building Purchase Assets (specifically including all furniture, fixtures and equipment (other than certain equipment related to or used in connection with WCG's network)), and (b) a fully subordinated, second priority lien on 66% of the stock of Wiltel Communications Pty Limited, an Australian subsidiary of a new, domestic, wholly owned subsidiary of WCLLC, which lien shall be subject to a mutually agreeable Intercreditor Agreement between WHBC and the Administrative Agent (as defined in the Plan) on behalf of the Lenders. In connection with the closing of the Building Purchase Agreement, the Administrative Agent for the benefit of the secured parties,

including, without limitation, the Lenders, shall be granted a fully subordinated, second priority lien and mortgage on the Building Purchase Assets (the "Lender Second Mortgage").

2. The definition of "Building Purchase Agreement" in the Glossary of Settlement Agreement Defined Terms shall be deleted in its entirety and replaced with the following:

> "Building Purchase Agreement" means the agreement dated as of July 26, 2002, a true and correct copy of which is annexed hereto as Exhibit 4, pursuant to which, as a component of the TWC Settlement, WTC shall purchase, the Building Purchase Assets from WHBC, as such agreement is amended from time to time.

3. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

4. Except as specifically amended hereby, the Agreement is in all respects confirmed, ratified and approved.

IN WITNESS WHEREOF, the Parties hereto have executed this Amendment on and as of the date and year first above written.

[Signature Pages Follow]

WILLIAMS COMMUNICATIONS GROUP, INC.

- ----------
By:

Its:

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS

(signature illegible)
By: Kirkland & Ellis
Its: Counsel

CG AUSTRIA, INC.

- ----------
By:

Its:

LEUCADIA NATIONAL CORPORATION

By:

Its:

THE WILLIAMS COMPANIES, INC.

By:

Its:

WILLIAMS COMMUNICATIONS GROUP, INC.

/s/ HOWARD S. KALIKA
BY: HOWARD S. KALIKA
Its: Vice President

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS BY: AMALGAMATED GADGET, L.P., AS INVESTMENT; BY: SCEPTOR HOLDINGS, INC., ITS GENERAL PARTNER;
BY: David R. Gillespie, CFO

/s/ DAVID GILLESPIE
BY: R2 INVESTMENTS, LPC
Its: CHAIRPERSON

CG AUSTRIA, INC.
/s/ Howard S. Kalika
By: Howard S. Kalika
Its: Vice President and Treasurer

LEUCADIA NATIONAL CORPORATION
/s/ Joseph A. Orlando
By: Joseph A. Orlando
Its: Vice President & CFO

THE WILLIAMS COMPANIES, INC.

/s/ JACK D. MCCARTHY
By: Jack D. McCarthy
Its: Senior Vice President and Chief Financial Officer

EXHIBIT 10.43

EXECUTION COPY

PURCHASE AND SALE AGREEMENT

dated as of

July 26, 2002

by and between

THE WILLIAMS COMPANIES, INC.

and

LEUCADIA NATIONAL CORPORATION

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT, dated as of July 26, 2002, by and between THE WILLIAMS COMPANIES. INC., a Delaware corporation ("Seller") and LEUCADIA NATIONAL CORPORATION, a New York corporation ("Purchaser").

WITNESSETH:

WHEREAS, Seller owns certain claims against Williams Communications Group, Inc., a Delaware corporation ("Communications") and certain of its affiliates (collectively, "WCG");

WHEREAS, Seller, in its capacity as the agent of the Indenture Trustee (as defined below) pursuant to Section 9.04 of the Trust Note Indenture (as defined below) has the right and ability to direct the sale of the WCG Note (as defined below) at the highest reasonably available market price (on an arm's length basis);

WHEREAS, Seller has determined after due inquiry that the portion of the Purchase Price (as defined below) allocated to the WCG Note pursuant to this Agreement is the highest reasonably available market price (on an arm's length basis) for the WCG Note;

WHEREAS, Communications and its subsidiary, CG Austria. Inc., a Delaware corporation (collectively, the "Debtors") are debtors in possession, having filed voluntary petitions on April 22, 2002, for relief pursuant to chapter 11 of title 11 of the United States Code, 11 U.S.C. Sections 101-1330 (as amended, the "Bankruptcy Code"), whose cases are pending in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") and procedurally consolidated under Case No. 02-11957 (the "Bankruptcy Case"):

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the Claims (as defined below) and the WCG Note, in the manner and subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. DEFINITIONS. For all purposes of this Agreement, except as otherwise expressly provided or unless the context clearly requires otherwise, the following capitalized terms shall have the following meanings:

"ADP Claims" has the meaning set forth in Section 2.01(a)(i).

"Affiliate" shall mean, with respect to any Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person provided that, for the purposes of this definition, "control" (including with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or partnership interests, by contract or otherwise.

"Agreement" shall mean this Purchase and Sale Agreement, together with the Schedules and Exhibits hereto, as amended, supplemented or otherwise modified from time to time,

"Applicable Law" shall mean any applicable law, regulation, rule, order, judgment or decree.

"April Agreement" shall mean the agreement dated as of April 19, 2002 by and among Debtors, WCL, certain Subsidiaries of WCG, certain Bondholders and certain Lenders, as amended, supplemented or otherwise modified from time to time.

"Asset Defeasance Program" shall mean the transactions pursuant to which WCL leased certain property from State Street Bank and Trust Company of Connecticut, National Association, as trustee, as set forth in (i) the Amended and Restated Participation Agreement, dated as of September 2, 1998, among Williams Communications, Inc., State Street Bank and Trust Company of Connecticut. National Association. as trustee and various other parties named therein, and (ii) the Operative Documents (as defined therein), as amended, supplemented or otherwise modified from time to time.

"Bank Agent" shall mean Bank of America, N.A., as agent under the WCG Bank Facility.

"Bankruptcy Case" has the meaning Set forth in the recitals hereof.

"Bankruptcy Code" has the meaning set forth in the recitals hereof

"Bankruptcy Court" has the meaning set forth in the recitals hereof

"Bankruptcy Rules" shall mean the Federal Rules of Bankruptcy Procedure, as the same are applicable to the Bankruptcy Case.

"Bondholders" shall mean the holders of the Senior Redeemable Notes.

"Building Purchase" shall mean the purchase by WTC of all of the Property for (i) Fifty Million Dollars ($50.000.000) in cash (subject to adjustment as set forth in the agreements and documents evidencing the Building Purchase), and (ii) the issuance by WTC and Communications (or, pursuant to the terms of such agreement, Reorganized Communications), as makers, and WCL, as guarantor, of a 10-year promissory note made payable to Williams Headquarters Building Company, a Delaware corporation, in the amount of One Hundred Million Dollars ($100,000,000) (reduced by the amount realized from the disposition or refinancing of the outstanding Aircraft Dry Leases, dated September 13, 2001, or the aircraft covered thereby, as set forth in the agreements and documents evidencing the Building Purchase) with interest at the rate of 7% per annum, and principal to be amortized until maturity on the basis of a 30-year schedule, the payment of which shall be secured by a first lien mortgage and security interest in and to the Property.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which banks in New York City are authorized or obligated by law or executive order to close or are otherwise generally closed.

"Causes of Action" shall mean all rights, claims, causes of action, defenses, demands, rights to recover damages and debts from third parties, and rights to enforce against third parties obligations and liabilities of any kind or nature under contract, at law or in equity, known or unknown, contingent or mature, liquidated or unliquidated, and all remedies with respect thereto.

"Claims" shall mean the ADP Claims and the Pre-Spin Services Claims.

"Claims Assignment" shall mean the Assignment of Claims to be executed by Seller with respect to the ADP Claims and the Pre-Spin Services Claims in substantially the form attached hereto as Exhibit B.

"Claims Documents" shall mean all guarantees, security agreements, mortgages, deeds of trust, letters of credit, reimbursement agreements, waivers, supplements, modifications and amendments and all other documents and agreements evidencing (i) the ADP Claims and (ii) the Pre-Spin Services Claims.

"Claims Exchange Consideration" has the meaning set forth in Section 4.11(a).

"Closing" has the meaning set forth in Section 2.04.

"Closing Date" has the meaning set forth in Section 2.04.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Official Committee of Unsecured Creditors appointed in the Bankruptcy Case.

"Communications" has the meaning set forth in the recitals hereof.

"Communications Investment" shall mean the investment by Purchaser of One Hundred Fifty Million Dollars ($150,000,000) in Communications or Reorganized Communications pursuant to the Investment Agreement.

"Confidentiality Agreement" shall mean the Confidentiality Agreement between Purchaser and Seller dated May 23, 2002, as amended, supplemented or otherwise modified from time to time.

"Confirmation Order" has the meaning set forth in Section 5.01(g).

"Debtors" has the meaning set forth in the recitals hereof.

"Disclosure Statement" has the meaning set forth in Section 4.05(b).

"Excluded Claims" has the meaning set forth in Section 2.02.

"February 23 Agreement" has the meaning set forth in Section 4.01.

"Final Order" shall mean (a) an order or judgment of the Bankruptcy Court as to which the time to appeal, petition for certiorari, or other proceedings for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or, (b) in the event that an appeal, petition for certiorari, or for reargument or rehearing has been sought, such order of the Bankruptcy Court shall have been affirmed by the highest court to which such order was appealed or from which reargument or rehearing was sought, or certiorari has been denied, and the time to take any further appeal, petition for certiorari or other proceedings for reargument or rehearing shall have expired; provided, that no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure or Rule 7024 of the Bankruptcy Rules may be filed with respect to such order.

"Governmental Entity" shall mean a court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or agency.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indenture Trustee" shall mean Wells Fargo, N.A., a national banking association, as successor to United States Trust Company of New York, a New York banking corporation, as indenture trustee and securities intermediary under the Trust Note Indenture.

"Investment Agreement" shall mean the investment agreement, of even date herewith, by and among Purchaser, Communications and WCL, pursuant to which Purchaser shall make the Communications Investment, a true and correct copy of which is attached hereto as Exhibit C.

"Issuer" shall mean WCG Note Trust, a special purpose statutory business trust created under the laws of the state of Delaware.

"Issuer Trustee" shall mean Wilmington Trust Company, in its capacity as Issuer's trustee.

"Lenders" shall mean the lenders under the WCG Bank Facility.

"Note Documents" shall mean the WCG Note, the WCG Note Indenture, the Trust Note Indenture and all guarantees, security agreements, mortgages, deeds of trust, letters of credit, remarketing and reimbursement agreements, waivers, supplements, modifications and amendments and all other documents and agreements evidencing (i) the WCG Note. (ii) the WCG Note Indenture and (iii) the Trust Note Indenture.

"Person" shall mean a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Entity or other entity or organization.

"Plan" shall mean the First Amended Chapter 11 Plan Of Reorganization With Respect To The Debtors, dated as of July 26, 2002, a true and correct copy of which is attached hereto as Exhibit A, as it may be amended or modified from time to time with the consent of Seller and Purchaser.

"Plan Effective Date" shall mean the date on which the Plan is consummated and becomes effective and binding in all material respects.

"Pre-Spin Services Agreement" shall mean the Administrative Services Agreement by and between Seller and certain of its Subsidiaries on the one hand, and Communications and certain of its Subsidiaries on the other hand, dated September 30, 1999, as deferred pursuant to that certain letter agreement dated April 23, 2001, and further deferred pursuant to that certain letter agreement dated February 23, 2002.

"Pre-Spin Services Claims" has the meaning set forth in Section 2.01(a)(ii).

"Property" shall mean all of the property covered by the Master Lease Agreement, dated September 13, 2001 (including the building, improvements, furniture and fixtures, and the parking garage, but excluding the central plant.)

"Purchase Price" has the meaning set forth in Section 2.03.

"Purchaser" has the meaning set forth in the preamble hereof.

"Reorganized Communications" shall mean any successor to Communications under the Plan.

"SBC" shall mean SBC Communications Inc., a Delaware corporation.

"Seller" has the meaning set forth in the preamble hereof.

"Senior Redeemable Notes" shall mean Communications' (i) 10.875% fixed rate notes due October 1, 2009, (ii) 10.70% fixed rate notes due October 7, 2007, (iii) 11.70% fixed rate notes due August 1,2008 and (iv) 11.875% fixed rate notes due August 1, 2010.

"Services Agreements" shall mean (i) the Amended and Restated Administrative Services Agreement between Seller and certain of its Subsidiaries on the one hand, and Communications and certain of its Subsidiaries on the other hand, effective April 23, 2001, (ii) the Supplemental Terms and Conditions to the Master Administrative Services Agreement between Seller and certain of its Subsidiaries on the one hand, and Communications and certain of its Subsidiaries on the other hand and (iii) the several related Service Level Agreements set forth on Schedule 2.02(a).

"Subsidiary" shall mean, with respect to any Person, any corporation or other organization, whether incorporated or unincorporated, of which (a) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries or (b) such Person or any other Subsidiary of such Person is a general partner (excluding any such partnership where such Person or any Subsidiary of such party does not have a majority of the voting interest in such partnership).

"Tax Sharing Agreement" shall mean the Tax Sharing Agreement entered into as of September 30, 1999, by and between Seller and Communications, as amended and restated as of April 23, 2001.

"Transactions" shall mean all the transactions provided for or contemplated by this Agreement.

"Trust Note Indenture" shall mean the Indenture dated as of March 28, 2001, among the

Issuer, WCG Note Corp., Inc., a special purpose corporation organized under the laws of the state of Delaware, as co-issuer of 8.25% Senior Secured Notes due 2004, and the Indenture Trustee.

"TWC Settlement Agreement" shall mean the agreement by and among Seller, Debtors, the Committee and Purchaser compromising and settling various disputes and issues between them and their respective Subsidiaries, a true and correct copy of which is attached hereto as Exhibit D.

"TWC Settlement Order" shall mean the order of the Bankruptcy Court, which may be the Confirmation Order, approving the TWC Settlement Agreement, on terms that are acceptable to Purchaser and Seller.

"WCG" has the meaning set forth in the recitals hereof.

"WCG Bank Facility" shall mean the Amended and Restated Credit Agreement dated as of September 8, 1999, as amended, among WCL, as borrower, Communications, as guarantor, the Bank Agent, the Lenders, The Chase Manhattan Bank, as syndication agent, Salomon Smith Barney Inc. and Lehman Brothers, Inc., as joint lead arrangers and joint bookrunners with respect to the Incremental Facility referred to therein, and Salomon Smith Barney Inc., Lehman Brothers. Inc. and Merrill Lynch & Co., Inc., as co-documentation agents.

"WCG Note" shall mean the $1.5 Billion 8.25% Senior Reset Note due 2008 issued by Communications to the issuer pursuant to the WCG Note Indenture and the Participation Agreement (as defined in the Trust Note Indenture).

"WCG Note Indenture" shall mean the Indenture dated as of March 28, 2001, between Communications and United States Trust Company of New York, a New York banking corporation, as trustee.

"WCL" has the meaning set forth in Section 2.01(a)(i).

"WTC" shall mean Williams Technology Center, LLC, a Delaware limited liability company.

Section 1.02. Interpretation. When a reference is made in this Agreement to a section, article, paragraph, exhibit or schedule, such reference shall be to a section, article, paragraph, exhibit or schedule of this Agreement unless clearly indicated to the contrary.

(a) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) The words "hereof", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement.

(c) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(d) A reference to any party to this Agreement or any other agreement or document shall include such party's predecessors, successors and permitted assigns.

(e) A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(f) References to Dollars or $ are to United States Dollars.

ARTICLE II

SALE OF CLAIMS

Section 2.01. Sale of the Claims and the WCG Note. On the terms, and subject to the conditions, set forth in this Agreement:

(a) Seller agrees to sell, assign, transfer and deliver to Purchaser on the Closing Date and Purchaser agrees to purchase from Seller on the Closing Date, all of Seller's right, title and interest in and to the Claims against WCG identified as follows:

(i) All Causes of Action of Seller, together with all collateral therefor and proceeds thereof, arising from Seller's guaranty of the obligations of Williams Communications, LLC, a Delaware limited liability company and a wholly owned Subsidiary of Communications ("WCL"), under the Asset Defeasance Program, the provision of other financial accommodations in connection therewith and the payment of WCL's obligations thereunder pursuant to the agreements set forth on Schedule 2.01(a)(i) (the "ADP Claims"): and (ii) All Causes of Action of Seller, together with all collateral therefor and proceeds thereof, arising from the Pre-Spin Services Agreement (the "Pre-Spin Services Claims").

(b) Seller, in its capacity as agent of the Indenture Trustee under the Trust Note Indenture, agrees to sell, assign, transfer and deliver to Purchaser on the Closing Date and Purchaser agrees to purchase from Seller (in its capacity as agent of the Indenture Trustee under the Trust Note Indenture) on the Closing Date, all of the Issuer's right, title and interest in and to the WCG Note.

Section 2.02. Excluded Claims. It is expressly understood and agreed that the Claims shall not include any other claims or assets, including, without limitation, the Causes of Action of Seller and its Affiliates under the following agreements (the "Excluded Claims"):

(a) the Services Agreements;

(b) the Tax Sharing Agreement;

(c) the Amended and Restated Employee Benefits Agreement with WCG, dated April 23, 2001;

(d) the Trademark License Agreement and the Cross-License Agreement, both effective as of April 23, 2001 between Seller and WCG; and

(e) the Relocation Services Agreement with WCG, effective as of January 2, 2002.

Section 2.03. Closing Payment. In consideration for the purchase by Purchaser of the Claims and the WCG Note, on the Closing Date Purchaser shall pay to Seller (or such other party or parties as Seller shall direct) One Hundred Eighty Million Dollars ($180,000,000) in the aggregate (the "Purchase Price") in cash.

Section 2.04. Closing. The sales referred to in Section 2.01 (the "Closing") shall take place at 10:00 A.M., New York time, at the offices of White & Case LLP, 1155 Avenue of the Americas, New York, New York 10036, simultaneously with the satisfaction or waiver of all of the conditions set forth in Article V hereof, or at such other time and date as Seller and Purchaser shall agree ("Closing Date").

Section 2.05. Deliveries by Seller. At the Closing, Seller shall deliver or cause to be delivered to Purchaser (unless previously delivered), the following:

(a) a duly executed Claims Assignment:

(b) the WCG Note, with an attached Transfer Notice in favor of Purchaser duly executed by the Issuer Trustee on behalf of the Issuer; and

(c) all other previously undelivered documents required by this Agreement to be delivered by Seller to Purchaser at or prior to the Closing in connection with the Transactions.

Section 2.06. Deliveries by Purchaser. At the Closing, Purchaser shall deliver to Seller (unless previously delivered), the following:

(a) the Purchase Price by wire transfer of immediately available funds to the account or accounts identified by Seller at least two Business Days prior to the Closing Date;

(b) a duly executed Claims Assignment; and

(c) all other previously undelivered documents required by this Agreement to be delivered by Purchaser to Seller at or prior to the Closing in connection with the Transactions.

Section 2.07. Purchase Price Allocation. Seller and Purchaser agree to allocate the Purchase Price to be paid for the Claims and the WCG Note as follows:

(a) One Hundred Eleven Million Seven Hundred Seventy Five Thousand Five Hundred Fifty Six Dollars and Seventy Three Cents ($111,775,556.73) for the WCG Note;

(b) Sixty Million Thirty Nine Thousand Six Hundred Fifty Five Dollars and Eighty Cents ($60,039,655.80) for the ADP Claims; and

(c) Eight Million One Hundred Eighty Four Thousand Seven Hundred Eighty Seven Dollars and Forty Seven Cents ($8,184,787.47) for the Pre-Spin Services Claims.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.01. Representations of Seller. Seller represents and warrants to Purchaser as follows:

(a) Seller is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware;

(b) Seller has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by it and to perform its obligations hereunder and thereunder, including, without limitation, to act as agent of the Indenture Trustee under the Trust Note Indenture with respect to the sale of the WCG Note;

(c) This Agreement has been duly executed and delivered by Seller and constitutes the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by Seller will be a valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing;

(e) None of the execution and delivery of this Agreement or the other agreements and instruments contemplated by this Agreement to be executed by Seller, the consummation by Seller of the Transactions or compliance by Seller with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of Seller's charter or bylaws, (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third-party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind (including any of the foregoing relating to the Claims or the WCG Note) to which Seller is a party or by which Seller or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation applicable to Seller or any of its properties or assets or (iv) require any order, consent, approval or authorization of, or notice to, or declaration, filing, application, qualification or registration with, any Governmental Entity, except with respect to the foregoing clauses (ii)-(iv), as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Seller to consummate the Transactions;

(f) As of the Closing Date, and upon the assignment and assumption of the Claims and the transfer of the WCG Note, (i) Seller will have transferred to Purchaser all of Seller's right, title and interest in and to the Claims and (ii) Seller, in its capacity as agent of the Indenture Trustee under the Trust Note Indenture, will have transferred to Purchaser all of the Issuer's right, title and interest in and to the WCG Note;

(g) As of April 22, 2002, (i) the ADP Claims had a nominal value of Seven Hundred Fifty Three Million Eight Hundred Sixty Seven Thousand One Hundred and Twenty Eight Dollars and Fifty Cents ($753,867,128.50), plus the right to accrued and unpaid interest; (ii) the Pre-Spin Services Claims had a nominal value of One Hundred Eight Million Two Hundred Fifty Thousand Dollars ($108,250,000), plus the right to accrued and unpaid interest; and (iii) the WCG Note had a face value of One Billion Five Hundred Million Dollars ($1,500,000,000):

(h) Correct and complete copies of all of the material Claims Documents and material Note Documents have been delivered to Purchaser prior to the date hereof;

(i) No broker, finder or other Person acting under Seller's authority is entitled to any broker's commission or other fee in connection with the Transactions for which Purchaser could be responsible; and

(j) Except for the representations and warranties contained in this Section 3.01, neither Seller nor any other Person makes any other express or implied representation or warranty to Purchaser.

Section 3.02. Representations of Purchaser. Purchaser hereby represents and warrants to Seller as follows:

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the state of New York;

(b) Purchaser has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Purchaser and to perform its obligations hereunder and thereunder;

(c) This Agreement has been duly executed and delivered by Purchaser and this Agreement constitutes the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by Purchaser will be a valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing;

(e) None of the execution and delivery of this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Purchaser, nor the consummation by Purchaser of the Transactions or compliance by Purchaser with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of its charter or bylaws. (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Purchaser is a party or by which Purchaser or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation application to Purchaser or any of its properties or assets or (iv) except for applicable requirements of the HSR Act, require any order, consent, approval or authorization of, or notice to, or declaration, filing, application, qualification or registration with, any Governmental Entity, except with respect to the foregoing clauses (ii)-(iv) as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Purchaser to consummate the Transactions;

(f) Purchaser (i) is a sophisticated Person with respect to the purchase of the Claims and the WCG Note, (ii) is able to bear the economic risk associated with the purchase of the Claims and the WCG Note, (iii) has adequate information concerning the business and financial condition of the Debtors and the status of the Bankruptcy Case to make an informed decision regarding the purchase of the Claims and the WCG Note, (iv) has such knowledge and experience, and has made investments of a similar nature, so as to be aware of the risks and uncertainties inherent in the purchase of rights and assumption of liabilities of the type contemplated in this Agreement and (v) has independently and without reliance upon Seller, and based on such information as Purchaser has deemed appropriate, made its own analysis and decision to enter into this Agreement, except that Purchaser has relied upon Seller's express representations and warranties in this Agreement. Purchaser acknowledges that Seller has not given Purchaser any investment advice, credit information or opinion on whether the purchase of the Claims and the WCG Note is prudent;

(g) No broker, finder or other Person acting under Purchaser's authority is entitled to any broker's commission or other fee in connection with the Transactions for which Seller could be responsible;

(h) Purchaser has and will have on the Closing Date sufficient funds available to it to pay the Purchase Price and all contemplated fees and expenses of Purchaser related to the Transactions; and

(i) Except for the representations and warranties contained in this Section 3.02, neither Purchaser nor any other Person makes any other express or implied representation or warranty to Seller.

Section 3.03. Survival. All the representations and warranties of Seller and Purchaser set forth in this Article III shall survive the Closing.

ARTICLE IV

COVENANTS AND AGREEMENTS

Section 4.01. February 23. 2002 Letter. Purchaser hereby agrees to be bound by Seller's obligations under the Letter Agreement dated February 23, 2002, between Seller and WCG (the "February 23 Agreement"), including, without limitation, paragraphs 1 and 4(e) thereof, with respect to the Claims, the WCG Note and the Excluded Claims.

Section 4.02. Communications Investment. Purchaser agrees to use its commercially reasonable best efforts to satisfy the terms and conditions of the Investment Agreement.

Section 4.03. No Shop. During the period from the date of this Agreement to the earlier of (i) the Closing Date and (ii) the date this Agreement is terminated, Seller and its Subsidiaries shall not, and shall use their reasonable best efforts to cause each of their respective directors, officers and agents (including, financial advisors) not to (i) directly or indirectly, initiate or solicit proposals or offers from any Person, other than Purchaser (and its Affiliates and representatives), relating to any acquisition or purchase of all or a portion of the Claims or the WCG Note or (ii) participate in any negotiations or furnish any information with respect to, or facilitate any effort or attempt by any other Person to do or seek any of the foregoing.

Section 4.04. Impairment. (a) Seller covenants and agrees that from and after the date of this Agreement Seller shall not, and shall cause its Affiliates not to, knowingly take any action or fail to take action that could reasonably be expected to (i) impair materially the Claims or the WCG Note or (ii) adversely affect in a material way the Plan; and

(b) Purchaser covenants and agrees that from and after the date of this Agreement, Purchaser shall not, and shall cause its Affiliates not to, knowingly take any action or fail to take action that could reasonably be expected to (i) impair materially the Excluded Claims or (ii) adversely affect in a material way the Plan.

Section 4.05. Purchaser Support of Plan and TWC Settlement Agreement. (a) To the extent Purchaser is or becomes a creditor of the Debtors, or otherwise has standing in the Bankruptcy Case, Purchaser shall (i) support and not oppose, the Plan, (ii) use commercially reasonable efforts to obtain as expeditiously as possible, the confirmation and consummation of the Plan and (iii) support the approval by the Bankruptcy Court of the TWC Settlement Agreement and use commercially reasonable efforts to obtain entry of the TWC Settlement Order.

(b) Purchaser shall use commercially reasonable efforts to (1) cause the Plan and a disclosure statement with respect to the Plan (the "Disclosure Statement") to be filed with the Bankruptcy Court as expeditiously as practicable, (2) seek to obtain entry of an order approving the Disclosure Statement as containing "adequate information" as required by section 1125 of the Bankruptcy Code as expeditiously as possible, (3) facilitate the solicitation of votes on the Plan, (4) obtain entry of the Confirmation Order, and (5) cause the Plan Effective Date to occur on or before February 28, 2003.

(c) Regardless of whether the Purchaser is a creditor of the Debtors or is a proponent of the Plan, Purchaser shall not (1) object to the Plan, (2) vote against the Plan, (3) take any action that would delay the confirmation and consummation of the Plan, (4) solicit, encourage, entertain, or engage in any inquiries, discussions, offers, proposals, or enter into any agreements, arrangement or understandings, relating to any other chapter 11 plan with respect to the Debtors or any transaction involving the Debtors or their assets that is inconsistent with the Plan and the transactions contemplated hereby, (5) consent to, support or participate in the formulation of any chapter 11 plan for the Debtors other than the Plan, (6) encourage or support in any fashion any Person to vote against or object to the Plan, or (7) take any action directly or indirectly for the purpose of delaying, preventing, frustrating or impeding acceptance, confirmation and consummation of the Plan.

Section 4.06. Seller Support of Plan. (a) Seller shall support and not oppose, the Plan, and shall be commercially reasonable efforts to obtain as expeditiously as possible, the confirmation and consummation of the Plan.

(b) Seller shall not (1) object to the Plan, (2) vote against the Plan, (3) take any action that would delay the confirmation and consummation of the Plan, (4) solicit, encourage, entertain, or engage in any inquiries, discussions, offers, proposals, or enter into any agreements, arrangement or understandings, relating to any other chapter Il plan with respect to the Debtors or any transaction involving the Debtors or their assets that is inconsistent with the Plan and the transactions contemplated hereby, (5) consent to, support or participate in the formulation of any chapter 11 plan for the Debtors other than the Plan, (6) encourage or support in any fashion any Person to vote against or object to the Plan, or (7) take any action directly or indirectly for the purpose of delaying, preventing, frustrating or impeding acceptance, confirmation and consummation of the Plan.

Section 4.07. Voting. Until the Closing Date, Seller shall have sole authority to exercise all voting and other rights and remedies with respect to the Claims, the WCG Note (in its capacity as agent of the Indenture Trustee under the Trust Note Indenture) and the Plan, and Purchaser shall have no right to act as agent for Seller in respect of any matter relating to the Claims, the WCG Note or the Plan; provided, that Seller agrees not to exercise such voting and other tights and remedies in a manner inconsistent with the terms of this Agreement; and provided, further, that to the extent practicable, prior to exercising any such voting or other rights or remedies, Seller shall notify Purchaser of any such proposed exercise.

Section 4.08. Seller Rights. Except as specifically provided in this Agreement, nothing shall restrict the right, power or ability of Seller to take any action it deems necessary or appropriate to protect its interests, including, without limitation, with respect to any Causes of Action that (i) WCG or any other Person may have against Seller or any of its Affiliates, or (ii) relate to the Claims or the WCG Note.

Section 4.09. Non-assumption of Liabilities. It is expressly agreed that Purchaser is not assuming any of Seller's obligations or liabilities to WCG as a result of the Transactions.

Section 4.10. Condition of Claims and WCG Note. PURCHASER AGREES THAT THE CLAIMS AND THE WCG NOTE BEING SOLD HEREUNDER ARE BEING SOLD WITHOUT ANY WARRANTY OR REPRESENTATION WHATSOEVER (EXPRESS OR IMPLIED), EXCEPT AS SPECIFICALLY STATED HEREIN AND THAT, EXCEPT FOR SUCH REPRESENTATIONS AND WARRANTIES, THE SALE OF THE CLAIMS BY SELLER AND OF THE WCG NOTE BY SELLER IN ITS CAPACITY AS AGENT OF THE INDENTURE TRUSTEE UNDER THE TRUST NOTE INDENTURE TO PURCHASER IS MADE ON AN "AS IS, WHERE IS" BASIS, WITH ALL DEFECTS AND IMPAIRMENTS OF ANY KIND OR NATURE, WHETHER KNOWN OR UNKNOWN, MATURE OR LATENT, WHICH MAY AFFECT THE AMOUNT, PRIORITY, VALIDITY, ENFORCEABILITY, ALLOWABILITY OR RECOVERY OF SUCH CLAIMS OR THE WCG NOTE IN THE BANKRUPTCY CASE (INCLUDING, WITHOUT LIMITATION, THE AMOUNT OF EQUITY RECEIVED UNDER THE PLAN) OR OTHERWISE; SELLER MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, IN EITHER ITS INDIVIDUAL CAPACITY OR ITS CAPACITY AS AGENT OF THE INDENTURE TRUSTEE UNDER THE TRUST NOTE INDENTURE, REGARDING THE AMOUNT, VALIDITY, ENFORCEABILITY OR ALLOWABILITY OF THE CLAIMS OR THE WCG NOTE, AND PURCHASER ASSUMES ALL RISKS WITH RESPECT THERETO (AND SHALL HAVE NO RIGHT, CLAIM, CAUSE OF ACTION OR REMEDY AGAINST SELLER THEREFOR).

Section 4.11. Make-Whole Provision (a) Purchaser hereby agrees that, if within one year of the Closing Date, Purchaser or any of its Affiliates directly or indirectly sells, exchanges or disposes of (or enters into an agreement or agreements with respect thereto) the Claims and/or the WCG Note or any consideration received in exchange therefor pursuant to a chapter 11 plan with respect to Communications (including, without limitation, any equity or debt security of any Person (the "Claims Exchange Consideration")), or receives a dividend, payment or similar distribution from Communications, Reorganized Communications, any of their respective Subsidiaries or any successors thereof as a consequence of a sale of assets of, or transaction involving, Communications, Reorganized Communications, any of their respective Subsidiaries or any successors thereof (or enters into an agreement or agreements with respect thereto) resulting in an aggregate payment to Purchaser and/or its Affiliates of greater than One Hundred Eighty Million Dollars ($180,000,000) (it being expressly agreed that Fifty Four and Fifty Four Hundredths Percent (54.54%) of (i) the proceeds of each sale, exchange or other disposition by Purchaser and/or any of its Affiliates of any equity or debt security of any Person received by Purchaser and/or any of its Affiliates during such year in conjunction with or pursuant to a

chapter 11 plan with respect to Communications and (ii) each dividend, payment or similar distribution received by Purchaser from Communications, Reorganized Communications, any of their respective Subsidiaries or any successors thereof during such year as a consequence of a sale of assets of, or transaction involving, Communications, Reorganized Communications or any of their respective Subsidiaries or any successors thereof, shall be allocated to the Claims Exchange Consideration for purposes of determining any payment(s) due Seller under this Section 4.11), Purchaser shall, within three (3) Business Days of the consummation of such transaction, pay to Seller in immediately available funds (except as provided in Section 4.11(b)) to an account designated by Seller in writing, an amount equal to the product of (x) Fifty Percent (50%) multiplied by (y) the excess of the aggregate payment over One Hundred Eighty Million Dollars ($180,000,000); provided, that such payment shall be allocated pro rata among the Claims and the WCG Note in proportion to their allocated portion of the Purchase Price in Section 2.07; and, provided, further, that with respect to the portion of such payment attributable to the WCG Note or any consideration received in exchange therefor pursuant to a chapter 11 plan with respect to Communications, Seller will receive such payment in its capacity as the agent of the Indenture Trustee under the Trust Note Indenture. Purchaser agrees that it will notify Seller in writing within three (3) Business Days of entering into a transaction or agreement of the type set forth in this Section 4.11.

(b) In the event the consideration received or to be received by Purchaser in a transaction of the type set forth in Section 4.11(a) is to be paid in whole or in part other than in Dollars, for purposes of Section 4.11(a), the value of such consideration shall be mutually agreed between Purchaser and Seller. Notwithstanding anything in this Agreement to the contrary, in the event Purchaser receives non-Dollar consideration in a transaction of the type set forth in Section 4.11(a), unless otherwise agreed between Purchaser and Seller in accordance with the previous sentence, any payment by Purchaser to Seller under Section 4.11(a) shall be made pro rata (based on the amount of non-Dollar consideration relative to the amount of Dollar consideration received by Purchaser in such transaction(s)) in such non-Dollar consideration.

Section 4.12. HSR Act. Purchaser agrees to cause to be made all appropriate filings under the HSR Act with respect to the Transactions as soon as reasonably practicable after the date of this Agreement and to diligently pursue termination of the waiting period under the HSR Act.

Section 4.13. Covenant to Satisfy Conditions. Each party hereto agrees to use all commercially reasonable best efforts to insure that the conditions set forth in Article V hereof are satisfied, insofar as such matters are within the control of such party.

Section 4.14. Further Assurances. Each party shall execute and deliver such other documents and instruments and take such further actions, as may be reasonably required by the other party in order to consummate the Transactions contemplated hereby.

ARTICLE V

CONDITIONS PRECEDENT

Section 5.01. Conditions to Purchaser's Obligation to Effect the Closing. The obligation of Purchaser to consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, unless validly waived in writing by Purchaser:

(a) Representations and Warranties. All of the representations and warranties of Seller set forth in this Agreement that are qualified as to materiality shall be true and correct and any such representations and warranties that are not so qualified shall be true and correct in all

material respects, in each case as of the date hereof and as of the Closing Date, other than representations and warranties that speak as of a specific date or time (which need only be so true and correct as of such date or time).

(b) Seller's Performance of Covenants. Seller shall not have failed to perform in any material respect any obligation or to comply in any material respect with any agreement or covenant of Seller to be performed or complied with by it under this Agreement.

(c) Injunctions. On the Closing Date, there shall not be any injunction, writ, preliminary restraining order or other order in effect of any nature issued by a Governmental Entity of competent jurisdiction that restrains, prohibits or limits, in whole or in material part, the consummation of the Transactions.

(d) HSR Act. The applicable waiting period under the HSR Act with respect to the Transactions shall have expired or been terminated.

(e) SBC Consent. SBC (on behalf of itself and its Affiliates) shall have consented to (i) the April 23, 2001 transactions pursuant to which the stock in WCG held by Seller was dividended to Seller's shareholders and (ii) the transactions contemplated by the Plan and the Investment Agreement, such consents to be in form and substance reasonably satisfactory to Purchaser, with Purchaser's approval not to be unreasonably withheld or delayed, provided, however, that this condition may be satisfied as to any of clauses (1) or (ii) if Purchaser seeks or directs Communications to seek and, subsequently, a court of competent jurisdiction shall have entered an order reasonably satisfactory to Purchaser providing that SBC does not have and will not have a right to terminate the Master Alliance Agreement between SBC and WCL, dated February 12, 1999 by reason of the transactions contemplated by clauses (i) or (ii), as applicable.

(f) Closing Deliveries. Seller shall have made all closing deliveries to Purchaser as set forth in Section 2.05.

(g) Confirmation of Plan. The Bankruptcy Court shall have entered an order (the "Confirmation Order"), confirming the Plan, which shall have become a Final Order, and the Plan shall have been consummated and become effective and binding on WCG and all creditors, interest holders and parties in interest.

The foregoing conditions are for the sole benefit of Purchaser and may be waived by Purchaser, in whole or in part, at any time and from time to time in its sole discretion.

Section 5.02. Conditions to Seller's Obligation to Effect the Closing. The obligation of Seller to consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, unless waived in writing by Seller:

(a) Representations and Warranties. All of the representations and warranties of Purchaser set forth in this Agreement that are qualified as to materiality shall be true and correct and any such representations and warranties that are not so qualified shall be true and correct in all material respects, in each case as of the date hereof and as of the Closing Date, other than representations and warranties that speak as of a specific date or time (which need only be so true and correct as of such date or time).

(b) Purchaser's Performance of Covenants. Purchaser shall not have failed to perform in any material respect any obligation or to comply in any material respect with any agreement or covenant to be performed or complied with by it under this Agreement.

(c) Injunctions. On the Closing Date, there shall not be any injunction, writ, preliminary restraining order or other order in effect of any nature issued by a Governmental Entity of competent jurisdiction that restrains, prohibits or limits, in whole or in material part, the consummation of the Transactions.

(d) Communications Investment. Purchaser shall have consummated the Communications Investment concurrently with the Closing.

(e) Closing Deliveries. Purchaser shall have made all closing deliveries to Seller as set forth in Section 2.06.

(f) Confirmation Order. The Bankruptcy Court shall have entered the Confirmation Order (which shall be reasonably satisfactory to Seller), which shall have become a Final Order, and the Plan (and all of the transactions contemplated thereby) shall have been consummated and become effective and binding on WCG and all creditors, interest holders and parties in interest.

(g) Building Purchase. The Building Purchase shall have been consummated or shall be consummated concurrently with the Closing.

(h) Settlement Order. The TWC Settlement Order shall have become a Final Order and all of the transactions contemplated thereby shall have been consummated.

The foregoing conditions are for the sole benefit of Seller and may be waived by Seller, in whole or in part, at any time and from time to tune in its sole discretion.

ARTICLE VI

TERMINATION

Section 6.01. Termination. This Agreement may be terminated or abandoned at any time prior to the Closing Date:

(a) By the mutual written consent of Purchaser and Seller:

(b) By Purchaser or Seller if any Governmental Entity with jurisdiction over the subject matter of this Agreement shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting in whole or in material part the consummation of the Transactions and such order, decree, ruling or other action shall have become a Final Order;

(c) By Purchaser or Seller if the Bankruptcy Court denies approval of the TWC Settlement Agreement, or, in. any event, if the TWC Settlement Order is not entered by October 15, 2002;

(d) By Purchaser or Seller in the event of a material breach of this Agreement by the other party, which breach shall be incapable of being cured or, if capable of being cured, shall not have been cured within thirty (30) days following receipt by the breaching party from the other party of written notice of such breach (specifying in reasonable detail the claimed breach and demand of its cure);

(e) By Seller in the event any of the conditions set forth in Section 5.02 becomes incapable of being satisfied on or before February 28, 2003; and

(f) By Purchaser or Seller if the Closing has not occurred on or before February 28, 2003; unless the failure of such consummation shall be due to the failure of such party to comply in all material respects with the representations, warranties, agreements and covenants contained herein or to be performed by such party on or prior to February 28, 2003.

Section 6.02. Effect of Termination. In the event of the termination or abandonment of this Agreement by any party hereto pursuant to the terms of this Agreement, written notice thereof shall forthwith be given to the other party specifying the provision hereof pursuant to which such termination or abandonment of this Agreement is made, and there shall be no liability or obligation thereafter on the part of Purchaser or Seller except (A) as set forth in Section 6.03, (B) for fraud and (C) for willful breach of this Agreement prior to such termination or abandonment of the Transactions.

Section 6.03. Liquidated Damages. In the event of the termination by Purchaser of this Agreement pursuant to Section 6.01(d) (provided that Purchaser is not then in material breach of this Agreement), Seller shall, within three (3) Business Days of such termination, pay to Purchaser in immediately available funds to an account designated by Purchaser in writing Five Million Dollars ($5,000,000). The parties hereto expressly acknowledge and agree that, in light of the difficulty of accurately determining actual damages with respect to the foregoing upon any termination of this Agreement where a fee is or may become payable in accordance with this Section 6.03, the right to payment: (i) constitutes a reasonable estimate of the damages that will be suffered by reason of any such proposed or actual termination of this Agreement, and (ii) shall be in full and complete satisfaction of any and all damages arising from the foregoing.

ARTICLE VII

MISCELLANEOUS

Section 7.01. Expenses. All costs and expenses incurred in connection with this Agreement and the consummation of the Transactions shall be paid by the party incurring such expenses, except as specifically provided to the contrary in this Agreement.

Section 7.02. Extension: Waiver. At any time prior to the Closing, each of the parties hereto may (i) extend the time for the performance of any of the obligations or acts of any other party hereto, (ii) waive any inaccuracies in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto, (iii) waive compliance with any of the agreements of the other party contained herein, or (iv) waive any condition to its obligations hereunder. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party.

Section 7.03. Transfer Taxes. In accordance with Section 1146(c) of the Bankruptcy Code, the instruments transferring the Claims and the WCG Note to Purchaser shall contain the following endorsement:

"Because this [instrument] has been authorized pursuant to Order of the United States Bankruptcy Court for the Southern District of New York relating to a chapter 11 plan of Williams Communications Group, Inc. and the order of the Honorable Burton R. Lifland, United

States Bankruptcy Judge, it is exempt from transfer taxes, stamp taxes or similar taxes pursuant to 11 U.S.C. Section 1146(c)."

Section 7.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when mailed, delivered personally, telecopied (which is confirmed) or sent by an overnight courier service, such as Federal Express, to the parties at the following addresses (or at such other address for a party as shall be specified by such party by like notice):

if to Purchaser to:

Leucadia National Corporation
315 Park Avenue South
New York, NY 10010
Attention:
Facsimile:

with a copy (which shall not constitute notice) to:

Schulte Roth & Zabel LLP
919 Third Avenue
New York, NY 10022
Attention: Michael L. Cook, Esq.
Michael R. Littenberg, Esq.
Facsimile: (212) 593-5955

if to Seller to:

The Williams Companies, Inc.
One Williams Center
Tulsa, OK 74172
Attention: William von Glahn, Esq.
Brian Shore, Esq.
Facsimile: (918) 573-5942

with a copy (which shall not constitute notice) to:

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036
Attention: John Reiss, Esq.
Facsimile: (212) 354-8113

and

White & Case LLP
First Union Financial Center
200 South Biscayne Boulevard
Miami, FL 33131-2352
Attention: Thomas E Lauria, Esq.
Facsimile: (305) 358-5744

or to such other address, telecopier number or person's attention as a party may from time to time designate in writing in accordance with this Section. Each notice or other communication given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been received (a) on the Business Day it is sent, if sent by personal delivery or telecopied, or (b) on the first Business Day after sending, if sent by overnight delivery, properly addressed and prepaid or (c) upon receipt, if Sent by mail (regular, certified or registered); provided, however, that notice of change of address shall be effective only upon receipt. The parties agree that delivery of process or other papers in connection with any action or proceeding in connection with this Agreement in the manner provided in this Section 7.04, or in such other manner as may be permitted by Applicable Law, shall be valid and sufficient service thereof.

Section 7.05. Entire Agreement: Amendment. This Agreement, the Confidentiality Agreement and other schedules and exhibits hereto constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof and supersede and cancel all prior agreements, negotiations, correspondence, undertakings, understandings and communications of the parties, oral and written, with respect to the subject matter hereof. This Agreement may only be modified or amended by a written instrument executed by the parties hereto.

Section 7.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (without giving effect to the provisions thereof relating to conflicts of law).

Section 7.07. Jurisdiction Purchaser and Seller each hereby irrevocably and unconditionally submit to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, but solely in any action or proceedings to enforce this Agreement. Each of the parties hereto agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Section 7.08. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts and by facsimile, with the same effect as if all parties had signed the same document. All such counterparts are to be deemed an original, construed together and constitute one and the same instrument.

Section 7.09. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction, will, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision will be interpreted to be only so broad as is enforceable.

Section 7.10. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and not to affect the interpretation hereof.

Section 7.11. Assignment. Neither this Agreement nor the rights or the obligations of any party hereto are assignable in whole or in part (whether by operation of law or otherwise), without the written consent of the other party and any attempt to do so in contravention of this Section 7.11 will be void; except that Purchaser may assign any or all of its rights (but not its obligations) hereunder to any Affiliate of Purchaser; provided, that no such assignment shall relieve Purchaser of its obligations hereunder.

Section 7.12. Successors and Assigns. This Agreement, including the representations, warranties and covenants contained in this Agreement, shall inure to the benefit of, be binding upon and be enforceable by and against the parties and their respective successors and permitted assigns.

Section 7.13. No Third-Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto, their respective successors and permitted assigns, and the Persons identified as beneficiaries herein.

Section 7.14. Publicity. The parties agree that until the Plan Effective Date, or the date the Transactions are terminated or abandoned pursuant to Article VI, neither Seller nor Purchaser nor any of their respective Affiliates, shall issue or cause the publication of any press release or other public announcement with respect to this Agreement or the Transactions or the Plan without prior consultation with the other(s), except as may be (a) required by Applicable Law, which shall include such filings and/or statements as any party shall determine to be necessary or advisable in its reasonable judgment in order to comply with its obligations under the Securities Exchange Act of 1934, as amended, or (b) appropriate to the Debtors' administration of the Bankruptcy Case.

IN WITNESS WHEREOF, Seller and Purchaser have executed this Purchase and Sale Agreement by heir duly authorized officers as of the date first set forth above.

THE WILLIAMS COMPANIES, INC.

By: /s/ Jack D. McCarthy
Title: Senior Vice President - Finance, Chief Financial Officer

LEUCADIA NATIONAL CORPORATION

BY:

Name:
Title:

IN WITNESS WHEREOF, Seller and Purchaser have executed this Purchase and Sale Agreement by heir duly authorized officers as of the date first set forth above.

THE WILLIAMS COMPANIES, INC.

By:

Name:

Title:

LEUCADIA NATIONAL CORPORATION

BY: /s/ BARBARA L. LOWENTHAL
Name:
Title: Vice-President

EXHIBIT 10.44

AMENDMENT TO PURCHASE AND SALE AGREEMENT

THIS AMENDMENT (the "Amendment") to the Purchase and Sale Agreement (the "Agreement"), dated as of July 26, 2002, is made as of this 15th day of October, 2002, by and among Leucadia National Corporation, a New York corporation ("Purchaser"), and The Williams Companies, Inc., a Delaware corporation ("Seller"). All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

FOR good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions. (a) The following definitions are hereby added, in alphabetical order to Section 1.01 of the Agreement:

"Escrow Agreement" means that certain escrow agreement, entered into as of October 15, 2002 among Purchaser, Seller, WilTel Communications Group, Inc., a Nevada corporation, and the Escrow Agent.

"Escrow Agent" means The Bank of New York, a New York banking institution.

(b) The definition of "Building Purchase" in Section 1.01 of the Agreement is hereby amended and restated in its entirety to read as follows:

"Building Purchase" means the purchase by WTC of all of the Property for an aggregate purchase price of One Hundred Fifty Million Dollars ($150,000,000) payable to Williams Headquarters Building Company as follows: (i) the issuance of a promissory note made by WTC and WCL, as co-issuers, and guaranteed by Reorganized Communications in the stated face amount of Seventy-Four Million Three Hundred Sixty Thousand Two Hundred Ninety-Five Dollars and Thirty Cents ($74,360,295.30), which amount is payable in full on December 29, 2006 and represents the original principal amount of Forty Four Million Eight Hundred Thousand Dollars ($44,800,000) (which sum reflects a $50,000,000 portion of the purchase price reduced by $5,200,000 relating to the certain credits as set forth in the agreements and documents evidencing the Building Purchase) and accreted interest on the outstanding principal commencing at the rate of 10% per annum through December 31, 2003, and increasing each calendar year thereafter by 2% per annum until the maturity date of December 29, 2006, and (ii) the issuance of a promissory note made by WTC and WCL, as co-issuers, and guaranteed by Reorganized Communications, in the amount of One Hundred Million Dollars ($100,000,000) with interest at the rate of 7% per annum, and principal to be amortized until maturity on the basis of a 30-year schedule, with the entire outstanding principal balance and accrued but unpaid interest thereon due and payable in full on the date which is seven and one half (7 1/2) years from the date of Closing. The payment of each promissory note referred to in clauses (i) and (ii) above, is secured by a first lien mortgage and security interest in and to the Property and a second lien on certain pledged collateral subject to Permitted Encumbrances as defined in the Mortgage with Power of Sale, Security Agreement, Assignment of Leases, Rents and Profits, Financing Statement and Fixture Filing date as of October 15, 2002 made by Williams Technology Center, LLC to Williams Headquarters Building Company.

3. Closing Payment. Section 2.03 is hereby amended and restated in its entirety to read as follows:

> In consideration for the purchase by Purchaser of the Claims and the WCG Note, on the Closing Date Purchaser shall pay to Seller (or such persons as Seller shall direct) One Hundred Eighty Million Dollars ($180,000,000) in the aggregate (the "Purchase Price"), by depositing the TWC Letter of Credit (as defined in the Escrow Agreement) into escrow pursuant to the terms of the Escrow Agreement.

4. Make-Whole Provision. Section 4.11 is hereby amended by including the following subsection (c):

> (c) Notwithstanding anything to the contrary in the foregoing Sections 4.11(a) and (1), Sections 4.11(a) and (b) shall not be applicable, and shall have no further force and effect in connection with, and upon the release or cancellation of, the TWC Stock Certificate (as defined in the Escrow Agreement) pursuant to Section 5 of the Escrow Agreement.

5. Conditions to Seller's Obligations to Effect the Closing. The parties hereby agree that:

(a) Section 5.02(d) of the Agreement is hereby amended and restated in its entirety to read as follows:

> Purchaser shall have consummated the Communications Investment by depositing the Company Letter of Credit (as defined in the Escrow Agreement) into escrow pursuant to the terms of the Escrow Agreement concurrently with the Closing.

(b) Section 5.02(g) of the Agreement shall be amended and restated in its entirety to read as follows:

> Concurrently with the Closing, the agreements, instruments, instructions and other documents relating to the Building Purchase shall have been deposited into escrow pursuant to the terms of the Escrow Agreement.

(c) Section 5.02(h) of the Agreement is hereby amended and restated in its entirety to read as follows:

> The TWC Settlement Order shall have become a Final Order and all of the transactions contemplated thereby shall have been consummated, subject to the terms and conditions set forth in the Escrow Agreement.

6. General Provisions. This Amendment shall be deemed to be a part of the Agreement, to the same extent as set forth therein in its entirety, and all other terms and provisions of the Agreement shall continue in full force and effect.

[Signature Page follows]

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

THE WILLIAMS COMPANIES, INC.

By: /s/ JACK D. MCCARTHY

Its: Senior Vice President and Chief Financial Officer

LEUCADIA NATIONAL CORPORATION

By: /s/ Joseph A. Orlando

Its: Vice President & Chief Finance Officer

EXECUTION COPY

AGREEMENT FOR THE RESOLUTION OF CONTINUING CONTRACT DISPUTES

This Agreement for the Resolution of Continuing Contract Disputes (the "Agreement") is entered into as of July 26, 2002, by and among The Williams Companies Inc. ("TWC"), Williams Communications, Group, Inc. ("WCG"), and Williams Communications, LLC ("WCL").

1. Definitions.

a. Unless otherwise defined herein and except for Section, Subsection, and Clause references (which, unless otherwise specified, refer to Sections, Subsections, or Clauses of this Agreement), capitalized terms used herein shall have the meanings set forth in (a) the Settlement Agreement (the "Settlement Agreement") entered into as of July 26, 2002, by and among TWC, WCG, the Committee and Leucadia or (b) the Plan.

b. "Base Rent" has the meaning set forth in the Tech Center Lease.

c. "BOk Tower" means the premises commonly referred to by that name owned by a subsidiary of TWC and located at One Williams Center, Tulsa, Oklahoma.

d. "Microwave Leases" means (i) the Lease Agreement dated March 1, 1997 between Texas Gas Transmission Corporation and WCL (assignee of Williams Wireless, Inc., a TWC subsidiary), (ii) the Lease Agreement dated September 1, 1995 between Transcontinental Gas Pipe Line Corporation (a TWC subsidiary) and WCL (assignee of Williams Wireless, Inc.), and (iii) the Lease Agreement dated January 1, 1997 between Williams Natural Gas Company (a TWC subsidiary now known as Williams Gas Pipelines Central, Inc.) and WCL (assignee of Williams Wireless. Inc.).

e. "Relocation Agreement" means the Relocation Services Agreement dated January 2, 2002 between Williams Relocation Management, Inc. (a TWC subsidiary) and WCG.

f. "Tech Center Lease" means the Master Lease of Williams Technology Center entered into on September 13, 2001 among Williams Headquarters Building Company (a TWC subsidiary), Williams Technology Center, LLC (a WCL subsidiary) and WCL.

g. "Center," "Closing Date," "MSA." "WHBC," and "WTC" have the meanings set forth in Section 10.

2. Premises for this Settlement.

a. TWC, WCG, and WCL have concluded that an amicable resolution of certain disputes will:

i. Facilitate transactions contemplated by the Plan;

ii. Reduce litigation costs;

iii. Reduce management and other employee time devoted to dispute resolution; and

iv. Prevent ongoing disputes from adversely affecting performance under the TWC Continuing Contracts.

b. TWC, WCG, and WCL have agreed to settle their respective claims reconciled as of June 30, 2002, arising under the TWC Continuing Contracts (including both claims by the TWC Entities against the Company and claims by the Company against the TWC Entities) in accordance with the amounts set forth on Exhibit I attached hereto and made a part hereof.

3. Excluded Matters. This Agreement shall not affect:

a. Any matters that would be resolved by the Settlement Agreement (if it were to become effective), to the extent the Settlement Agreement expressly resolves a matter;

b. The agreements or amendments contemplated by the Settlement Agreement; or

c. The TWC Assigned Claims.

4. Scope of this Agreement.

a. Except as set forth in Sections 3 and 5, this Agreement resolves all payment disputes and claims by the Company against the TWC Entities or by the TWC Entities against the Company reconciled as of June 30, 2002 and arising from or under:

i. Disputes arising from the provision of services, the lease or rental of real or personal property, the reimbursement or nonreimbursement of expenditures, the payment or nonpayment of royalties, underpayments, overpayments, or value otherwise provided;

ii. Disputes arising from the TWC Continuing Contracts; and

iii. Disputes arising under other agreements between the Company and the TWC Entities, whether oral, parole, implied by law, arising from correspondence, or written, relating to the matters set forth in Clause 4.a.i.

b. Without limiting the generality of the above or of the releases set forth in the Settlement Agreement, this Agreement resolves the following claims by the TWC Entities against the Company relating to unpaid amounts invoiced or claimed by the TWC Entities for periods reconciled as of June 30, 2002:

i. Unpaid claims arising under the Amended and Restated Administrative Services Agreement dated April 23, 2001, between TWC and WCG, including unpaid amounts invoiced under the Parking Administration Service Level Agreement attached thereto for parking at the OSU-Tulsa lot;

ii. Unpaid claims for the TWC Entities' attorney fees arising under the Tech Center Lease and related agreements;

iii. Claims of underpayment of Base Rent;

iv. Claims for reimbursement for the provision of LE)US-NEXIS services to attorneys employed by TWC and assigned to the Company prior to April 23,2001; and

v. Claims for rent, additional rent or for building services provided to rented or leased space in Houston, Texas whether provided to the Company or a divested subsidiary of the Company to the extent such sums remain unpaid.

c. Without limiting the generality of the above or of the releases set forth in the Settlement Agreement, this Agreement resolves the following claims by the Company against the TWC Entities relating to unpaid amounts invoiced or claimed by the Company for periods prior to July 1, 2002:

i. Unpaid claims arising under the Amended and Restated Administrative Services Agreement dated April 23, 2001, between TWC and WCG;

ii. Claims of overpayment of Base Rent,

iii. Claims for payment under the Microwave Leases; and

iv. Claims for repayment or credit under the Relocation Services Agreement of "home equity" payments made prior to July 1, 2002.

5. Exception for Undisputed and Uninvoiced Amounts. Notwithstanding the provisions of Subsection 4.a (but subject to the provisions of Subsections 4.b and 4.c hereof, and further subject in all cases to the rights and obligations of the parties under the agreements pursuant to which an action may be taken), the Company or a TWC Entity shall have the right to charge for:

a. Charges accruing after December 31,2001 and prior to July 1, 2002;

b. That were not set forth in invoices issued prior to July 1, 2002; and

c. That were not disputed by the Company or the TWC Entities as of July 15, 2002;

and

d. That were incurred under the provisions of a written agreement;

Provided that, the party seeking payment for any charges described in Subsections 5.a to 5.d must set forth such charges in an invoice issued prior to October 1, 2002 and must provide all credits associated with such charges pursuant to the provisions of the relevant agreement.

6. WCL Credit. WCL shall receive a credit (the "Settlement Credit") in the amount of $751,537.87 and may, at any time on or after the Plan Effective Date, apply such credit in satisfaction of any obligation owed by the Company to a TWC Entity.

7. Tech Center Lease Base Rent. The Settlement Credit reflects a compromise in which the parties have agreed:

a. To deem levels two and three of the Technology Center to have been "completed and ready for occupancy" as of March 23, 2002 for purposes of computing the Base Rent;

b. To reduce the Base Rent for the period from March 23, 2002 through July 31, 2002 by an amount equal to ten percent of the Base Rent attributable to the second and third levels; and

c. To deem all Base Rent amounts that were due prior to July 1, 2002 to have been timely paid in amounts computed in accordance with Subsections 7.a and 7.b.

Accordingly, TWC shall make any required adjustments to the Realty Base Rent Principal (as defined in the Tech Center Lease) effective retroactively to July 1, 2002 that are necessary to reflect any changes in accrued Realty Base Rent Interest resulting from the agreements set forth in Subsections 7.a, 7.b, and 7.c for periods prior to July 1, 2002. For months after July 2002, TWC shall make any required further adjustments to the Realty Base Rent Principal that are necessary to reflect the reduction set forth in Subsection 7.c, to the extent such reduction remains in effect.

The parties acknowledge and agree that all payments of Base Rent, as adjusted above, shall continue to accrue and be paid pursuant to the terms of the Master Lease until such time as a "Closing" occurs under the terms of the Real Property Purchase and Sale Agreement attached as an Exhibit 3 to the Settlement Agreement.

8. Executive Briefing Center. The Company's right to use the TWC Executive Briefing Center in the BOk Tower and any prospective obligation to pay the TWC Entities for such right shall terminate at 11:59 p.m., July 31, 2002.

9. Records Storage.

a. WCL shall use reasonable commercial efforts to promptly enter into its own records storage contract with Indel-Davis, Inc. ("Indel-Davis") (the company providing record storage services for the TWC Entities and currently having possession of the stored records of the Company) that will, inter alia, retroactively to July 1, 2002, assume all storage costs associated with Company records. To the extent that TWC remains liable to Indel-Davis for storage costs of Company records accruing after June 30, 2002, WCL shall reimburse TWC for such costs under the procedures set forth in the Amended and Restated Administrative Services Agreement (including the procedures for invoicing, dispute resolution, and rights to audit).

b. As long as and to the extent that records of the TWC Entities and the Company are located in common space, TWC and WCL shall use reasonable commercial efforts to establish procedures with Indel-Davis to secure access to the records so as to prevent representatives (e.g., employees, auditors, or inspectors) of the TWC Entities or the Company from accessing the records of the other.

c. Neither TWC nor WCL shall obstruct the other in obtaining records from storage. Specifically, TWC or WCL may, through Indel-Davis, retrieve its records from storage at any time.

d. TWC and WCL shall cooperate to promptly resolve any issues arising from (i) the TWC Entities' boxes or records being misfiled or misidentified as the Company's boxes or records, (ii) the Company's boxes or records being misfiled or misidentified as the TWC Entities' boxes or records, (iii) disputes as to ownership of records, or (iv) discrepancies arising from or clarifications needed regarding the records database files TWC provided to WCL on March 22, 2002 and June 28, 2002.

e. TWC and WCL shall cooperate with Indel-Davis to accomplish a physical separation of the Company's boxes and records from the TWC Entities' boxes and records located on Indel-Davis' premises and agree to share equally in the costs of such separation, provided, however, neither party shall be required to pay costs in excess of $6,000 for such separation.

f. TWC and WCL shall replace the expired Records Management Service Level Agreement (SLA# ASF-9) under the Amended and Restated Administrative Services Agreement dated April 23, 2001, to provide for the handling of Company records on the same terms and conditions as the expired Service Level Agreement, modified as necessary to implement the provisions of this Section 10 and to eliminate any charges that would accrue to WCL for services that Indel-Davis provides to WCL or any obligations on the part of TWC, to the extent Indel-Davis provides services directly to WCL.

g. The provisions of this Section 9 shall be construed as supplementing, and not supplanting, the provisions of other agreements currently in effect between the TWC Entities and the Company relating to the exchange of information and documentation.

10. Property Leases and Agreements. Capitalized terms used in this Section 10 not otherwise defined shall have the meanings given them in the individual agreements referenced herein. Definitions provided in this Section 10 shall apply only to this Section 10 and to Section II. As of the Effective Date, the following shall occur:

a. Depot Lease: The parties agree that the Depot Amended and Restated Lease Agreement shall be modified to provide: (i) a term of 3 years from the date of the closing (the "Closing Date") of the sale of the Williams Technology Center ("Center") to Williams Technology Center, LLC ("WTC"); (ii) termination of the lease at the sole discretion of Williams Headquarters Building Company ("WHBC") upon six (6) months advance notice, in the case of a termination including the 10,000 square feet of "lab space," and, in all other cases, ninety (90) days advance notice.

b. Resource Center Lease: The parties agree that the Amended and Restated Sublease Agreement, as amended, covering Level 3 of the Resource Center shall be modified to provide: (i) a cancellation of the lease upon the Closing Date and prompt vacation of the leased premises by WCL within a time period mutually agreeable to the parties not to exceed ninety (90) days; (ii) upon such cancellation, WCL shall have the right to remove the phone system and equipment related solely to such system and shall repair any damage done to the leased premises as a result thereof prior to returning possession of the premises to WHBC; and (iii) WCL shall not have any right to remove the furniture systems and related personality, such as desk chairs.

c. Central Plant Lease. The parties agree that the Central Plant Lease Agreement shall be modified to provide: (i) a nominal minimum rent of $100 per lease year (ii) a notice period of 45 days for all defaults, monetary and non-monetary; (iii) a release of TWC from its Guaranty of such Lease; (iv) a cure period of 30 days to remove Liens filed against the Building or the Land; and (v) the addition of a materiality condition to all default and remedies provisions of such Lease so that it cannot be terminated for a non-material default by WHBC.

d. Management Services Agreement. The parties agree that the Management Services Agreement ("MSA") shall be modified to provide a right on behalf of WTC to terminate the MSA at any time without cause upon twelve (12) months advance notice, provided that upon such termination, WTC shall continue to use WHBC's technicians to provide (i) repairs and maintenance to the Center, and (ii) HVAC and plumbing services for as long as WTC owns the Center.

e. Loading Dock The parties will enter into an agreement to provide temporary, non-exclusive access by WCL to the BOk Tower loading dock, as necessary, during times when WCL's dock is under repair, on terms and conditions mutually agreeable to the parties.

f. Reception Area. The parties will enter into a lease, at the same per-square-root rate currently in effect between the parties for the BOk Tower, for a reception area to be constructed as part of the corridor connection to be constructed by WHBC between the BOk Tower and the Center pursuant to agreements currently in effect between the parties.

11. Change in Control Provisions.

a. As of the Plan Effective Date, TWC waives all change of control provisions or restrictions on assignment in the TWC Continuing Contracts to the extent such provisions or restrictions would give rise to a light or benefit in favor of a TWC Entity as a result of:

i. the transactions contemplated by the Settlement Agreement, the Leucadia Investment Documents, or the Plan;

ii Leucadia or its subsidiaries acquiring additional capital stock of New WCG; or

iii. Leucadia or its subsidiaries selling capital stock of New WCG to the public in one or more transactions.

Notwithstanding the above, such Change in Control provisions and restrictions in each of the TWC Continuing Contracts shall in all respects remain in full force and effect and shall apply to any other Change in Control of the Company or New WCG and shall not be deemed in the future to have been waived by the foregoing.

b. Without limiting the generality of Subsection 11.a:

i. WHBC shall waive its right under Section 4.2 of the MSA to increase the charges accruing thereunder by 20% as a result of the Change in Control of WTC and/or WCG as contemplated by the Settlement Agreement and the Plan; provided, however, Section 4.2 of the MSA shall remain in full force and effect and shall apply to any subsequent Change in Control and shall not be waived by the foregoing; and

ii. WHBC shall waive its right under Section 5.03 of the Utility Services Agreement to increase the charges accruing thereunder by 20% as a result of the Change in Control of WTC and/or WCG as contemplated by the Settlement Agreement and the Plan; provided, however, Section 5.03 of the Utility Services Agreement shall remain in full force and effect and shall apply to any subsequent Change in Control and shall not be waived by the foregoing.

12. Reconciliation after Plan Effective Date. Promptly after the Plan Effective Date, the parties shall cooperate in a commercially reasonable manner to reconcile amounts owed by the Company to the TWC entities or by the TWC Entities to the Company that will have (a) accrued since July 1, 2002 or (b) been invoiced pursuant to Section 5.

13. Miscellaneous. This Agreement constitutes the complete and entire agreement between TWC on the one hand and WCL and WCG on the other with respect to the matters contained in such agreement. and supersedes all prior agreements, negotiations, and discussions between the TWC Entities and the Company, with respect thereto. Each of the parties to this agreement acknowledges that, in entering into this Agreement, it is not relying upon any representations or warranties made by anyone other than those terms and provisions expressly set forth in this Agreement. It is expressly understood and agreed that this Agreement may not be altered, amended, waived, modified or otherwise changed in any respect or particular manner whatsoever except by writing duly executed by authorized representatives of the parties hereto. The parties hereto further acknowledge and agree that they will make no claim at any time or place that this Agreement has been orally supplemented, modified, or altered in any respect whatsoever.

14. Authorized Execution. Subject only to approval of the Bankruptcy Court with respect to WCG, TWC, WCG, and WCL each warrants that it has the authority to execute this Agreement.

15. Binding Effect. Subject only to approval of the Bankruptcy Court with respect to WCG, the provisions of this Agreement are binding on and inure to the benefit of the parties to this Agreement and to each party's respective successors and assigns.

16. Governing Law. This Agreement will be governed by the laws of the State of New York, without regard to its conflicts of laws principles.

17. Subsidiary Compliance. TWC shall cause the TWC Entities (i) to comply with and be bound by the provisions of this Agreement and (ii) to execute such agreements or take such other actions that are necessary or appropriate to carry out the intent of Section 10. WCG shall cause the Company (x) to comply with and be bound by the provisions of this Agreement and (y) to execute such agreements or take such other actions that are necessary or appropriate to carry out the intent of Section 110.

18. Independent Effect. This Agreement shall become effective as set forth in Section 19, even if the Settlement Agreement or the Plan never take effect.

19. Effective Date and Term. This Agreement shall become effective when all required approvals of the Bankruptcy Court are obtained, provided that if such approvals are not obtained by February 28, 2003, this Agreement shall be of no effect. This Agreement shall remain in effect through the later of December 31, 2003 or ninety days after it becomes effective.

[Signature Page Follows]

EXECUTION COPY

THE WILLIAMS COMPANIES, INC.

/s/ Jack D. McCarthy
Its: Senior Vice President-Finance, Chief Financial Officer

WILLIAMS COMMUNICATIONS GROUP, INC.

By:

Its:

WILLIAMS COMMUNICATIONS, LLC

By:

Its:

THE WILLIAMS COMPANIES, INC.

By:

Its:

WILLIAMS COMMUNICATIONS GROUP, INC.

/s/ Howard E. Janzen

By:

Its: President & CEO

WILLIAMS COMMUNICATIONS, LLC

/s/ Howard E. Janzen

By:

Its: President & CEO

EXHIBIT 10.46

AMENDMENT TO AGREEMENT FOR THE RESOLUTION OF CONTINUING CONTRACT DISPUTES

THIS AMENDMENT dated as of October 15, 2002 (the "Amendment") to the Agreement for the Resolution of Continuing Contract Disputes dated as of July 26, 2002 (the "Agreement"), is entered into by and among Williams Communications, LLC, a Delaware limited liability company ("WCL"), Williams Communications Group, Inc., a Delaware corporation ("Communications") and The Williams Companies, Inc. ("TWC") a Delaware corporation. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

WHEREAS, the parties wish to modify the provisions relating to certain agreements to be entered into by the parties as hereinafter provided.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and obligations contained herein, the Parties hereto hereby agree as follows:

1. The parties agree that the agreement with respect to use of the BOK Tower loading dock referenced in Section 10.e. of the Agreement shall be set forth in an amendment to that certain Declaration of Reciprocal Easements with Covenants and Restrictions by and between Williams Headquarters Building Company and Williams Technology Center, LLC, dated February 26, 2001, which amendment shall be executed as of the date hereof and recorded in the land records of Tulsa County, Oklahoma.

2. The parties agree that the lease of a reception area in the BOK Tower referenced in Section 10.f. of the Agreement is no longer necessary and WCL and Communications each permanently waive any right to require such lease of TWC or any of its subsidiaries.

3. The parties agree that the replacement agreement for the expired Records Management Service Level Agreement referenced in Section 9.f. of the Agreement shall be entered into on or before March 14, 2003 on the same terms and conditions set forth in such Section 9.f.

4. The parties agree that the Amended and Restated Sublease Agreement, as amended, relating to Level 3 of the Resource Center referenced in Section 10(b) of the Agreement shall be entered into on or before March 14, 2003.

5. (a) Communications agrees to cause WCL to transfer its entire beneficial ownership interest in the WCG Note Trust, a special purpose statutory business trust created under the law of the State of Delaware ("Note Trust"), and to cause the Note Trust to transfer all of its shares of the capital stock of WCG Note Corp., Inc., a special purpose corporation organized under the law of the State of Delaware ("Note Corp." and together with Note Trust, the "Note Trust Entities"), to TWC or any affiliate thereof designated by TWC as of the Effective Date [i.e., the Effective Date of the Plan of Reorganization which should be October

15, 2002] such that all benefits and burdens of ownership of the Note Trust Entities pass to TWC on the Effective Date. Within fifteen (15) business days following the Effective Date, the parties agree to document such transfer on mutually agreeable terms and conditions, and Communications shall take all actions, and cause its affiliates to take all actions, requested by TWC in furtherance of the foregoing, including, without limitation, (i) amending the applicable transfer provisions of the Amended and Restated Trust Agreement, dated as of March 28, 2001 (the "Trust Agreement"), among Wilmington Trust Company, WCL and Note Trust and the provisions of any other agreements or other documents which prohibit or limit such transfers, and (ii) delivering any certificates, stock powers, notices, opinions or other documents required under the Trust Agreement or otherwise or requested in connection therewith. Communications further agrees to take all action and to do, or cause to be done, all things necessary to cause all of the directors and officers of Note Corp. to be individuals selected by TWC.

(b) Communications shall take all actions, and cause its affiliates to take all actions, requested by TWC necessary for TWC or any of its affiliates to amend the terms of the Senior Notes (as defined in the Indenture, dated as of March 28, 2001 [the "Indenture"], among Note Trust, Note Corp. and Wells Fargo, N.A. [as successor-in-interest to United States Trust Company of New York], as amended) and to operate, manage, wind up and/or terminate the Note Trust, including, without limitation, (i) amending any provisions of the Indenture, the Trust Agreement or any of the other Transaction Documents (as such term is used in the Indenture), (ii) consenting to any action under any of the Transaction Documents, (iii) waiving any default, breach or failure of any party to comply with any provision under any of the Transaction Documents and (iv) delivering any certificates, notices, opinions or other documents required under the Transaction Documents or otherwise or requested in connection therewith.

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

7. Except as specifically amended hereby, the Agreement is in all respects confirmed, ratified and approved. All references in the Agreement to "this Agreement" shall mean and refer to the Agreement as amended hereby.

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

WILLIAMS COMMUNICATIONS, LLC	WILLIAMS COMMUNICATIONS GROUP, INC.
By: ----------	By: ----------
Name: ----------	Name: ----------
Title: ----------	Title: ----------

THE WILLIAMS COMPANIES, INC.

By:

Name:

Title:

EXHIBIT 10.47

EXECUTION COPY

TAX COOPERATION AGREEMENT

Agreement (the "Agreement") by and between The Williams Companies. Inc., a Delaware corporation ("Williams"), and Williams Communications Group, Inc. a Delaware corporation ("Communications") entered into as of the 30th day of September, 1999, amended and restated as of the 23rd day of April 2001, and as entered into on the 26th day of July, 2002, to be effective and amended, restated and renamed as of the date on which the first amended Joint Chapter 11 Plan of Reorganization with respect to Communications and CG Austria, Inc., a Delaware corporation, dated as of the 26th day of July, 2002, is consummated and becomes effective and binding in all material respects (the "Effective Date").

RECITALS

Williams and Communications entered into a tax sharing agreement dated September 30, 1999 (the "Tax Sharing Agreement") to allocate and settle among themselves the consolidated Federal income tax liabilities of the TWC Group (as hereinafter defined), the unitary, combined, consolidated or similar state income tax liabilities of the parties and, if and as determined by Williams, certain other tax liabilities.

On April 23, 2001, Williams distributed most of the stock of Communications owned by Williams to Williams' public shareholders (the "Spin-off"). Also on April 23, 2001, Williams and Communications amended and restated the Tax Sharing Agreement.

Williams and Communications wish to amend, restate and rename the Tax Sharing Agreement and execute this Agreement which will, as of the Effective Date, supersede the Tax Sharing Agreement and be the sole governing agreement between Williams and Communications to allocate and settle among themselves the consolidated Federal income tax liabilities of the TWC Group, the unitary, combined, consolidated or similar state income tax liabilities of the parties and certain other tax liabilities arising prior to or after the Spin-off and to provide procedures with respect to such tax matters.

AGREEMENTS

Accordingly, the parties agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

The defined terms used in this Agreement shall, except as otherwise expressly provided or unless the context otherwise requires, have the meanings specified in this Article I. The singular shall include the plural and masculine gender shall include the feminine, the neuter and vice versa, as the context requires.

"Code" means the Internal Revenue Code of 1986, as amended.

"Final Determination" means an IRS Form 870 or 870AD that reflects an adjustment to any item (or a component of an item) shown on a Tax return (whether or not such adjustment results in a deficiency in Taxes) and any similar state, local or foreign form, a closing agreement or an accepted offer in compromise with the IRS (or appropriate state, local or foreign taxing authority) or any other adjustment to any item to which the taxpayer concedes (including, but not limited to, the filing of an amended return upon which the taxpayer adjusts an item in the favor of the IRS (or the appropriate state, local or foreign taxing authority)) or as to which the period of limitations has expired (whether or not such adjustment results in a deficiency in Taxes), a claim for refund that has been allowed, a deficiency notice with respect to which the period for filing a petition with the Tax Court has expired, or a decision of any court of competent jurisdiction that is not subject to appeal or the time for appeal of which has expired.

"IPO Date" means October 1, 1999 (the date of the initial public offering of stock of Communications).

"IRS" means the Internal Revenue Service.

"Post-IPO Date / Pre-Spin-off WCG Attribute" means any operating loss or loss or credit carryover or similar attribute of WCG attributable to dates beginning on the IPO Date and ending on the Spin-off Date (including the portion of the taxable year beginning on January 1, 2001 and ending on the Spin-off Date). If an amended return is filed or there is any change by Final Determination to an operating loss or loss or credit carryover or similar attribute of WCG (or items giving rise to such operating loss or loss or credit carryover or similar attribute of WCG), Williams shall allocate such changes in the operating loss or loss or credit carryover or similar attribute of WCG (and/or reallocate any previously allocated operating loss or loss or credit carryover or similar attribute of WCG that is affected by a change in items giving rise to such operating loss or loss or credit carryover or similar attribute of WCG) between Williams and WCG pursuant to the following method: (i) if the item (that caused the adjustment) has been previously allocated between Williams and WCG on a Federal income tax return or on Exhibit A, the change to such item shall be allocated in the same manner such item was allocated on the most recently filed Federal income tax return, or if such item has not been allocated on such return, in the same manner such item was allocated on Exhibit A; (ii) if (i) does not apply, to the extent that such item clearly relates to the income, assets or operations of Williams (or non-WCG members of the TWC Group), the change to such item shall be allocated to Williams and to the extent that the item clearly relates to the income, assets or operations of WCG, the change to such item shall be allocated to WCG; (iii) if neither (i) nor (ii) apply, then the change to such item shall be allocated pro-rata according to the most relevant measure for such item, unless Williams and WCG otherwise agree that another allocation method would be more equitable. If such item is an adjustment with respect to the 1999 taxable year, such item shall first be allocated to periods before and after the IPO Date as provided below in the definition of Pre-IPO Date WCG Attribute.

"Pre-IPO Date WCG Attribute" means any operating loss or loss or credit carryover or similar attribute, of WCG attributable to dates preceding the IPO Date (including the portion of the 1999 taxable year beginning on January 1, 1999 and ending on the day preceding the IPO Date). Any operating loss or loss or credit carryover or similar attribute of WCG attributable to a

taxable year ending in or before 1998 shall be a Pre-IPO Date WCG Attribute notwithstanding any changes to such items resulting from an amended return or a Final Determination. The PreIPO Date WCG Attributes (and items giving rise to such attributes) attributable to the taxable year 1999 initially shall be based on the total amount of operating loss or loss or credit carryovers or similar attribute of WCG set forth in the latest (regular or amended) TWC Group consolidated 1999 Federal income tax return that is filed prior to the Spin-off Date or, if not so set forth, then as set forth on Exhibit B. If an amended return is filed or there is any change by Final Determination to an operating loss or loss or credit carryover or similar attribute of WCG (or items giving rise to such operating loss or loss or credit carryover or similar attribute of WCG) for the taxable year 1999, Williams shall first allocate such changes in the operating loss or loss or credit carryover or similar attribute of WCG (and/or reallocate any previously allocated operating loss or loss or credit carryover or similar attribute of WCG that is affected by a change in items giving rise to such operating loss or loss or credit carryover or similar attribute of WCG) to periods before and after the IPO Date, and (if such attribute is allocated to a date after the IPO Date) between Williams and WCG pursuant to the following method: (i) if the item (that caused the adjustment) has been previously allocated between Williams and WCG on the TWC Group consolidated 1999 Federal income tax return or on Exhibit B, the change to such item shall be allocated in the same manner such item was allocated on the latest (regular or amended) TWC Group consolidated 1999 Federal income tax return, or if such item has not been allocated on such return, in the same manner such item was allocated on Exhibit B; (ii) if (i) does not apply, (a) for allocations of items to periods before and after the IPO Date, to the extent that such item clearly relates to periods prior to the IPO Date, the change to such item shall be allocated to the period prior to the IPO Date, and to the extent that such item clearly relates to periods after the IPO Date, the change to such item shall be allocated to the period after the IPO Date and (b) for allocations of items between Williams and WCG, to the extent that the item clearly relates the income, assets or operations of Williams, the change to such item shall be allocated to Williams, and to the extent that the item clearly relates the income, assets or operations of WCG, the change to such item shall be allocated to WCG; (iii) if neither (i) nor (ii) apply, then such item shall be allocated pro-rata according to the most relevant measure for such item, unless Williams and WCG otherwise agree that another allocation method would be more equitable.

"Spin-off Date" means April 23, 2001.

"Taxes" means all taxes, assessments, charges, duties, fees, levies or other governmental charges, including, without limitation, all Federal, state, local, foreign and other income, franchise, profits, capital gains, capital stock, transfer, sales, use, occupation, property, excise, severance, windfall profits, stamp, license, payroll, withholding and other taxes, assessments, charges, duties, fees, levies or other governmental charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a return), all estimated taxes, deficiency assessments, additions to tax, penalties and interest and shall include any liability for such amounts as a result either of being a member of a combined, consolidated, unitary or affiliated group or of a contractual obligation to indemnify any person or other entity.

"TWC Group" means Williams and other corporations (whether existing or hereafter formed or acquired) that at the time would be entitled or required to join with Williams in filing a consolidated Federal income tax return.

"WCG" means the group of corporations consisting of Communications and all members of the TWC Group owned, directly or indirectly and in whole or in part, by Communications (but shall not include Williams or any other corporation in the TWC Group in which a member of the WCG does not directly own a 5% interest).

"WCG Loss Carryover" means any TWC Group consolidated loss (or other similar attribute) attributable to Communications or such other member of WCG, if any (as determined by Williams and Communications in accordance with any permitted method under the consolidated return provisions of the Code and Treasury Regulations thereunder) that became an attribute of Communications or such other member of WCG after the Spin-off.

"WCG Credit Carryover" means any TWC Group consolidated credit carryover (or other similar attribute) attributable to Communications or such other member of WCG, if any (as determined by Williams and Communications in accordance with any permitted method under the consolidated return provisions of the Code and Treasury Regulations thereunder) that became an attribute of Communications or such other member of WCG after the Spin-off.

ARTICLE II

PAYMENTS

Section 2.01 Tax Liability.

Williams and Communications have settled all payments with respect to Taxes for all periods and no payments shall be required to be made by Williams to Communications or by Communications to Williams with respect to Taxes for any period; provided, however, that Williams hereby indemnifies Communications and each corporation that is a member of WCG from and against any Taxes for which Communications or any such WCG member has liability under Treasury Regulation Section 1.1502-6 or any analogous provision of state, local or foreign law relating to the membership of Communications or any such WCG member in the TWC Group.

ARTICLE III

TAX MATTERS; COOPERATION

Section 3.01 Williams as Agent.

(a) General rule. Communications hereby irrevocably appoints Williams as its agent, and Communications hereby agrees that Williams shall have sole and absolute authority, for the purposes of preparing and filing consolidated Federal income tax returns for the TWC Group (including, without limitation, preparing and filing estimated tax returns, amended tax returns and claims for refund, determining tax return positions, selecting methods of accounting and making elections). Communications agrees that Williams (acting reasonably and with an obligation to consider suggestions by Communications) shall: (i) (A) represent any member of WCG that is a member of the TWC Group with respect to any consolidated Federal income tax

audit or consolidated Federal income tax controversy (including, without limitation, any proceeding with the IRS and any judicial proceedings, whether any such proceedings relate to a claim for additional taxes or a claim for refund of taxes), (B) settle or compromise any claim for additional, or any claim for refund of, Federal income taxes of any member of WCG that is a member of the TWC Group, and (C) direct all communications between the IRS and any employee of a member of WCG that is a member of the TWC Group with respect to any issue that could affect an item reflected on the consolidated Federal income tax return of the TWC Group; (ii) engage outside counsel, accountants and other experts with respect to Federal income tax matters relating to any member of WCG that is a member of the TWC Group; and (iii) take any other action in connection with Federal income tax matters relating to any member of WCG that is a member of the TWC Group (or relating to any other member of the TWC Group) as Williams determines to be necessary or appropriate. Communications agrees that no employee of WCG or any of its member companies will provide any information (whether written or oral) to the IRS that could affect an item reflected on the consolidated Federal income tax return of the TWC Group, except at the direction of Williams.

(b) Exceptions for certain matters affecting Communications. Notwithstanding (a), the following exceptions shall apply to the general rule set forth in (a) if there is an audit or any proposed adjustment that could reduce either: (i) a WCG Loss Carryover or (ii) a WCG Credit Carryover (a "Communications Tax Matter"):

(i) Williams shall promptly give Communications notice of the commencement of a Communications Tax Matter, and Williams shall inform Communications of the status of, and any material discussion or provision of material information by Williams with respect to, a Communications Tax Matter. In addition, Communications shall have the right to provide documentation to an IRS agent and present an argument to an IRS agent supporting a position that is consistent with the positions taken by Williams with respect to such audit; provided, however, that Williams shall have full rights to control the audit and all presentations to an IRS agent and to be present during any presentation by Communications to the IRS.

(ii) Williams shall inform Communications of any formal conference with Appeals regarding a Communications Tax Matter. To the extent feasible, Williams shall provide copies to Communications of any written submissions to Appeals that contain discussions of a Communications Tax Matter a reasonable period prior to the submission of such written materials, and, to the extent feasible, Williams agrees to consult with Communications in good faith regarding the legal arguments raised in such submissions. Communications does not have the right to be present or represented at appeals conferences, but Williams, at Communications' request, will discuss with Communications what transpired at an appeals conference regarding a Communications Tax Matter.

(iii) Williams shall not enter into a settlement regarding a Communications Tax Matter without the consent of Communications, such consent not to be unreasonably withheld or delayed.

(iv) If (a) Communications furnishes to Williams an opinion of nationally recognized tax counsel that it is more likely than not that the IRS's position regarding a Communications Tax

Matter will not be sustained by a court, and (b) Communications shall have acknowledged in writing its obligation to indemnify Williams in the event the litigation is unsuccessful, Communications can compel Williams to litigate a position, using counsel acceptable to both Communications and Williams, at Communications' expense. With respect to any Communications Tax Matter that cannot be litigated or separated from any other matter, Williams shall have the right to use its own counsel and such counsel shall control the litigation (including making legal and strategic decisions and making arguments in court), but Williams shall consider in good faith suggestions and concerns raised by Communications' counsel regarding the Communications Tax Matter, and, if reasonably feasible, Williams shall permit Communications' counsel to control the legal arguments with respect to the Communications Tax Matter.

Section 3.02 Cooperation. Communications shall cooperate with Williams, and Williams shall cooperate with Communications, regarding the application of all aspects of this Agreement (including, without limitation, the proper and timely preparation and filing of any tax return to which this Agreement applies, the calculation of basis and the conduct of any tax audit or tax controversy to which this Agreement applies) (i) by maintaining such books, records, accounting data and other information in its possession necessary for the preparation and filing of all consolidated Federal income tax returns of the TWC Group for 10 years and by not disposing of any such books, records, accounting data and other information after such 10-year period without first providing Williams or Communications, as the case may be, with a 90-day opportunity to obtain such books, records, accounting data and other information; (ii) by providing such other information as requested by Williams or Communications, as the case may be, (iii) by executing such documents and (iv) by taking any such other action (including, without limitation, making any officers, directors, employees and agents available to Williams or Communications, as the case may be), in each such case as Williams or Communications, as the case may be, may request from time to time. Communications or Williams, as the case may be, shall secure the covenant of any acquirer of any member of WCG or Williams, as the case may be, to comply with this Section 3.02 for the benefit of Williams and Williams's successors and assigns or for the benefit of Communications or Communications's successor and assigns, as the case may be. For purposes of this section 3.02, in addition to Communications's obligations pursuant to this section, Communications shall cause WCG to comply with each obligation pursuant to this section, and in addition to Williams's obligations pursuant to this section, Williams shall cause all non-WCG members of the TWC Group to comply with each obligation pursuant to this section.

ARTICLE IV

STATE, LOCAL, FOREIGN AND OTHER FEDERAL TAXES

4.01 Williams and Communications have settled all payments with respect to state, local, foreign and other federal Taxes for all periods and no payments shall be required to be made by Williams to Communications or by Communications to Williams with respect to such Taxes for any period.

ARTICLE V

MISCELLANEOUS

Section 5.01 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either party without the prior written consent of the other party, such consent not to be unreasonably withheld or delayed.

Section 5.02 Expenses. Each party hereto will bear their own legal, accounting and other expenses incurred by such party in connection with the negotiation, preparation and execution of this Agreement and any other agreement prepared in connection with the Spin-off and with respect to actions taken pursuant to the operation of this Agreement and any other agreement executed in connection with the Spin-off (unless otherwise provided in such other agreement).

Section 5.03 Effect of Agreement. This Agreement shall determine the rights and liabilities of the parties as to the matters provided for in this Agreement, whether or not such determination is effective for financial reporting or other purposes.

Section 5.04 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties in respect of the subject matter contained in this Agreement and supersedes all prior or contemporaneous agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any party or by any officer, employee or representative of any party.

Section 5.05 Amendments and Waivers. This Agreement shall not be modified, supplemented or terminated except by a writing duly signed by each of the parties hereto, and no waiver of any provision of this Agreement shall be effective unless in a writing duly signed by the party sought to be bound.

Section 5.06 Code References. Any references to Sections of the Code shall be deemed to refer to any corresponding provisions of succeeding law as in effect from time to time.

Section 5.07 Notices. Any notice, communication or approval required or permitted to be given under this Agreement shall be deemed to have been duly given if delivered by hand or deposited in the United States mail, postage prepaid and sent by certified or registered mail, if addressed to Williams, at:

THE WILLIAMS COMPANIES, INC.
ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172
ATTENTION: JACK MCCARTHY

if addressed to Communications, at:

WILLIAMS COMMUNICATIONS GROUP, INC.
ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172
ATTENTION: SCOTT SCHUBERT

Section 5.08 Third Parties. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give to any person other than the parties hereto any rights or remedies under or by reason of this Agreement.

Section 5.09 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to principles of conflicts of law.

Section 5.10 Severability. If any provision of this Agreement or the application of this Agreement in any circumstance is held invalid or unenforceable, the remainder of this Agreement and the application of this Agreement in any other circumstance shall not be affected thereby, the provisions of this Agreement being severable in any such instance.

Section 5.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 5.12 Dispute Resolution. The parties agree that any dispute arising under this Agreement shall be resolved in accordance with the Dispute Resolution procedures set forth in the Amended and Restated Separation Agreement made by and between Williams and Communications dated April 23, 2001.

The parties hereto have caused this Agreement to be duly executed as of the date first written above.

THE WILLIAMS COMPANIES, INC.

BY:

ITS:

WILLIAMS COMMUNICATIONS GROUP, INC.

BY:

ITS:

EXECUTION COPY

GUARANTY INDEMNIFICATION AGREEMENT

THIS GUARANTY INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into this 26th day of July, 2002, but shall not become effective until the Effective Date (as such term is defined in the Plan), by and between The Williams Companies, Inc. a Delaware corporation ("Williams"), and Williams Communications Group, Inc., a Delaware corporation ("Communications"). The parties to this Agreement are collectively referred to as the "Parties", and singularly as a "Party".

ARTICLE I

DEFINITIONS

SECTION 1.01. DEFINITIONS. As used in this Agreement, in addition to the terms defined in the Preamble hereof, the following terms shall have the following meanings, applicable to both the singular and plural forms of the terms described:

"BUSINESS DAY" means any calendar day which is not a Saturday, Sunday or public holiday under the laws of the State of New York.

"COMMUNICATIONS GROUP" means Communications and its direct and indirect subsidiaries.

"INDEMNIFIABLE LOSSES" shall have the meaning ascribed to it in Section 2.01.

"INDEMNIFYING PARTY" shall have the meaning ascribed to it in Section 2.02(a).

"INDEMNITEE" shall have the meaning ascribed to it in Section 2.02(a).

"INDEMNITY PAYMENT" shall have the meaning ascribed to it in Section 3.01 (a).

"INSURANCE PROCEEDS" means those monies: (a) received by an insured from an insurance carrier, or (b) paid by an insurance carrier on behalf of the insured in the case of (a) or (b), net of any applicable premium adjustments (including reserves and retrospectively rated premium adjustments) and net of any costs or expenses (including allocated costs of in-house counsel and other personnel) incurred in collection thereof.

"LIABILITIES" means all liabilities and obligations of a party, actual or contingent, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever and however arising, including all costs and expenses (including reasonable fees and disbursements of counsel) relating thereto, and including, without limitation, liabilities and obligations arising in connection with any actual or threatened claim, action, suit or proceeding by or before any court or regulatory or administrative agency or commission or any arbitration panel.

"PLAN" means the First Amended Joint Chapter 11 Plan of Reorganization of Communications and CG Austria. Inc. filed as of July 26, 2002 in the chapter 11 case No. 02-11957 (BRL) pending in the United States Bankruptcy Court for the Southern District of New York.

"TAX ASSESSMENT" shall have the meaning ascribed to it in Section 8.01(a).

"TAXES" means all taxes, assessments, charges, duties, fees, levies or other governmental charges, including, without limitation, all Federal, state, local, foreign and other income, franchise, profits, capital gains, capital stock, transfer, sales, use, occupation, property, excise, severance, windfall profits, stamp, license, payroll, withholding and other taxes, assessments, charges, duties, fees, levies or other governmental charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a return), all estimated taxes, deficiency assessments, additions to tax, penalties and interest and shall include any liability for such amounts as a result either of being a member of a combined, consolidated, unitary or affiliated group or of a contractual obligation to indemnify any person or other entity.

"THIRD-PARTY CLAIM" shall have the meaning ascribed to it in Section 3.01(a).

"WILLIAMS GROUP" means Williams and each of its direct and indirect subsidiaries other than members of the Communications Group.

"WILLIAMS GUARANTEE" means the guarantees listed on Exhibit A attached hereto and made a part hereof.

SECTION 1.02. INTERNAL REFERENCES. Unless the context indicates otherwise, references to Articles, Sections and Paragraphs shall refer to the corresponding Articles, Sections and Paragraphs in this Agreement, and references to the parties shall mean the parties to this Agreement.

ARTICLE II

GUARANTEE

SECTION 2.01. GUARANTEE. The Communications Group shall indemnify, defend and hold harmless each member of the Williams Group, and their respective directors, officers, employees, agents and representatives, from and against any and all losses, claims, damages, liabilities, demands, suits and actions, including all reasonable attorneys' fees and disbursements and other costs and expenses incurred in connection therewith (collectively, "Indemnifiable Losses") relating to, resulting from, or arising out of any Williams Guarantee. Each member of the Williams Group shall not terminate unilaterally or withdraw any Williams Guarantee and shall abide by the terms of any such Williams Guarantee. The Communications Group shall reimburse each member of the Williams Group for any direct fees (such as letter of credit maintenance fees) incurred by such member in connection with maintaining any Williams Guarantee.

SECTION 2.02. INDEMNIFICATION OBLIGATIONS NET OF INSURANCE PROCEEDS AND OTHER AMOUNTS. (a) The amount which any party (an "Indemnifying Party") is required to pay to any person entitled to indemnification hereunder (an "Indemnitee") will be reduced by any Insurance Proceeds theretofore actually recovered by or on behalf of the Indemnitee in reduction of the related Liability. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Liability and subsequently receives Insurance Proceeds, then the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds recovery had been received, realized or recovered before the Indemnity Payment was made.

(b) An insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, or have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of the indemnification provisions hereof. Notwithstanding the foregoing, each member of the Williams Group and Communications Group shall be required to use commercially reasonable efforts to collect or recover any available Insurance Proceeds.

ARTICLE III

CLAIMS

SECTION 3.01. THIRD-PARTY CLAIMS. (a) If Indemnitee receives notice of the assertion of any claim or of the commencement of any action or proceeding by any person that is not a party to this Agreement or a subsidiary of any such party against Indemnitee (a "Third-Party Claim"), Indemnitee shall promptly provide written notice thereof (including a description. of the Third-Party Claim and an estimate of any Indemnifiable Losses, which estimate shall not be conclusive as to the final amount of such Indemnifiable Losses) to the Indemnifying Party. Any delay by the Indemnitee in providing such written notice shall not relieve the indemnifying Party of any liability for indemnification hereunder except to the extent that the rights of the Indemnifying Party are materially prejudiced by such delay.

(b) The Indemnifying Party shall have the right to participate in or, by giving written notice to the Indemnitee, to assume the defense of any Third-Party Claim at such Indemnifying Party's expense and by such Indemnifying Party's own counsel (which shall be reasonably satisfactory to the Indemnitee), and the Indemnitee will cooperate in good faith in such defense. The Indemnifying Party shall not be liable for any legal expenses incurred by the Indemnitee after the Indemnitee has received notice of (i) the Indemnifying Party's intent to assume the defense of a Third-Party Claim and (ii) the date upon which such defense shall be assumed by the Indemnifying Party; provided, however, that if, under applicable standards of professional conduct a conflict on any significant issue between the Indemnifying Party and any Indemnified Party exists in respect of such Third-Party Claim, then the Indemnifying Party shall reimburse

the Indemnified Party for the reasonable fees and expenses of one additional counsel (who shall be reasonably acceptable to the Indemnifying Party); provided, further, that if the Indemnifying Party fails to take steps reasonably necessary to diligently pursue the defense of such Third-Party Claim within twenty (20) Business Days of receipt of notice from the Indemnitee that such steps are not being taken, the Indemnitee may assume its own defense and the indemnifying Party shall be liable for the reasonable costs thereof.

(c) The Indemnifying Party may settle any Third-Party Claim which it has elected to defend so long as the written consent of the Indemnitee to such settlement is first obtained (which consent shall not be unreasonably withheld). The Indemnitee shall not settle any Third-Party Claim without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).

(d) In the event that a Third-Party Claim involves a proceeding as to which both Williams and Communications may be Indemnifying Parties, the parties hereto agree to cooperate in good faith in a joint defense of such Third-Party Claim.

(e) In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim or against any other person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense (including allocated costs of in-house counsel and other personnel) of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

SECTION 3.02. NON THIRD-PARTY CLAIMS. In the event that an Indemnified Party should have a claim against the Indemnifying Party hereunder that does not involve a claim or demand being asserted against or sought to be collected from it by a third party, the Indemnified Party shall send a notice with respect to such claim to the Indemnifying Party. The Indemnifying Party shall have sixty (60) days from the date such notice is delivered during which to notify the Indemnified Party in writing of any good faith objections it has to the Indemnified Party's notice or claims for indemnification, setting forth in reasonable detail each of the Indemnifying Party's objections thereto. If the Indemnifying Party does not deliver such written notice of objection within such sixty-day period, the Indemnifying Party shall be deemed to not have any objections to such claim. If the Indemnifying Party does deliver such written notice of objection within such sixty (60) day period, the Indemnifying Party and the Indemnified Party shall attempt in good faith to resolve any such dispute within sixty (60) days of the delivery by the Indemnifying Party of such written notice of objection. If the Indemnifying Party and the Indemnified Party are unable to resolve any such dispute within such sixty (60) day period, such dispute shall be resolved in accordance with the Dispute Resolution Procedures set forth in the Amended and Restated Separation Agreement between Williams and Communications dated April 23, 2001.

ARTICLE IV

COOPERATION

SECTION 4.01. COOPERATION. So long as any books, records and files retained after the Effective Date by any member of the Williams Group, on the one hand, or any member of the Communications Group on the other hand, relating to the Williams Guarantees (including any books, records and files retained by any member of the Communications Group relating to the Williams Guarantees) remain in existence and are available, such other party shall have the right upon prior written notice to inspect and copy the same at any time during business hours for any proper purpose; provided that such right will not extend to any books, records or files the disclosure of which in accordance herewith would result in a waiver of the attorney-client, work-product or other privileges which permit non-disclosure of otherwise relevant material in litigation or other proceedings, or which are subject on the date hereof and at the time inspection is requested to a non-disclosure agreement with a third party and a waiver cannot reasonably be obtained. Williams and Communications agree that neither they nor any member of the Williams Group or the Communications Group, as the case may be, shall destroy such books, records or files without reasonable notice to the other party or if such party receives within ten (10) Business Days of such notice any reasonable objection from the other party to such destruction. Except in the case of dispute between the parties hereto, each member of the Williams Group and each member of the Communications Group shall cooperate with one another in a timely manner in any administrative or judicial proceeding involving any matter affecting the actual or potential liability of either party hereunder. Such cooperation shall include, without limitation, making available to the other party during normal business hours all books, records and information, and officers and employees (without substantial disruption of operations or employment) necessary or useful in connection with any inquiry, audit, investigation or dispute, any litigation or any other matter requiring any such books, records, information, officers or employees for any reasonable business purpose. The party requesting or otherwise entitled to any books, records, information, officers or employees pursuant to this Article IV shall bear all reasonable out-of-pocket costs and expenses (except for salaries, employee benefits and general overhead) incurred in connection with providing such books, records, information, officers or employees.

ARTICLE V

EFFECTIVENESS

SECTION 5.01. EFFECTIVENESS. This Agreement is effective as of the Effective Date.

ARTICLE VI

SUCCESSORS AND ASSIGNS

SECTION 6.01. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the parties hereto and their respective successors and permitted assigns and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by either party hereto to any other person without the prior written consent of the other party hereto.

ARTICLE VII

NO THIRD-PARTY BENEFICIARIES

SECTION 7.01. NO THIRD-PARTY BENEFICIARIES. Nothing expressed or implied in this Agreement shall be construed to give any person or entity other than the parties hereto any legal or equitable rights hereunder.

ARTICLE VIII

TAXATION OF PAYMENTS

SECTION 8.01. TAXATION OF PAYMENTS. (a) All sums payable by the Indemnifying Party to the Indemnified Party under this Agreement shall be paid free and clear of all deductions, withholdings, set-offs or counterclaims whatsoever save only as may be required by law. If any deductions or withholdings are required by law, the Indemnifying Party shall be obliged to pay to the Indemnified Party such sum as will, after such deduction or withholding has been made, leave the Indemnified Party with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding. If any authority imposes any Taxes on any sum paid to the Indemnified Party under this Agreement (a "Tax Assessment"), then the amount so payable shall be grossed up by such amount as will ensure that after payment of the Tax Assessment there shall be left a sum equal to the amount that would otherwise be payable under this Agreement.

(b) The Indemnified Party shall take any action and institute any proceedings, and give any information and assistance, as the Indemnifying Party may reasonably request, to dispute, resist, appeal, compromise, defend, remedy or mitigate any Tax Assessment, in each case on the basis that the Indemnifying Party shall indemnify the Indemnified Party for all reasonable costs incurred as a result of a request by the Indemnifying Party.

(c) The Indemnified Party shall not admit liability in respect of, or compromise or settle, a Tax Assessment without the prior written consent of the Indemnifying party (such consent not to be unreasonably withheld or delayed).

ARTICLE IX

ADDITIONAL MATTERS

SECTION 9.01. REMEDIES CUMULATIVE. The remedies provided in this Agreement shall be cumulative and shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

SECTION 9.02. LIMITATION ON LIABILITY. No indemnifying Party shall be liable to an Indemnified Party under this Agreement in respect of consequential, exemplary, special or punitive damages, or lost profits, except to the extent such consequential, exemplary, special or punitive damages, or lost profits are actually paid to a third party.

ARTICLE X

ENTIRE AGREEMENT

SECTION 10.01. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes any prior or contemporaneous agreement or understanding between the Parties.

ARTICLE XI

AMENDMENT

SECTION 11.01. AMENDMENT. This Agreement may not be amended except by an instrument signed by the parties hereto.

ARTICLE XII

REMEDIES AND WAIVERS

SECTION 12.01. REMEDIES AND WAIVERS. No waiver of any term shall be construed as a subsequent waiver of the same term, or a waiver of any other term, of this Agreement. The failure of any party to assert any of its rights hereunder will not constitute a waiver of any such rights. The single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise thereof or the exercise of any right, power or remedy. Except as provided in this Agreement, the rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

ARTICLE XIII

SEVERABILITY

SECTION 13.01. SEVERABILITY. If any provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, such provision shall be deemed severable and all other provisions of this Agreement shall nevertheless remain in full force and effect.

ARTICLE XIV

HEADINGS

SECTION 14.01. HEADINGS. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

ARTICLE XV

NOTICES

SECTION 15.01. NOTICES. All notices given in connection with this Agreement shall be in writing. Service of such notices shall be deemed complete: (i) if hand delivered, on the date of delivery; (ii) if by mail, on the fourth Business Day following the day of deposit in the United States mail, by certified or registered mail, first-class postage prepaid; (iii) if sent by Federal Express or equivalent courier service, on the next Business Day; or (iv) if by telecopier, upon receipt by sender of confirmation of successful transmission. Such notices shall be addressed to the parties at the following address or at such other address for a party as shall be specified by like notice (except that notices of change of address shall be effective upon receipt):

If to Williams:

The Williams Companies, Inc.
One Williams Center
Tulsa, Oklahoma 74172
Attention: General Counsel
Fax No.: 918/573-5942

If to Communications:

Williams Communications Group. Inc.
One Technology Center
Tulsa, Oklahoma 74103
Attention: General Counsel
Fax No.: 918/547-2360

ARTICLE XVI

GOVERNING LAW

SECTION 16.01. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with, the laws of the State of New York, without giving effect to the principles of conflict of laws of such state or any other jurisdiction.

ARTICLE XVII

COUNTERPARTS

SECTION 17.01. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but all of which together shall constitute but one and the same instrument.

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

THE WILLIAMS COMPANIES, INC.

BY:

NAME:

TITLE:

WILLIAMS COMMUNICATIONS GROUP, INC.

BY:

NAME:

TITLE:

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

THE WILLIAMS COMPANIES, INC.

BY:

NAME:

TITLE:

WILLIAMS COMMUNICATIONS GROUP, INC.

BY:

NAME:

TITLE:

EXHIBIT A
GUARANTY INDEMNIFICATION AGREEMENT

WILLIAMS GUARANTEES

1. LCI Guaranty: Guaranty of performance under a Construction, IRU and Joint Use Agreement dated Sept. 26, 1997.

2. Massachusetts Turnpike Authority Guaranty: Guaranty of obligations under an Easement Agreement dated May 25, 1999.

3. RREEF USA Funding II Guaranty: Guaranty of obligations under a Lease Agreement effective as of March 1,1997.

4. Forsythe McArthur Associates, Incorporated Guaranty: Guaranty of obligations under the Master Lease Agreement Number WISOO1 dated February 2, 1995.

5. Spectrum Shareholders Agreement dated June 19, 1998.

EXHIBIT 10.49

==========

REAL PROPERTY PURCHASE AND SALE AGREEMENT

dated as of

July 26, 2002

by and between

WILLIAMS HEADQUARTERS BUILDING COMPANY,
as Seller,

WILLIAMS TECHNOLOGY CENTER, LLC,
as Purchaser,

WILLIAMS COMMUNICATIONS, LLC

and

WILLIAMS COMMUNICATIONS GROUP, INC.,
as Guarantors,

and

WILLIAMS AIRCRAFT LEASING, LLC
(for the limited purposes set forth herein)

==========

REAL PROPERTY PURCHASE AND SALE AGREEMENT

This REAL PROPERTY PURCHASE AND SALE AGREEMENT, dated as of July 26, 2002, by and between WILLIAMS HEADQUARTERS BUILDING COMPANY, a Delaware corporation ("Seller"), WILLIAMS TECHNOLOGY CENTER, LLC, a Delaware limited liability company ("Purchaser"), WILLIAMS COMMUNICATIONS, LLC, a Delaware limited liability company ("WCL"), WILLIAMS COMMUNICATIONS GROUP, INC., a Delaware corporation ("Communications," Communications and WCL being jointly and severally liable with Purchaser for all obligations of Purchaser set forth herein, collectively, "Guarantors") and WILLIAMS AIRCRAFT LEASING, LLC (formerly known as Williams Communications Aircraft, LLC), a Delaware limited liability company (for the limited purposes set forth herein).

WITNESSETH:

WHEREAS, Seller owns the Acquired Assets (as defined below) relating to the office building and related facilities in Tulsa, Oklahoma, commonly known as the Williams Technology Center;

WHEREAS, Communications and its subsidiary, CG Austria, Inc., a Delaware corporation, which is not a party to this Agreement (collectively, the "Debtors") are debtors, having filed voluntary petitions on April 22, 2002, for relief pursuant to chapter 11 of title 11 of the United States Code, 11 U.S.C. Sections 101-1330 (as amended, the "Bankruptcy Code"), whose cases are pending in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") and procedurally consolidated under Case No. 02-11957 (the "Bankruptcy Case");

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the Acquired Assets, in the manner and subject to the terms and conditions set forth herein;

WHEREAS, each of Purchaser and WCL is a wholly owned subsidiary of Communications; and

WHEREAS, Guarantors will obtain benefits from the Purchaser's acquisition of the Acquired Assets and, in order to induce Seller to enter into this Agreement, Guarantors have agreed to jointly and severally guaranty Purchaser's obligations hereunder.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context clearly requires otherwise, the following capitalized terms shall have the following meanings:

"Acquired Assets" shall mean, subject to Section 7.24, collectively, the fee simple title to the Real Property and the Improvements; all contract rights, subsurface rights, air rights, easements, privileges, servitudes, appurtenances and other rights belonging to or inuring to the benefit of Seller and appurtenant to the Real Property and Improvements (including, without limitations, the Skywalk); all documents, specifications and plans related to the Real Property and Improvements; all Licenses and Permits; and all other rights, easements, titles, interests, privileges and appurtenances of Seller related to and used in connection with the construction, ownership, use, operation or management of the Real Property and Improvements, as expressly set forth in this Agreement; and all Personal Property.

"Affiliate" shall mean, with respect to any Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person; provided that, for the purposes of this definition, "control" (including with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or partnership interests, by contract or otherwise.

"Agreed Allocation" has the meaning set forth in Section 2.06.

"Agreement" shall mean this Real Property Purchase and Sale Agreement, together with the Schedules and Exhibits hereto, as amended, supplemented or otherwise modified from time to time.

"Aircraft" shall mean the aircraft leased pursuant to the Aircraft Dry Leases.

"Aircraft Dry Leases" shall mean (a) the Aircraft Dry Lease (N358WC) dated as of September 13, 2001 by and between Williams Aircraft Leasing, LLC (formerly known as Williams Communications Aircraft, LLC), as "Lessor", and WCL, as "Lessee", and/or (b) the Aircraft Dry Lease (N359WC) dated as of September 13, 2001 by and between Williams Aircraft Leasing, LLC (formerly known as Williams Communications Aircraft, LLC), as "Lessor", and WCL, as "Lessee".

"Allocated Lease Principal" shall have the meaning set forth in Section 7.21.

"Applicable Law" shall mean any applicable law, regulation, rule, order, judgment or decree.

"April Agreement" shall mean the agreement dated as of April 19, 2002 by and among Debtors, WCL, certain subsidiaries of Communications, certain bondholders, and certain Lenders under the WCG Bank Facility.

"Bank Agent" shall mean Bank of America, N.A., as agent under the WCG Bank Facility.

"Bankruptcy Case" has the meaning set forth in the recitals hereof.

"Bankruptcy Code" has the meaning set forth in the recitals hereof.

"Bankruptcy Rules" shall mean the Federal Rules of Bankruptcy Procedure, as the same are applicable to the Bankruptcy Case.

"Bill of Sale" shall mean the Special Warranty Bill of Sale and Assignment covering all of the Personal Property, to be executed by Seller in favor of Purchaser in substantially the form attached hereto as EXHIBIT A.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which banks in New York City are authorized or obligated by law or executive order to close or are otherwise generally closed.

"Cash Portion of the Purchase Price" has the meaning set forth in Section 2.02(a).

"Center" shall mean the multi-story office building located on the Center Parcel commonly known as One Technology Center or the Williams Technology Center.

"Center Parcel" shall mean that portion of the Real Property more particularly described in SCHEDULE 1, which shall include the air rights associated with the Skywalk; provided, however, the description on said Schedule shall be deemed to be amended for purposes of this Agreement to reflect the description for such property on the Initialed Title Commitment and the Survey.

"Central Plant" shall mean the equipment, fixtures, piping, wiring, machinery, and all other items of personal property comprising the plant for chilled and hot water production and circulation, and electricity generation and transmission located in the basement of the Center in the Central Plant Space and on the Cooling Tower Parcel.

"Central Plant Lease" shall mean that certain Lease Agreement originally entered into between Purchaser, as "Landlord," and Seller, as "Tenant," effective as of April 23, 2001, as amended from time to time, pertaining to the Central Plant; it being understood between Purchaser and Seller that Purchaser shall be the landlord and that Seller shall be the tenant upon completion of Closing.

"Central Plant Space" shall mean that portion of the basement of the Center located in the Improvements which is described in the Central Plant Lease.

"Claims Purchase" shall mean the sale pursuant to the Claims Purchase Agreement by TWC (a) on its own behalf, of certain claims against Communications and (b) as agent for United States Trust Company of New York, a New York banking corporation, in its capacity as indenture trustee and securities intermediary under the Indenture dated as of March 28, 2001, among WCG Note Trust, a special purpose statutory business trust created under laws of Delaware, WCG Note Corp., Inc., a special purpose corporation organized under the laws of the state of Delaware, as co-issuers of certain Senior Secured Notes due 2004, and the Indenture Trustee, of that certain Senior Reset Note due 2008 issued by Communications to the WCG Note Trust.

"Claims Purchase Agreement" shall mean that certain Purchase and Sale Agreement dated as of the date hereof between TWC, as "Seller," and Leucadia National Corporation, as "Purchaser."

"Closing" has the meaning set forth in Section 2.03.

"Closing Date" has the meaning set forth in Section 2.03.

"Closing Documents" shall mean all documents and other instruments contemplated to be delivered pursuant to this Agreement or the Transactions at Closing.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Official Committee of Unsecured Creditors appointed in the Bankruptcy Case.

"Communications" has the meaning set forth in the preamble hereof.

"Contracts" shall have the meaning set forth in Section 7.19.

"Construction Agreement" shall mean that certain Agreement of Purchase and Sale and Construction Completion effective as of February 26, 2001 between Seller, as "Seller," and WCL, as "Purchaser."

"Construction Documents" shall have the meaning set forth in Section 7.24.

"Construction Warranties" shall have the meaning set forth in Section 7.24.

"Cooling Tower Parcel" shall mean the real property upon which the cooling towers relating to the Central Plant are located, as described in SCHEDULE 3.

"Corridor" shall have the meaning set forth in Section 7.19.

"Debtors" has the meaning set forth in the recitals hereof.

"Deed" shall mean the Special Warranty Deed covering the Real Property, those portions of the Acquired Assets that constitute real property, the Improvements and all of

Seller's right, title and interest in and to the Skywalk, excluding, however, Seller's interest in and to the Central Plant, in substantially the form attached hereto as EXHIBIT B.

"Disposition" shall have the meaning set forth in Section 7.21.

"Easement for Backup Generation" shall mean an easement agreement in a form reasonably acceptable to both Purchaser and Seller, in which Seller and its co-tenant shall grant to Purchaser certain easement rights to install and maintain Purchaser's backup electrical generation equipment.

"Existing Construction Claims" shall have the meaning set forth in Section 7.24.

"Fee" shall have the meaning set forth in Section 7.21.

"Financing Statements" shall mean proper UCC-1 or the appropriate equivalent, for filing under the Uniform Commercial Code of each jurisdiction as may be necessary or, in the opinion of Seller, desirable to perfect the security interests lien created by the Purchase Money Mortgage.

"Governmental Entity" shall mean a court, arbitral tribunal, administrative agency or commission or other governmental or quasi-governmental body or agency or other regulatory authority or agency.

"Guarantors" shall have the meaning set forth in the preamble hereof.

"Improvements" shall mean, collectively, all buildings, structures, fixtures, facilities, parking structures and areas, and other improvements partially or completely constructed and located on or connected with the Real Property or the Skywalk, except those expressly excepted in the definition of Acquired Assets.

"Initialed Title Commitment" shall mean the Title Commitment, marked and redated to the Closing Date and initialed by a representative of the Title Company, insuring Purchaser's fee simple title to the Real Property, the Improvements and those portions of the Acquired Assets which constitute real property interests (including all recorded appurtenant easements, insured as separate legal parcels), with gap coverage from Seller through the date of recording, subject only to the Permitted Exceptions and containing such endorsements and affirmative coverages as may be reasonably required by Purchaser, including without limitation, a Non-Imputation Endorsement.

"Insured Property" has the meaning set forth in Section 4.04.

"Legal Opinion" shall mean an opinion from Oklahoma counsel reasonably satisfactory to Seller addressed to Seller and its successors and assigns dated as of the Closing Date opining as to the enforceability of the Purchase Money Note, the enforceability of, and the perfection of the security interests granted pursuant to the Purchase Money Mortgage and Financing Statements, and such other matters incident to the Transactions contemplated herein, which shall be in form and substance reasonably satisfactory to Seller.

"Lenders" shall mean the lenders under the WCG Bank Facility.

"Licenses and Permits" shall mean collectively all of the direct or indirect right, title and interest of Seller in and to all licenses, permits, building permits, certificates of occupancy, approvals, government orders, resolutions, dedications, subdivision maps and entitlements issued, approved or granted by any Governmental Entity in connection with the Real Property and Improvements, together with all renewals and modifications thereof.

"Management Agreement" shall mean the Management Services Agreement, dated April 23, 2001, between Seller, as "Manager," and Purchaser, as "Owner," under which Seller manages the Acquired Assets (exclusive of the Parking Garage and Parking Garage Parcel), as amended from time to time.

"Master Lease" shall mean the Master Lease dated as of September 13, 2001, by and between Seller, as "landlord," and Purchaser, as "tenant," covering the Real Property and Improvements.

"Members" shall mean the members of the Committee.

"Monthly Debt Service" shall have the meaning set forth in Section 7.21.

"Mortgage Title Policy" shall mean a title commitment, marked and redated to the Closing Date and initialed by a representative of the Title Company, to issue a 1992 ALTA title insurance policy dated and effective as of the Closing Date, issued by the Title Company in an amount not less than the face amount of the Purchase Money Note insuring the first priority lien of the Purchase Money Mortgage, subject only to Permitted Exceptions and containing such endorsements and affirmative coverages as Seller shall reasonably require, including without limitation, a Non-Imputation Endorsement, if and to the extent available.

"New Communications" has the meaning set forth in Section 4.11.

"Non-Foreign Entity Certification" has the meaning set forth in Section 2.04(d).

"Parking Garage" shall mean those Improvements which are located on the Parking Garage Parcel.

"Parking Garage Parcel" shall mean that portion of the Real Property more particularly described in SCHEDULE 5; provided, however, the description on said Schedule shall be deemed to be amended for purposes of this Agreement to reflect the description for such property on the Initialed Title Commitment and the Survey.

"Permitted Exceptions" shall mean those exceptions set forth on EXHIBIT D.

"Person" shall mean a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Entity or other entity or organization.

"Personal Property" shall mean, collectively, all of the tangible and intangible (other than goodwill and any other intangible property that is severable from Seller's "interest in real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto) personal property constituting a portion of the Acquired Assets including, without limitation, the Category 1 FF&E and Category 2 FF&E, each as defined in the Master Lease, and any personal property hereafter acquired pursuant to the Construction Agreement.

"Plan" shall mean any chapter 11 plan of reorganization with respect to the Debtors as it may be altered, amended, modified or supplemented from time to time in accordance with its terms, the Bankruptcy Code and the Bankruptcy Rules.

"Prior Purchase and Sale Agreement" shall mean that certain Agreement of Purchase and Sale, as amended, among Purchaser, as "Seller," Seller, as "Purchaser," and WCL, as "Guarantor," effective as of September 13, 2001.

"Purchase Money Mortgage" shall mean the Mortgage With Power of Sale, Security Agreement, Assignments of Leases, Rents and Profits, Financing Statement and Fixture Filing to be granted at Closing in favor of Seller by Purchaser in a form reasonably acceptable to both Seller and Purchaser.

"Purchase Money Note" shall mean the note to be issued at Closing by Purchaser and Communications, as co-issuers, and guaranteed by WCL, in favor of Seller in a form reasonably acceptable to both Seller and Purchaser, which note shall be in the principal amount of One Hundred Million Dollars ($100,000,000) and secured by the Purchase Money Mortgage.

"Purchase Price" has the meaning set forth in Section 2.02.

"Purchaser" has the meaning set forth in the preamble hereof.

"Real Property" shall mean the Center Parcel and the Parking Garage Parcel.

"Sales Tax Certificate" has the meaning set forth in Section 2.04(g).

"Seller" has the meaning set forth in the preamble hereof.

"Settlement Agreement" shall mean the agreement dated as of July 26, 2002 between TWC, Debtors, the Committee, and Leucadia National Corporation, providing for, inter alia, this Agreement and the Transactions.

"Skywalk" shall mean an elevated pedestrian bridge and support structure, connecting the Parking Garage to the Center Parcel over a portion of South Cincinnati Avenue and a portion of East First Street, Tulsa, Oklahoma, that is approximately twenty-seven feet (27') above the driving lanes of such streets, together with the air rights for the three (3) dimensional space within which it is suspended.

"Survey" has the meaning set forth in Section 4.06.

"Tax" or "Taxes" shall mean all taxes, duties, levies, interest, penalties or other assessments imposed by any Taxing Authority, including gross receipts, excise, personal and real property (including leaseholds and interests in leaseholds), sales, gain, use, license, custom duty, Transfer Taxes, unemployment, capital stock, franchise, payroll, withholding, social security, minimum estimated, profit, gift, severance, value added, disability, premium, recapture, credit, occupation, service, leasing, employment, stamp and other taxes, and shall include interest, penalties or additions attributable thereto or attributable to any failure to comply with any requirement regarding Tax Returns.

"Tax Determination" shall have the meaning set forth in Section 6.01(c).

"Tax Return" shall mean any return (including estimated returns), report, information return, statement, declaration or other document (including any related or supporting information), and any amendment thereof, filed or required to be filed with any Taxing Authority.

"Taxing Authority" shall mean any federal, state, local or foreign governmental authority responsible for the determination, assessment or collection of any Tax.

"Termination Date" shall have the meaning set forth in Section 7.21.

"Title Commitment" shall mean a Commitment for Title Insurance to be issued by the Title Company on behalf of Lawyers Title Insurance Corporation.

"Title Company" shall mean Guaranty Abstract Company of Tulsa, Oklahoma, or another title company reasonably satisfactory to Purchaser.

"Title Policy" shall mean the 1992 ALTA owner's title insurance policy or policies dated and effective as of the Closing Date, to be issued by the Title Company based upon the Initialed Title Commitment in an amount not less than the Purchase Price (and reinsured in a manner acceptable to Purchaser).

"Title/Survey Cap" has the meaning set forth in Section 4.05.

"Transactions" shall mean all the transactions provided for or contemplated by this Agreement.

"Transfer Tax" shall mean any federal, state, county, local, foreign and other sales, use, transfer, conveyance, documentary transfer, recording or other similar tax, fee or charge imposed upon the sale, transfer or assignment of property or any interest therein or the recording thereof, and any penalty, addition to tax or interest with respect thereto.

"TWC" shall mean The Williams Companies, Inc., a Delaware corporation.

"Utility Services Agreement" shall mean the Utility Services Agreement, dated as of April 23, 2001, between Purchaser, as "Customer," and Seller, as "Owner," as amended from time to time.

"WCG Bank Facility" shall mean the Amended and Restated Credit Agreement dated as of September 8, 1999, as amended, among WCL, as borrower, Communications, as guarantor, the Bank Agent, the Lenders, The Chase Manhattan Bank, as syndication agent, Salomon Smith Barney Inc. and Lehman Brothers, Inc., as joint lead arrangers and joint bookrunners with respect to the Incremental Facility referred to therein, and Salomon Smith Barney Inc., Lehman Brothers, Inc. and Merrill Lynch & Co., Inc., as co-documentation agents.

"WCL" shall have the meaning set forth in the preamble hereof.

ARTICLE II

SALE OF ACQUIRED ASSETS

Section 2.01. Sale of Acquired Assets. On the terms, and subject to the conditions, set forth in this Agreement, Seller agrees to sell, assign, transfer, convey and deliver to Purchaser on the Closing Date, and Purchaser agrees to purchase from Seller on the Closing Date, all of Seller's right, title and interest in and to the Acquired Assets (but as to any Licenses and Permits comprising part of the Acquired Assets, only to the extent assignable), subject to all existing leases (provided however, that the Master Lease under which Purchaser is the lessee will be merged into the feehold and extinguished at Closing) and agreements listed on SCHEDULE 2.01 or otherwise entered into in accordance with the Management Agreement (including, without limitation, the Central Plant Lease, the Construction Agreement, the Prior Purchase Agreement, the Management Agreement and the Utility Services Agreement, as the same may be modified pursuant to the Settlement Agreement) and Permitted Exceptions.

Section 2.02. Closing Payment. In consideration for the purchase by Purchaser of the Acquired Assets, on the Closing Date Purchaser shall pay to Seller (or such other party or parties as Seller shall direct) One Hundred Fifty Million Dollars ($150,000,000) in the aggregate (the "Purchase Price") as follows:

(a) Fifty Million Dollars ($50,000,000) (the "Cash Portion of the Purchase Price") in immediately available funds, which shall be reduced by the amount of $5,200,000, reflecting net credits in favor of Purchaser pursuant to the Construction Agreement.

(b) One Hundred Million Dollars ($100,000,000) in the form of the Purchase Money Note (which amount may be reduced in accordance with Section 7.21 hereof).

Section 2.03. Closing. The sale referred to in Section 2.01 (the "Closing") shall take place at 10:00 A.M., New York time, at the offices of White & Case LLP, 1155 Avenue of the Americas, New York, New York 10036, simultaneously with the satisfaction or waiver of all of the conditions set forth in Article V hereof, or at such other time and date as Seller and Purchaser shall agree ("Closing Date").

Section 2.04. Deliveries by Seller. At the Closing, Seller shall deliver or cause to be delivered to Purchaser (unless previously delivered), the following:

(a) a duly executed and acknowledged Deed in favor of Purchaser;

(b) a duly executed Bill of Sale in favor of Purchaser;

(c) evidence reasonably satisfactory to Purchaser and the Title Company that the Persons executing the Closing Documents on behalf of Seller have full right, power and authority to execute same and that Seller has the full right, power and authority to perform its obligations thereunder;

(d) a duly executed and acknowledged certificate (the "Non-Foreign Entity Certification") certifying that Seller is not a "foreign person" as defined in Section 1445 of the Code in substantially the form attached hereto as EXHIBIT C;

(e) possession of the Acquired Assets, subject to the Permitted Exceptions;

(f) the Initialed Title Commitment;

(g) an Oklahoma Sales Tax report to cover any sales tax assessed on the tangible Personal Property, or the written certification of Seller (which shall also be executed by Purchaser), stating that no tangible Personal Property sales tax is payable;

(h) an assignment agreement, executed by Seller, assigning to Purchaser all of Seller's right, title and interest in any general guarantees and warranties (including the Construction Warranties) now or hereafter given in connection with the operation, construction, improvement, alteration or repair of the Real Property and the Improvements;

(i) the consents listed on Schedule 3.01(e);

(j) an ALTA Statement, Gap Indemnity and such other affidavits and indemnities as may be reasonably required by the Title Company in forms reasonably acceptable to the Title Company;

(k) the Easement for Backup Generation, duly executed and acknowledged by Seller and its co-tenant; and

(l) all other previously undelivered documents required by this Agreement to be delivered by Seller to Purchaser at or prior to the Closing in connection with the Transactions.

Section 2.05. Deliveries by Purchaser. At the Closing, Purchaser shall deliver or cause to be delivered to Seller (unless previously delivered), the following:

(a) the Cash Portion of the Purchase Price (less the amount of the credit specified in Section 2.02(a) hereof) by wire transfer of immediately available funds to the account or accounts identified by Seller;

(b) the Financing Statements and the duly executed (and acknowledged as required) Purchase Money Note and Purchase Money Mortgage, together with all other documents and instruments contemplated by the foregoing;

(c) evidence reasonably satisfactory to Seller and the Title Company that the Persons executing the Closing Documents on behalf of Purchaser, Communications and WCL have full right, power and authority to execute same and that each of Purchaser, Communications and WCL has the full right, power and authority to perform its obligations thereunder;

(d) the Mortgage Title Policy;

(e) the duly executed Legal Opinion; and

(f) all other previously undelivered documents required by this Agreement to be delivered by Purchaser to Seller at or prior to the Closing in connection with the Transactions.

Section 2.06. Agreed Allocation. Purchaser and Seller agree that the fair market value allocation of the Purchase Price among the Acquired Assets (the "Agreed Allocation") is set forth on SCHEDULE 2.06. The provisions of this Section 2.06 shall survive the Closing without limitation.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.01. Representations of Seller. Seller represents and warrants to Purchaser as follows:

(a) Seller is (i) a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware and (ii) authorized under the laws of the State of Oklahoma to conduct business in Oklahoma;

(b) Seller has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by it and to perform its obligations hereunder and thereunder;

(c) This Agreement has been duly executed and delivered by Seller and constitutes the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by Seller will be a valid and binding obligation of Seller, enforceable against Seller in accordance with its terms;

(e) Except as set forth in SCHEDULE 3.01(e), none of the execution and delivery of this Agreement or the other agreements and instruments contemplated by this Agreement to be executed by Seller, the consummation by Seller of the Transactions or compliance by Seller with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of Seller's charter or bylaws, (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a

default (or give rise to any third-party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Seller is a party or by which Seller or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation applicable to Seller or any of its properties or assets or (iv) require any order, consent, approval or authorization of, notice to, or declaration, filing, application, qualification or registration with, any Person or Governmental Entity;

(f) No broker, finder or other Person acting under Seller's authority is entitled to any broker's commission or other fee in connection with the Transactions for which Purchaser could be responsible;

(g) Seller has not received notice of, nor does Seller have knowledge of, any presently pending or threatened condemnation, eminent domain or other actions, litigation, proceedings, or any special assessments of any nature with respect to the Acquired Asset, except as may be set forth in the Permitted Exceptions;

(h) Except as contemplated by this Agreement and the Transactions or as set forth on SCHEDULE 3.01(h), Seller has not entered into any contracts or agreements which materially and adversely affect the Acquired Assets and which will survive the Closing and be binding on the Purchaser, other than as may be set forth in the Permitted Exceptions or entered into pursuant to and in accordance with the Management Agreement;

(i) The Real Property, Improvements and Personal Property are free and clear from all liens, claims and encumbrances, other than the Permitted Exceptions and any liens, claims and encumbrances resulting from any act or omission of Purchaser, its Affiliates, agents, employees, licensees, invitees or any other Person acting by or on behalf of Purchaser;

(j) Seller has not received notice from any Governmental Entity which has not been complied with asserting that the Acquired Assets are in violation of any laws, ordinances and regulations (including, but not limited to, any environmental and hazardous substance laws, ordinances and regulations); and

(k) Seller has obtained all Licenses and Permits required in connection with the Acquired Assets by any Governmental Entity, and Seller is not aware of any violations thereunder.

(l) Except for the representations and warranties contained in this Section 3.01, neither Seller nor any other Person makes any other express or implied representation or warranty to Purchaser or upon which Purchaser may rely in connection with this Agreement or the Transactions.

Section 3.02. Representations of Purchaser. Purchaser hereby represents and warrants to Seller as follows:

(a) Purchaser is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Delaware;

(b) Purchaser has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Purchaser (including without limitation the Purchase Money Mortgage and the Purchase Money Note) and to perform its obligations hereunder and thereunder;

(c) This Agreement has been duly executed and delivered by Purchaser and this Agreement constitutes the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by Purchaser will be a valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms;

(e) Except as set forth in SCHEDULE 3.02(e), none of the execution and delivery of this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Purchaser (including without limitation the Purchase Money Mortgage and the Purchase Money Note), nor the consummation by Purchaser of the Transactions or compliance by Purchaser with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of Purchaser's charter or operating agreement, (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Purchaser is a party or by which Purchaser or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation application to Purchaser or any of its properties or assets or (iv) require any order, consent, approval or authorization of, notice to, or declaration, filing, application, qualification or registration with, any Person or Governmental Entity;

(f) As lessee under the Master Lease, Purchaser is currently in possession of the Real Property and Improvements and is familiar with the other Acquired Assets and (i) is a sophisticated Person with respect to the purchase of the Acquired Assets, (ii) is able to bear the economic risk associated with the purchase of the Acquired Assets, (iii) has adequate information concerning the business and financial condition of the Debtors and the status of the Bankruptcy Case and the Acquired Assets to make an informed decision regarding the purchase of the Acquired Assets, (iv) has such knowledge and experience, and has made investments of a similar nature, so as to be aware of the risks and uncertainties inherent in the purchase of rights and assumption of liabilities of the type contemplated in this Agreement and (v) has independently and without reliance upon Seller, and based on such information as it has deemed appropriate, made its own analysis and decision to enter into this Agreement, except that Purchaser has relied upon Seller's express representations and warranties in this Agreement. Purchaser

acknowledges that Seller has not given Purchaser any investment advice, credit information or opinion on whether the purchase of the Acquired Assets is prudent; and

(g) No broker, finder or other Person acting under the authority of Purchaser is entitled to any broker's commission or other fee in connection with the Transactions for which Seller could be responsible.

Section 3.03. Representations of Communications. Communications hereby represents and warrants to Seller as follows:

(a) Communications is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware;

(b) Communications has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Communications (including without limitation the Purchase Money Note) and to perform its obligations hereunder and thereunder;

(c) This Agreement has been duly executed and delivered by Communications and this Agreement constitutes the valid and binding obligation of Communications, enforceable against Communications in accordance with its terms;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by Communications will be a valid and binding obligation of Communications, enforceable against Communications in accordance with its terms; and

(e) Except as set forth in SCHEDULE 3.02(e), none of the execution and delivery of this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by Communications (including without limitation the Purchase Money Note), nor the consummation by Communications of the Transactions or compliance by Communications with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of Communications' charter or by-laws, (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Communications is a party or by which Communications or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation application to Communications or any of its properties or assets or (iv) require any order, consent, approval or authorization of, notice to, or declaration, filing, application, qualification or registration with, any Person or Governmental Entity.

Section 3.04. Representations of WCL. WCL hereby represents and warrants to Seller as follows:

(a) WCL is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Delaware;

(b) WCL has the requisite power and authority to execute and deliver this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by WCL (including without limitation the Purchase Money Note) and to perform its obligations hereunder and thereunder;

(c) This Agreement has been duly executed and delivered by WCL and this Agreement constitutes the valid and binding obligation of WCL, enforceable against WCL in accordance with its terms;

(d) When executed and delivered as provided in this Agreement, each other agreement and instrument contemplated hereby to be executed by WCL will be a valid and binding obligation of WCL, enforceable against WCL in accordance with its terms; and

(e) Except as set forth in SCHEDULE 3.02(e), none of the execution and delivery of this Agreement and any other agreements or instruments contemplated by this Agreement to be executed by WCL (including without limitation the Purchase Money Note), nor the consummation by WCL of the Transactions or compliance by WCL with any of the provisions hereof or thereof will (i) conflict with or constitute a breach of or default under any of WCL's charter or by-laws, (ii) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under, any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which WCL is a party or by which WCL or any of its properties or assets may be bound, (iii) violate any order, writ, injunction, decree, judgment, statute, rule or regulation application to WCL or any of its properties or assets or (iv) require any order, consent, approval or authorization of, notice to, or declaration, filing, application, qualification or registration with, any Person or Governmental Entity.

Section 3.05. Survival. All the representations and warranties set forth in this Article III shall survive the Closing.

ARTICLE IV

COVENANTS AND AGREEMENTS

Section 4.01. Pre-Closing Covenants. Seller covenants and agrees that from and after the date of this Agreement Seller shall:

(a) not amend any lease concerning the Acquired Assets nor execute any new lease, license, or other agreement affecting the ownership or operation of the Acquired Assets, without Purchaser's prior written approval, except in accordance with the terms of the Management Agreement;

(b) not enter into any contract with respect to the ownership and operation of the Acquired Assets that will survive the Closing, without Purchaser's prior written consent, except in accordance with the terms of the Management Agreement;

(c) not take any action that would reasonably be expected to adversely affect the use, occupancy or value of the Acquired Assets except as permitted in respect of Seller's rights set forth in the paragraph defining "Acquired Assets" in Section 1.01;

(d) promptly deliver to Purchaser any notice received by Seller (i) asserting a violation of Applicable Law or (ii) in respect of a condemnation of the Real Property, the Improvements or any portion of the Acquired Assets that constitute real property interests; and

(e) operate and manage the Acquired Assets in accordance with the terms of the Management Agreement.

Section 4.02. Taxes; Closing Costs. Purchaser and Seller each agree to pay their respective attorneys' fees and one-half of any and all Taxes assessed or levied as a result of the execution and delivery of this Agreement or the Closing Documents (including all recording and filing fees and other charges in respect thereof) and all fees, expenses and charges incurred in connection with the Closing and/or the Transactions; provided, however, all fees, expenses, premiums and charges incurred by or on behalf of, or payable to, the Title Company in connection with the issuance of the Title Policy and Mortgage Title Policy shall be borne and paid solely by Purchaser.

Section 4.03. Reserved.

Section 4.04. Closing Prorations (a) Purchaser acknowledges and agrees that Purchaser is now and after Closing shall continue to be solely responsible for all real property and personal property ad valorem taxes and any annual special assessments relating to the Acquired Assets, and therefore, such Taxes will not be pro rated in connection with the transfer of the Acquired Assets.

(b) All rents and other charges under the Master Lease shall be pro rated between Seller and Purchaser on a per diem basis as of 11:59 P.M. on the day immediately preceding the Closing Date. For purposes of such pro rations, Purchaser shall be deemed the owner of the Acquired Assets for the entire Closing Date.

Section 4.05. Title Insurance. Seller will use its best efforts to assist Purchaser in obtaining the Title Commitment and Title Policy, within the time periods set forth herein, including removing from title any liens or encumbrances which are not Permitted Exceptions; provided, however, that Seller shall not be obligated to cure or eliminate any encumbrances (other than existing mortgage and mechanic liens) to the extent that the cost to cure or eliminate same would exceed $100,000 (the "Title/Survey Cap"), but if Seller elects not to so cure or eliminate same, then Purchaser's sole remedy shall be that Purchaser shall be entitled to elect to terminate this Agreement or accept title and survey subject to such items after taking a $100,000 credit against the Cash Portion of the Purchase Price. Purchaser and Seller agree that the

Title/Survey Cap shall serve as a limitation of Seller's expenditures in compliance with its obligation hereunder to cure encumbrances and encroachments related to both title and survey.

Section 4.06. Surveys. Seller shall deliver to Purchaser prior to Closing a survey of the Real Property, dated no earlier than the date of this Agreement, prepared by a surveyor licensed in Oklahoma and satisfactory to the Purchaser, and conforming to 1999 ALTA/ACSM Minimum Detail Requirements for Land Title Surveys, including Table A Items Nos. 1, 2, 3, 4, 6, 7(a), 7(b)(1), 7(c), 8, 9, 10, 11(b)(2), 13, 14, 15 and 16, and such other standards as the Title Company and Purchaser reasonably require as a condition to the removal of any survey exceptions from the Title Commitment, and certified to Purchaser, Seller and the Title Company, in a form and with a certification satisfactory to each of such parties (the "Survey"). The Survey shall not disclose any encroachment from or onto any of the Real Property or any portion thereof or any other survey defect which has not been cured or insured over to Purchaser's reasonable satisfaction prior to the Closing; provided, however, Seller shall not be obligated to cure or eliminate any such encroachments to the extent that the cost to cure or eliminate the same exceeds the Title/Survey Cap when combined with the costs to cure liens or encumbrances against title. Seller shall pay or commit to pay all fees, costs and expenses with respect to the Survey.

Section 4.07. No Recording. The parties hereto agree that neither this Agreement nor any memorandum or affidavit concerning it shall be recorded in the land records of Tulsa County; provided, however, that upon Closing, the Deed, the Purchase Money Mortgage, the Financing Statements and any other Closing Documents or instruments necessary or desirable in Seller's opinion to consummate or evidence the Transactions shall be so recorded and filed, as applicable and appropriate.

Section 4.08. Condition of Assets. SUBJECT ONLY TO ANY OBLIGATIONS OF SELLER WHICH MAY EXIST PURSUANT TO THE TERMS OF THE CONSTRUCTION AGREEMENT OR PRIOR PURCHASE AND SALE AGREEMENT TO THE EXTENT NOT PERFORMED PRIOR TO THE CLOSING, EACH OF PURCHASER AND THE GUARANTORS AGREES THAT AS PART OF THE CONSIDERATION FOR SELLER ENTERING INTO THIS AGREEMENT, THE ACQUIRED ASSETS BEING SOLD HEREUNDER ARE BEING SOLD AND CONVEYED (AND ARE BEING ACCEPTED BY PURCHASER) ON AN "AS IS, WHERE IS" BASIS WITHOUT ANY REPRESENTATION AND WARRANTY (INCLUDING, WITHOUT LIMITATION, ANY ENVIRONMENTAL REPRESENTATION OR WARRANTY) OTHER THAN THE TITLE REPRESENTATION AND WARRANTY EXPRESSLY CONTAINED HEREIN WHICH IS IN LIEU OF ALL OTHER WARRANTIES WHETHER EXPRESS OR IMPLIED, AND EACH OF PURCHASER AND THE GUARANTORS HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER EXPRESS OR IMPLIED WARRANTIES, CONDITIONS OR REPRESENTATIONS WITH REGARD TO THE CONDITION OF THE ACQUIRED ASSETS AND ALL OBLIGATIONS AND LIABILITIES OF SELLER FOR OR WITH RESPECT TO DIRECT, INDIRECT OR CONSEQUENTIAL DAMAGES THEREFROM, AND ALL RIGHTS, CLAIMS AND REMEDIES OF EACH OF PURCHASER AND THE GUARANTORS, EXPRESS OR IMPLIED, ARISING OUT OF LAW OR OTHERWISE WITH RESPECT THERETO, THE OWNERSHIP, USE OR OPERATION OF THE ACQUIRED ASSETS AND ANYTHING GIVEN OR SOUGHT TO BE IMPLIED FROM ANYTHING

SAID OR WRITTEN IN THE NEGOTIATIONS BETWEEN THE PARTIES HERETO OR THEIR REPRESENTATIVES PRIOR TO ENTERING INTO THIS AGREEMENT WITH RESPECT THERETO. ANY STATUTORY OR OTHER WARRANTY, CONDITION, DESCRIPTION OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE STATE, QUALITY OR FITNESS OF THE ACQUIRED ASSETS (ENVIRONMENTAL OR OTHERWISE) IS EXPRESSLY EXCLUDED, INCLUDING BUT NOT LIMITED TO, AS APPLICABLE: (i) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS; (ii) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE; (iii) ANY OBLIGATION OR LIABILITY WITH RESPECT TO ANY ACTUAL OR ALLEGED INFRINGEMENT OF PATENTS, LICENSES OR THE LIKE, OR ANY OTHER INTELLECTUAL PROPERTY; (iv) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM EACH PARTY'S OR ITS ASSIGNS' NEGLIGENCE, ACTUAL OR IMPUTED; AND (v) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO THE ACQUIRED ASSETS, FOR LOSS OF USE, REVENUE OR PROFIT WITH RESPECT TO PURCHASER OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF WHATEVER DESCRIPTION. PURCHASER'S OBLIGATION TO PROCEED TO AND CONCLUDE CLOSING HEREUNDER IS CONDITIONED SOLEY ON THE SELLER'S COMPLIANCE WITH SECTION 5.01 AND EACH OF PURCHASER AND THE GUARANTORS AGREES THAT ANY NON-COMPLIANCE EXISTING ON THE DATE HEREOF OR AT CLOSING BY ANY PARTY (OTHER THAN SELLER) TO ANY PROPERTY DOCUMENT OR OTHER DOCUMENTS OR AGREEMENT RELATING TO THE ACQUIRED ASSETS, SHALL NOT CONSTITUTE A DEFAULT BY SELLER HEREUNDER OR OTHERWISE PERMIT PURCHASER OR EITHER OF THE GUARANTORS TO TERMINATE THIS AGREEMENT OR TO OBJECT TO OR FAIL TO CONSUMMATE THE CLOSING ON THE CLOSING DATE.

Section 4.09. Make-Whole Provision. (a) As more explicitly set forth in the Purchase Money Note and Purchase Money Mortgage, if within one year of the date on which the Settlement Agreement is executed and filed with the Bankruptcy Court, Purchaser or any of its Affiliates directly or indirectly exchanges or disposes of (or enters into an agreement or agreements with respect thereto) any or all of the Acquired Assets (to any transferee other than an entity which has the same ultimate beneficial ownership as the transferor has immediately prior to such transfer) for an aggregate sales price in cash, obligations or other consideration in an amount greater than One Hundred Fifty Million Dollars ($150,000,000), Purchaser shall, on the date on which the consummation of such a transaction occurs, (i) prepay the Purchase Money Note in full and (ii) pay to Seller in immediately available funds (except as provided in Section 4.09(b)) to an account designated by Seller in writing, an amount equal to the product of (x) Fifty Percent (50%) multiplied by (y) the excess of the aggregate sales price over (A) One Hundred Fifty Million Dollars ($150,000,000) less (B) the amount equal to (i) the aggregate consideration received by Seller or any of its Affiliates in connection with the disposition of the Aircraft Dry Leases or (ii) the amount of proceeds received by Seller or any of its Affiliates in connection with the refinancing of the Aircraft pursuant to Section 7.21, which obligations shall be secured by the Purchase Money Mortgage. Purchaser agrees that it will notify Seller in writing within three (3) Business Days of entering into a transaction or agreement of the type specified in this Section 4.09.

(b) In the event the consideration received or to be received by Purchaser in a transaction of the type set forth in Section 4.09(a) is to be paid in whole or in part other than in Dollars, for purposes of Section 4.09(a), the value of such consideration shall be mutually agreed between Purchaser and Seller. Notwithstanding anything in this Agreement to the contrary, in the event Purchaser receives non-Dollar consideration in a transaction of the type set forth in Section 4.09(a), unless otherwise agreed between Purchaser and Seller, any payment by Purchaser to Seller under Section 4.09(a) shall be made pro rata (based on the amount of non-Dollar consideration relative to the amount of Dollar consideration received by Purchaser in such transaction(s)) in such non-Dollar consideration.

(c) The provisions of this Section 4.09 are set forth in more detail in the Purchase Money Note and Purchase Money Mortgage. In the event of any inconsistency between the provisions of this Section 4.09 and the provisions of the Purchase Money Note and Purchase Money Mortgage, the Purchase Money Note and Purchase Money Mortgage shall supersede and control.

Section 4.10. Covenant to Satisfy Conditions. Each party hereto agrees to use all commercially reasonable best efforts to insure that the conditions set forth in Article V hereof are satisfied, insofar as such matters are within the control of such party.

Section 4.11. Substitution of New Communications. In the event that Communications is reorganized under the Plan and/or a new entity succeeds to the equity and assets of Communications under the Plan (such reorganized or successor entity, "New Communications") prior to the Closing Date, the representations and warranties of Communications set forth herein shall apply to the New Communications as of the Closing Date and New Communications shall, with such changes as are necessary or desirable in the opinion of Seller or its counsel, (a) execute and deliver, as a co-issuer, the Purchase Money Note, (b) execute and deliver or cause the execution and delivery of such other documents and instruments required to be delivered on the Closing Date, and shall execute and deliver or cause the execution and delivery of such other documents and instruments and take such further actions, as may be necessary in order to consummate the Transactions and (c) shall otherwise assume all of Communications' rights and obligations under this Agreement and the Closing Documents, and otherwise in respect of the Transactions.

Section 4.12. Further Assurances. Each party shall execute and deliver or cause the execution and delivery of such other documents and instruments and take such further actions, as may be necessary in order to ensure that the other party receives the full benefit of this Agreement. The obligations set forth in this Section 4.12 shall survive the Closing.

ARTICLE V

CONDITIONS PRECEDENT

Section 5.01. Conditions to Purchaser's Obligation to Effect the Closing. The obligation of Purchaser to consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, unless validly waived in writing by Purchaser:

(a) Representations and Warranties. All of the representations and warranties of Seller set forth in this Agreement that are qualified as to materiality shall be true and correct and any such representations and warranties that are not so qualified shall be true and correct in all material respects, in each case as of the date hereof and as of the Closing Date, other than representations and warranties that speak as of a specific date or time (which need only be so true and correct as of such date or time).

(b) Seller's Performance of Covenants. Seller shall not have failed to perform in any material respect any obligation or to comply in any material respect with any agreement or covenant of Seller to be performed or complied with by it under this Agreement.

(c) Injunctions. On the Closing Date, there shall not be any injunction, writ, preliminary restraining order or other order in effect of any nature issued by a Governmental Entity of competent jurisdiction that restrains, prohibits or limits, in whole or in part, the consummation of the Transactions.

(d) Consents. All consents identified in SCHEDULES 3.01(e) and 3.02(e) which are necessary to effect the Closing shall have been obtained.

(e) Closing Deliveries. Seller shall have made or cause to have been made all closing deliveries to Purchaser as set forth in Section 2.04.

The foregoing conditions are for the sole benefit of Purchaser and may be waived by Purchaser, in whole or in part, at any time and from time to time in its sole discretion.

Section 5.02. Conditions to Seller's Obligation to Effect the Closing. The obligation of Seller to consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, unless waived in writing by Seller:

(a) Representations and Warranties. All of the representations and warranties of each of Purchaser and Guarantors set forth in this Agreement that are qualified as to materiality shall be true and correct and any such representations and warranties that are not so qualified shall be true and correct in all material respects, in each case as of the date hereof and as of the Closing Date, other than representations and warranties that speak as of a specific date or time (which need only be so true and correct as of such date or time).

(b) Purchaser's Performance of Covenants. Neither Purchaser nor either Guarantor shall have failed to perform in any material respect any obligation or to comply in any material respect with any agreement or covenant to be performed or complied with by it under this Agreement.

(c) Injunctions. On the Closing Date, there shall not be any injunction, writ, preliminary restraining order or other order in effect of any nature issued by a Governmental Entity of competent jurisdiction that restrains, prohibits or limits, in whole or in part, the consummation of the Transactions.

(d) Consents. All consents identified in SCHEDULE 3.02(e) and necessary to effect the Closing shall have been obtained.

(e) Closing Deliveries. Purchaser shall have made or cause to have been made all closing deliveries to Seller as set forth in Section 2.05.

(f) Claims Purchase. The Claims Purchase shall have been consummated or shall be consummated concurrently with the Closing.

The foregoing conditions are for the sole benefit of Seller and may be waived by Seller, in whole or in part, at any time and from time to time in its sole discretion.

ARTICLE VI

TERMINATION

Section 6.01. Termination. This Agreement may be terminated or abandoned at any time prior to the Closing Date:

(a) By the mutual written consent of Purchaser and Seller;

(b) By Purchaser or Seller by giving notice to the other of such termination if any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the consummation of the Transactions and such order, decree, ruling or other action shall have become final and non-appealable;

(c) By Purchaser or Seller by giving notice to the other of such termination if the Bankruptcy Court denies approval of the Settlement Agreement;

(d) By Purchaser by giving notice to Seller if an order of the Bankruptcy Court approving the Settlement Agreement (including a determination (the "Tax Determination") by the Bankruptcy Court that no sales, use, excise tax or similar tax imposed pursuant to 68 O.S. Section 1354 by the State of Oklahoma or by the City or County of Tulsa or any other applicable local government authority shall be imposed on the Transactions) is not entered by October 15, 2002; provided, however, in the event the Tax Determination is not so obtained, Purchaser and Seller agree, subject to their respective rights to terminate this Agreement pursuant any provision hereof other than this Section 6.01(d), that Seller shall transfer its interest in the Acquired Assets to a limited liability company and shall cause the membership interests in such company to be sold to Purchaser, and Purchaser shall purchase same, on the terms and conditions provided herein, to the extent applicable to such transaction, and otherwise on customary terms and conditions consistent with this Agreement. Purchaser shall pay all fees, costs, expenses, Taxes (including the Taxes which are the subject of the Tax Determination) and charges, other than Seller's attorneys' fees, in connection with the transactions contemplated by this Agreement, including, without limitation, such fees, costs, expenses or Taxes resulting from, the restructuring of this Agreement pursuant to the foregoing; and/or

(e) By Purchaser or Seller by giving notice to the other of such termination if the Closing has not occurred on or before February 28, 2003; unless the failure of such consummation shall be due to the failure of such party to comply in all material respects with the representations, warranties, agreements and covenants contained herein or to be performed by such party on or prior to February 28, 2003.

Section 6.02. Effect of Termination. In the event of the termination or abandonment of this Agreement by any party hereto pursuant to the terms of this Agreement, (i) written notice thereof shall forthwith be given to the other party specifying the provision hereof pursuant to which such termination or abandonment of this Agreement is made, (ii) the Master Lease shall continue in full force and effect without regard to this Agreement and (iii) there shall be no liability or obligation thereafter on the part of Purchaser or Seller except (A) as set forth in Section 7.07, (B) for fraud, and (C) for breach of this Agreement prior to such termination or abandonment of the Transactions.

ARTICLE VII

MISCELLANEOUS

Section 7.01. Expenses. All costs and expenses incurred in connection with this Agreement and the consummation of the Transactions shall be paid by the party incurring such expenses, except as specifically provided to the contrary in this Agreement or the Closing Documents.

Section 7.02. Extension; Waiver. At any time prior to the Closing, each of the parties hereto may (i) extend the time for the performance of any of the obligations or acts of any other party hereto, (ii) waive any inaccuracies in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto, (iii) waive compliance with any of the agreements of the other party contained herein, or (iv) waive any condition to its obligations hereunder. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party.

Section 7.03. Reserved.

Section 7.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when mailed, delivered personally, telecopied (which is confirmed) or sent by an overnight courier service, such as Federal Express, to the parties at the following addresses (or at such other address for a party as shall be specified by such party by like notice):

if to Purchaser to:

Williams Technology Center, LLC
One Technology Center
Tulsa, OK 74103
Mail Drop 15
Attention: P. David Newsome, General Counsel
Facsimile: (918) 547-2360

if to Seller to:

Williams Headquarters Building Company
One Williams Center
Tulsa, OK 74172
Mail Drop 41-3
Attention: Tami Carson, Esq.
Facsimile: (918) 573-5942

with a copy (which shall not constitute notice) to:

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036
Attention: John Reiss, Esq.
Facsimile: (212) 354-8113

and

White & Case LLP
First Union Financial Center
200 South Biscayne Boulevard
Miami, FL 33131-2352
Attention: Thomas E. Lauria, Esq.
Facsimile: (305) 358-5744

or to such other address, telecopier number or person's attention as a party may from time to time designate in writing in accordance with this Section. Each notice or other communication given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been received (a) on the Business Day it is sent, if sent by personal delivery or telecopied, or (b) on the first Business Day after sending, if sent by overnight delivery, properly addressed and prepaid or (c) upon receipt, if sent by mail (regular, certified or registered); provided, however, that notice of change of address shall be effective only upon receipt. The parties agree that delivery of process or other papers in connection with any action or proceeding in connection with this Agreement in the manner provided in this Section 7.04, or in such other manner as may be permitted by Applicable Law, shall be valid and sufficient service thereof.

Section 7.05. Entire Agreement; Amendment. This Agreement and the Transactions constitute the entire agreement and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof and, except as expressly provided herein (including, without limitation, as provided Sections 7.17 and 7.18) or therein, supersede and cancel all prior agreements, negotiations, correspondence, undertakings, understandings and communications of the parties, oral and written, with respect to the subject matter hereof, including without limitation, the Master Lease, which shall be merged into the feehold and extinguished at Closing. This Agreement may only be modified or amended by a written instrument executed by the parties hereto.

Section 7.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma (without giving effect to the provisions thereof relating to conflicts of law).

Section 7.07. Remedies. (a) The parties hereto acknowledge and agree that any breach of the terms of this Agreement which is not cured within the applicable cure period set forth in Section 7.07(b), would give rise to irreparable harm for which money damages alone would not be an adequate remedy and accordingly the parties hereto expressly agree that the non-defaulting party shall be entitled to exercise any and all rights and remedies for such breach that it may have under applicable law including, without limitation, specific performance and injunctive or other equitable relief without the necessity of proving the inadequacy of money damages as a remedy or posting a bond or other security in connection with such remedy; provided however, in no event shall the Guarantors be entitled to declare any default or pursue any rights or remedies against either Seller or Purchaser based upon any alleged default by either of such parties under this Agreement. If any litigation is commenced to enforce this Agreement or for any other remedy arising from a breach hereof, the prevailing party shall be entitled to an award for its reasonable fees and expenses in connection with such litigation.

(b) In the event there is a default by either Purchaser or Seller under the terms of this Agreement, the non-defaulting party shall give written notice of such default (with sufficient specificity to allow the defaulting party to determine the nature and extent of such default and to the extent possible, the manner in which such default can be remedied), and a period of thirty (30) days thereafter in which the defaulting party may cure such default, provided however, with respect to any such cure which by its nature, can not be accomplished during such period, such period shall be extended so long as the defaulting party has commenced such cure during such thirty (30) day period, and thereafter continuously and diligently prosecutes such cure thereafter. In the event a cure by the defaulting party is accomplished within such period, the parties shall be restored to their relative positions prior to the occurrence of such default as if no such default had taken place. The provisions of this Section 7.07 shall survive the Closing without limitation.

Section 7.08. Jurisdiction. Purchaser and Seller each hereby irrevocably and unconditionally submit to the nonexclusive jurisdiction of any Oklahoma State court or Federal court of the United States of America sitting in Tulsa County, and any appellate court from any thereof, but solely in any action or proceedings to enforce this Agreement. Each of the parties hereto agrees that a final judgment in any such action or proceeding will be conclusive and may

be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Section 7.09. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts and by facsimile, with the same effect as if all parties had signed the same document. All such counterparts are to be deemed an original, construed together and constitute one and the same instrument.

Section 7.10. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction, will, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision will be interpreted to be only so broad as is enforceable.

Section 7.11. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and not to affect the interpretation hereof.

Section 7.12. Assignment. Neither this Agreement nor the rights or the obligations of any party hereto are assignable in whole or in part (whether by operation of law or otherwise), without the written consent of the other party and any attempt to do so in contravention of this Section 7.12 will be void.

Section 7.13. Successors and Assigns. This Agreement, including the representations, warranties and covenants contained in this Agreement, shall inure to the benefit of, be binding upon and be enforceable by and against the parties and their respective successors and permitted assigns.

Section 7.14. No Third-Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto, their respective successors and permitted assigns, and the Persons identified as beneficiaries herein.

Section 7.15. Publicity. The parties agree that until the filing of the Plan, or the date the Transactions are terminated or abandoned pursuant to Article VI, neither Seller nor Purchaser nor any of their respective Affiliates, shall issue or cause the publication of any press release or other public announcement with respect to this Agreement or the Transactions without prior consultation with the other(s), except as may be (a) required by Applicable Law, which shall include such filings and/or statements as any party shall determine to be necessary or advisable in its reasonable judgment in order to comply with its obligations under the Securities Exchange Act of 1934, as amended, or (b) appropriate to the Debtors' administration of the Bankruptcy Case.

Section 7.16. Interpretation. When a reference is made in this Agreement to a section, article, paragraph, exhibit or schedule, such reference shall be to a section, article, paragraph, exhibit or schedule of this Agreement unless clearly indicated to the contrary.

(a) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) The words "hereof", "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement.

(c) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(d) A reference to any party to this Agreement or any other agreement or document shall include such party's predecessors, successors and permitted assigns.

(e) A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(f) References to Dollars or $ are to United States Dollars.

Section 7.17. Survival of Construction Obligations. Nothing contained in this Agreement, nor the closing of the Transactions contemplated hereby, shall in any way affect, modify, restrict or diminish any rights and obligations of Seller and Purchaser which may exist pursuant to the terms, covenants or conditions of the Construction Agreement or the Prior Purchase and Sale Agreement, including, without limitation, any insurance and indemnity obligations, as the same may be modified by the Settlement Agreement.

Section 7.18. Survival of Central Plant Lease. Nothing contained in this Agreement, nor the closing of the Transactions contemplated hereby, shall in any way modify, restrict or diminish any of the rights, obligations or interests of the Seller or Purchaser under the Central Plant Lease, which shall remain in full force and effect for all purposes according to its terms without regard to (and without merger into or with) this Agreement and the Transactions contemplated hereby, as the same may be modified by the Settlement Agreement.

Section 7.19. AFE's. The parties hereby agree to the following regarding Seller's obligation to fund the Construction Contracts, the Interior Furniture and Fixtures Contracts, and the Future Interior Furniture and Fixtures Contracts (all as defined in the Construction Agreement, but collectively referred to for purposes of this Section 7.19 as the "Contracts"):

(a) Seller shall continue to reimburse Purchaser for invoices paid by Purchaser pursuant to the terms of the Construction Agreement and the Contracts; the parties agree to continue their current course of dealing with regard to such reimbursement processes;

(b) Seller's obligation for reimbursement under subparagraph (a) above shall be limited to a total reimbursement of $11,087,612.00 as of July 1, 2002 (the "Total Reimbursement"); provided, however, upon completion of the Contracts and payment by

Purchaser of all outstanding invoices thereunder, Seller will pay to Purchaser the difference, if any, between the Total Reimbursement and the total amount reimbursed by Seller to such date. Seller shall pay any difference remaining to Purchaser within thirty (30) days of receipt of a detailed accounting of the amount due; if there are any disputes as to such amount due, Seller and Purchaser agree to work together in good faith to promptly resolve the dispute, and Seller shall pay any undisputed amount prior to expiration of the thirty-day period referred to above; and

(c) Purchaser and Seller agree on the good faith estimate of $465,000 for the completion of the corridor connection between the Center and the adjoining Bank of Oklahoma Tower. Completion thereof shall be the sole responsibility of Seller, pursuant to Purchaser's sign-off and acceptance of construction drawings. No "true-up" shall be made between Purchaser and Seller upon completion of the corridor between the Center and the adjoining Bank of Oklahoma Tower (the "Corridor"). Purchaser agrees that upon expenditure by Seller of the Total Reimbursement and the completion of the Corridor, Seller shall have fulfilled its obligation in connection with the AFE's under the Contracts and the Construction Agreement, and in no event shall additional sums of money be due Purchaser in connection therewith; provided, however, the foregoing shall not be construed to limit Seller's obligations to expend money to fulfill Seller's other surviving obligations under the Construction Agreement.

Section 7.20. Continuing Cooperation. Seller and Purchaser acknowledge and agree that the nature of the transactions contemplated by this Agreement necessitate that both before and after the Closing Date, both Seller and Purchaser, together with their respective Affiliates, will need to work together and cooperate on a continuing basis to (i) insure the satisfaction of the Seller's surviving obligations under this Agreement, the Construction Agreement and the Prior Purchase and Sale Agreement. Seller and Purchaser agree to cooperate in good faith and to cause each of their respective officers, employees, representatives, affiliates, agents and contractors to cooperate in good faith with the other party and all of its respective officers, employees, representatives, affiliates, agents and contractors, to accomplish such goals, Seller and Purchaser hereby acknowledging that such cooperation shall work for the mutual benefit of both parties.

Section 7.21. Disposition of Aircraft Dry Leases. Seller, WCL and Purchaser agree that (A) TWC and Seller shall have the exclusive right to dispose of or refinance the Aircraft Dry Leases on commercially reasonable terms and at market rates prior to the Closing Date and (B) if TWC and Seller shall not have so disposed of or refinanced the Aircraft Dry Leases by the Closing Date, then on the Closing Date, TWC shall terminate the Aircraft Dry Leases and cause to be transferred to WCL or its designee, at the option of WCL, (i) title to the Aircraft (in which case the Purchaser shall be responsible for paying all applicable sales/excise taxes) or (ii) the entire ownership interest in the entity holding title to the Aircraft. Any such transfer shall be effectuated pursuant to documentation reasonably acceptable to the parties, containing such representations and warranties as are appropriate for such a transaction. Upon such transfer, WCL shall thereafter have the exclusive right to dispose of or refinance the Aircraft on commercially reasonable terms and at market rates. The Purchaser shall cause the net proceeds of any such disposition or refinancing (collectively, a "Disposition") to be paid at the closing of

such Disposition to Seller or its designee. If such Disposition does not occur on or before the day which is 180 days after the Closing Date (the "Termination Date"), then WCL shall pay to TWC within three (3) Business Days after the Termination Date, an amount (the "Fee") equal to 3 times the difference between (a) the amount of the last (monthly) installment of Rent (as such term is defined in each Aircraft Dry Lease) under each of the Aircraft Dry Leases which would have been payable prior to the Termination Date if the Aircraft Dry Leases were then still in effect and (b) that portion of the Monthly Debt Service (as defined below) payment which is attributable to $20,000,000 of principal under the Purchase Money Note. The Fee shall not be applied against the principal of the Purchase Money Note. On the Termination Date, all accrued and unpaid interest on the Purchase Money Note, together with interest which would accrue thereunder through the last day of the month in which such Termination Date occurs, shall be paid. Thereafter, commencing on the first day of the second month which commences after the Termination Date, the monthly installments of principal and interest under the Purchase Money Note (the "Monthly Debt Service") shall be changed to equal the sum of (A) the monthly payment amount which would be necessary to amortize a principal amount of $80,000,000 with interest on the unpaid principal thereof at a rate of 7% per annum in equal monthly installments over 360 months (but there shall be no corresponding reduction of the principal amount of the Purchase Money Note or extension of the maturity date thereof); and (B) the monthly Rent which would have been payable under each of the Aircraft Dry Leases (if they were then still in effect). A portion of each monthly Rent payment referred to in clause (B) above equal to the sum of the portions of the corresponding payments for the corresponding month under the Aircraft Dry Leases which would have been applied to principal thereunder (the "Allocated Lease Principal") shall be applied against the principal of the Purchase Money Note. Thereafter, upon the Disposition of the Aircraft, and application of the proceeds thereof against the principal of the Purchase Money Note (i) the sums specified in clause (B) above shall no longer be payable by WCL; and (ii) the fixed monthly payment amount referred to in clause (A) above shall, for the period commencing on the date of such Disposition and continuing thereafter for the remainder of the period to the scheduled maturity date of the Purchase Money Note, be changed to equal the product of (x) the original Monthly Debt Service under the Purchase Money Note and (y) a fraction, the numerator of which is $100,000,000 minus without duplication the Allocated Lease Principal, minus all other principal payments made under the Purchase Money Note and minus net proceeds of the Disposition of the Aircraft which were applied to reduce the outstanding principal of the Purchase Money Note, and the denominator of which is $100,000,000. Any net proceeds from the sale of the Aircraft Dry Leases or the Disposition of the Aircraft received by Seller or any of its Affiliates (i) prior to the Closing Date will be applied to reduce the portion of the Purchase Price to be financed under the Purchase Money Note by the amount of such proceeds; and (ii) following Closing will be applied to reduce the principal balance of the Purchase Money Note in accordance with the terms hereof which shall be set forth in the Purchase Money Note.

Section 7.22. Casualty/Condemnation. In the event all or any portion of the Real Property, Improvements, Acquired Assets which constitute real property interests, or Personal Property are damaged or destroyed or taken by eminent domain or condemnation prior to the Closing Date, each party shall notify the other of such fact promptly after obtaining knowledge thereof and this Agreement shall remain in full force and effect without abatement, counterclaim or set-off of any kind and, with respect to restoration and replacement thereof, and Seller and Purchaser shall comply with the applicable terms and conditions of the Master Lease and the

Construction Agreement to effect restoration; provided, however, on the Closing Date Seller shall assign, transfer, convey and release to Purchaser all of its rights, title and interest in and to any insurance proceeds or other amounts payable to Seller by reason of such casualty, condemnation or other taking.

Section 7.23. License for Parking Structure. Seller agrees to obtain within a reasonable time after Closing the consent of the City of Tulsa to Seller's assignment to Purchaser of the License Agreement dated December 3, 1999, between Seller and the City of Tulsa and recorded in Book 6316 at Page 1299, in the Clerk's Office of Tulsa County, Oklahoma.

Section 7.24. Construction Warranties

(a) Notwithstanding anything to the contrary contained herein, the term "Acquired Assets" shall not include, the (i) Central Plant, (ii) Manhattan Expansion Tower Contract, (iii) Manhattan Interior Design Contract, (iv) HOK Expansion Project Contract and (v) HOK Interior Design Contract (with regard to clauses (ii)-(v), each as defined in the Construction Agreement and collectively referred to herein as the "Construction Documents"), but shall include all of Seller's right, title and interest in and to all construction and equipment warranties relating to the Real Property and Improvements (collectively, the "Construction Warranties") and all causes of action in connection with the Construction Warranties arising under or pursuant to the Construction Documents; provided, however, with respect to the Manhattan Expansion Tower Contract and Manhattan Interior Design Contract, the term "Acquired Assets" shall include only those Construction Warranties and causes of action which remain after Seller has completed its settlement of any existing claims and causes of action arising under or pursuant thereto (collectively "Existing Construction Claims"). Notwithstanding the foregoing, with respect to Manhattan Expansion Tower Contract and the Manhattan Interior Design Contract, the Seller shall not (A) waive any rights thereunder with respect to future causes of action with regard to the Center which are based on facts not known to Seller on the date hereof or (B) release the contractor thereunder from completion of the punchlist items created after consultation with Purchaser.

(b) Seller shall within thirty (30) days after substantial completion of its obligations under the Construction Agreement (or earlier upon written request of Purchaser to the extent necessary for Purchaser to commence a cause of action under the Construction Documents, but with respect to the Manhattan Expansion Tower Contract and the Manhattan Interior Design Contract, not before Seller shall have completed settlement of its Existing Construction Claims), assign to Purchaser all of Seller's beneficial interest in, to and under (but Purchaser shall not be obligated to assume any of Seller's obligations thereunder) the Construction Documents, subject to Seller's right to prosecute or defend its own claims arising under or relating to such contracts.

(c) The obligations set forth in this Section 7.24 shall survive the Closing.

Section 7.25. Guaranty. Communications and WCL, by their execution of this Agreement, unconditionally and irrevocably jointly and severally guaranty the obligations of the Purchaser under this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties below have executed this Real Property Purchase and Sale Agreement by their duly authorized officers as of the date first set forth above.

WILLIAMS HEADQUARTERS BUILDING COMPANY

By: /s/ Jack D. McCarthy

Title: Vice President

WILLIAMS TECHNOLOGY CENTER, LLC

By: /s/ Howard E. Janzen

Title: President and CEO

WILLIAMS COMMUNICATIONS, LLC

By: /s/ Howard E. Janzen

Title: President and CEO

WILLIAMS COMMUNICATIONS GROUP, INC.

By: /s/ Howard E. Janzen

Title: President and CEO

Solely for the purposes set forth in Section 7.21:

WILLIAMS AIRCRAFT LEASING, LLC

By: WILLIAMS AIRCRAFT, INC.,
member

By: /s/ Jack D. McCarthy

Title: Vice President

CONFORMED COPY

SHORT TERM NOTE

$74,360,295.30

October 15, 2002

FOR VALUE RECEIVED, the undersigned, WILLIAMS TECHNOLOGY CENTER, LLC, a Delaware limited liability company having an address at One Technology Center, Tulsa, OK 74103 ("Borrower"), and, for the sole purpose and to the effect specified in Paragraph 22 hereof, WILTEL COMMUNICATIONS GROUP, INC., a Nevada corporation (formerly known as Williams Communications Group, Inc., a Delaware corporation, prior to its reorganization pursuant to the Plan) having an address at One Technology Center, Tulsa, OK 74103 ("WCG"), and WILLIAMS COMMUNICATIONS, LLC, a Delaware limited liability company having an address at One Technology Center, Tulsa, OK 74103 ("WCL"), (Borrower, WCG and WCL being sometimes individually referred to herein as a "Maker" and collectively as the "Makers") jointly and severally, irrevocably, absolutely and unconditionally promise to pay WILLIAMS HEADQUARTERS BUILDING COMPANY, a Delaware corporation which, together with its successors and assigns of its interest in this note (this "Note"), is referred to in this Note as "Lender", at The Williams Companies, Inc., Attn: Corporate Treasury, Mail Drop 50-4, One Williams Center, Tulsa, Oklahoma 74172, or such other place as Lender may from time to time designate, the sum of SEVENTY FOUR MILLION THREE HUNDRED SIXTY THOUSAND TWO HUNDRED NINETY FIVE AND 30/100 DOLLARS ($74,360,295.30) (the "Loan") as described in and subject to the provisions of Paragraph 1(a) hereof, on the Maturity Date (as hereinafter defined), which sum includes principal and interest on principal from the date hereof to the Maturity Date at the applicable rates hereafter provided, payable in the manner specified below in lawful money of the United States. All capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the Mortgage (as defined in Paragraph 2 hereof).

WHEREAS, Borrower is a wholly owned subsidiary of WCL and WCL is a wholly owned subsidiary of WCG;

WHEREAS, each Maker will obtain benefits from Lender's making the Loan and, in order to induce Lender to make the Loan, WCL and WCG have agreed to perform their obligations set forth herein; and

WHEREAS, it is a condition precedent to Lender's making the Loan to Borrower that Borrower and the other Makers shall have executed and delivered this Note;

NOW, THEREFORE, to satisfy the condition in the preceding paragraph and to induce Lender to make the Loan, in consideration thereof, and in consideration of the benefits to accrue to the Makers therefrom, the receipt and sufficiency of which are hereby acknowledged by the Makers, the Makers jointly and severally agree and covenant to comply with the terms and provisions hereof.

1. Principal and Interest

The parties hereto acknowledge and agree that (i) the first page of this Note shall specify a stated face amount of $74,360,295.30 (the "Stated Face Amount"); (ii) the Stated Face Amount represents the sum of the original principal amount of $44,800,000 plus all accrued and capitalized interest payable thereon from the date hereof until the Maturity Date (hereinafter defined) pursuant to the terms of this Note and as set forth on Schedule A attached hereto; and (iii) the Stated Face Amount is based on the assumption that all of such original principal amount and all such accrued and capitalized interest shall be paid to Lender on the Maturity Date.

Principal shall be payable as follows and interest shall accrue and be payable as follows:

(a) On the date hereof the principal amount of the Loan is $44,800,000. Commencing on the date hereof and continuing thereafter through December 29, 2006 (the "Maturity Date"), interest on the outstanding principal of the Loan shall accrue at the following rates during the following periods and shall be capitalized to and become principal of the Loan at the end of each of such respective periods:

(i) Ten percent (10%) per annum from the date hereof through December 31, 2003 (all such interest that has accrued and remains unpaid during such period shall be capitalized to and become principal of the Loan on December 31, 2003);

(ii) Twelve percent (12%) per annum from January 1, 2004 through December 31, 2004 (all such interest that has accrued and remains unpaid during such period shall be capitalized to and become principal of the Loan on December 31, 2004);

(iii) Fourteen percent (14%) per annum from January 1, 2005 through December 31, 2005 (all such interest that has accrued and remains unpaid during such period shall be capitalized to and become principal of the Loan on December 31, 2005); and

(iv) Sixteen percent (16%) per annum from January 1, 2006 until the Maturity Date and if not paid by the Maturity Date, then at the Default Rate (as hereafter defined) until paid.

(b) If not sooner paid, the entire unpaid principal balance of this Note and all accrued but unpaid interest under this Note and all other sums payable under this Note shall be due and payable in full on the Maturity Date or such earlier date as same may become due and payable pursuant to the terms hereof.

(c) All payments by Borrower, including any fees and charges, payable hereunder or under any other Loan Document shall be made to Lender unconditionally and without deduction, setoff or counterclaim of any kind. If any payment hereunder becomes due and payable on a day which is not a Business Day (as hereinafter defined), the maturity thereof shall be extended to the next succeeding Business Day. As used herein, "Business Day" shall

mean a day other than a Saturday, Sunday or day on which banks are authorized to be closed in Tulsa, Oklahoma.

(d) Payments in federal funds immediately available in the place designated for payment received by Lender prior to 2:00 p.m. local time at the place of payment on a day in which Lender is open for business shall be credited prior to the close of business. Any payment received after 2:00 p.m. local time at said place of payment on a day on which Lender is open for business shall be deemed to be received on the next succeeding Business Day.

(e) All payments received under this Note shall be applied to the payment of any outstanding fees, charges, advances, interest and principal in such order and amounts as Lender shall determine in its sole discretion. The Borrower may, in accordance with Paragraph 13 hereof, from time to time make prepayments without any premium or penalty of all or any part of the principal amount of the Loan by simultaneously paying accrued interest on the outstanding amount of principal then being prepaid hereunder at the applicable above-stated rates as of the prepayment date.

(f) In the event that at any time any payment received by Lender hereunder shall be deemed by a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under any bankruptcy, insolvency or other debtor relief law, then the obligation to make such payment shall survive any cancellation or satisfaction of this Note or return thereof to the Makers and shall not be discharged or satisfied with any prior payment thereof or cancellation of this Note, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof, and such payment shall be due and payable upon demand.

(g) Interest payable on the unpaid principal balance shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each.

2. Security

This Note is secured by that certain Mortgage with Power of Sale, Security Agreement, Assignment of Leases, Rents and Profits, Financing Statement and Fixture Filing, of even date herewith, made by Borrower to Lender (the "Mortgage") to be recorded in the County Clerk's Office of Tulsa County, Oklahoma and that certain Pledge Agreement, of even date herewith, made by CG Austria, Inc., a Delaware Corporation to Lender (the "Pledge") (this Note, the Long-Term Note, the Mortgage, the Pledge and any other documents or instruments now or hereinafter entered into from time to time further evidencing or securing the indebtedness evidenced hereby, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, being collectively referred to herein as the "Loan Documents").

3. Default; Acceleration

Upon the occurrence and during the continuance of any "Event of Default" (as defined in the Mortgage) (an "Event of Default"), the entire principal sum and all other sums payable hereunder and under the Loan Documents, together with all accrued interest thereon, shall at the option of Lender, immediately become due and payable, without notice or demand.

Failure to exercise this option shall not constitute a waiver of the right to exercise same in the event of any subsequent Event of Default.

4. Late Payment Charge; Default Interest

In addition to the payment of all principal, interest and other fees or expenses payable under this Note, if any payment under this Note (whether of principal, interest or other fees or expenses and including the payment due on the Maturity Date) (i) is not paid within fifteen (15) days after the due date thereof, the Borrower shall pay to Lender without any requirement of notice or demand by Lender, a late payment charge equal to two percent (2%) of the amount of the delinquent payment, and (ii) is not paid by the due date thereof, then such unpaid amounts hereunder, together with all accrued but unpaid interest thereon, shall, on and from the original due date without any requirement of notice or demand by Lender, bear interest at the rate of two percent (2)% per annum greater than the interest rate otherwise then in effect pursuant to Paragraph 1(a) hereof (the "Default Rate"). THE MAKERS ACKNOWLEDGE AND AGREE THAT (x) LENDER'S ACTUAL DAMAGES RESULTING FROM ANY SUCH DEFAULT OR DELINQUENCY AND RELATING TO LOST USE OF FUNDS AND COSTS OF INTERNAL ADMINISTRATION OF DELINQUENT PAYMENTS HEREUNDER OR RELATING TO SUCH DEFAULT WOULD BE EXTREMELY DIFFICULT TO ASCERTAIN, AND (y) UNDER THE CIRCUMSTANCES IN EXISTENCE AS OF THE DATE HEREOF, INTEREST HEREUNDER ACCRUED AT THE DEFAULT RATE AND SUCH LATE CHARGE CONSTITUTE A REASONABLE LIQUIDATION OF SUCH DAMAGES AND DO NOT CONSTITUTE A PENALTY. No provision of this Note (including without limitation the provisions for a late payment charge, accrual of interest at the Default Rate, or for the continued accrual of interest on any amounts remaining unpaid after the Maturity Date) shall be construed as in any way excusing Borrower from its obligations to make each payment as and when due under this Note. Acceptance by Lender of any late charge and/or interest at the Default Rate shall not be deemed a waiver of any of Lender's rights and remedies hereunder or under the other Loan Documents.

5. Costs of Collection

The Makers jointly and severally promise to pay (a) all costs and expenses reasonably incurred, including, without limitation, attorneys' fees and disbursements, if this Note or any portion of this Note is placed in the hands of any attorney for collection and such collection is effected without suit; (b) out-of-pocket attorneys' fees and disbursements reasonably incurred and all other costs, expenses and fees reasonably incurred by Lender in enforcing its rights under this Note or the other Loan Documents, including, without limitation, the institution of a judicial or foreclosure sale or other power of sale or a suit to collect all or any portion of amounts owing hereunder or thereunder or any appeals therefrom, until payment of the full amount due to Lender is made; and (c) all out-of-pocket costs and expenses reasonably incurred by Lender (including, without limitation, actual attorneys' fees and disbursements) in connection with any bankruptcy, insolvency or reorganization proceeding or receivership involving any of the Makers, including, without limitation, attorneys' fees and disbursements reasonably incurred in making any appearances in any such proceeding or in seeking relief from any stay or injunction issued in or arising out of any such proceeding or any appeals therefrom.

6. Certain Waivers

Except as otherwise expressly specified in this Note, the Mortgage or any of the other Loan Documents, each of the Makers jointly and severally waive diligence, grace, demand, presentment for payment, exhibition of this Note, protest and notice of protest and notice of nonpayment. Any payment by any of the Makers or other circumstance which by operation of law tolls any statute of limitations as to any of the Makers shall operate to toll the statute of limitations as to all of them. From time to time, without affecting the obligation of the Makers to pay the outstanding principal balance of this Note and observe the covenants contained herein, without giving notice to or obtaining the consent of the Makers, and without liability on the part of Lender, Lender may, at the option of Lender, extend the time for payment of said outstanding principal balance, or any part thereof, reduce the payments thereon, release anyone liable for any of said outstanding principal balance, accept a renewal of this Note, join in any extension or subordination agreement, release any security given in respect hereof, take or release other or additional security, and agree in writing with the Makers to modify the rate of interest and/or the Maturity Date or otherwise change the date(s) and/or amounts of payment(s) thereof.

No single or partial exercise of any power, right or privilege of Lender hereunder or under the other Loan Documents and no course of dealing between the Lender on the one hand and any one or more of the Makers on the other hand, shall operate as a waiver of or preclude other and further exercise thereof or the exercise of any other power, right or privilege of Lender. Lender shall at all times have the right to proceed against any portion of the Mortgaged Property pursuant to and in accordance with the Mortgage and/or against any one or more of the Makers in such order and in such manner as Lender may deem fit, without waiving any rights with respect to any of the other Makers or other portion of the Mortgaged Property. No delay, action or omission on the part of Lender in exercising any right or remedy hereunder shall operate or be construed as a waiver or release of (i) such right or remedy or of any other right or remedy of Lender, (ii) any liability or obligation of the Makers hereunder or under the other Loan Documents or (iii) an Event of Default. The rights and remedies of Lender herein provided are cumulative and not exclusive of any other rights or remedies which the Lender would have hereunder, under the other Loan Documents or at law or in equity.

7. Loss, Theft, Destruction or Mutilation of Note

In the event of the loss, theft or destruction of this Note, upon Borrower's receipt of a reasonably satisfactory indemnification agreement executed in favor of the Makers by the party who held this Note immediately prior to its loss, theft or destruction, or in the event of the mutilation of this Note, upon Lender's surrender to Borrower of the mutilated Note, the Makers shall execute and deliver to such party or Lender, as the case may be, a new promissory note in form and content identical to this Note in replacement of the lost, stolen, destroyed or mutilated Note.

8. Notices

Any notice and other communication required or desired to be given or delivered under this Note shall be made in accordance with the notice provisions of the Mortgage directed to the intended party at its respective address set forth on the first page hereof.

9. Time of Essence

Time is of the essence in the performance of each and every provision of this Note.

10. Severability

If any provision of this Note or the other Loan Documents shall for any reason be held unenforceable or void by a court of competent jurisdiction in any respect, then such provision shall be deemed separable from the remaining provisions hereof and shall in no way affect any other provision or the validity of this Note.

11. Amendment or Waiver; etc.

This Note may not be changed, extended, modified, or amended except by an instrument in writing signed by Lender and the Makers and none of the rights or benefits of Lender hereunder can be waived except in a written instrument signed by Lender.

12. Governing Law

This Note shall be governed by and construed and interpreted in accordance with the laws of the State of Oklahoma, without regard to conflicts of laws principles. To the fullest extent permitted by applicable law, each of Lender on the one hand and the Makers jointly and severally on the other hand, hereby unconditionally and irrevocably waive any claim to assert that the laws of any other jurisdiction govern this Note and acknowledge and agree that this Note represents its knowing, voluntary and conscious decision made with full advice of counsel, and that the State of Oklahoma has a substantial relationship to the parties hereto and the transactions contemplated hereby.

13. Prepayment

(a) Borrower shall have the right without any premium or penalty to prepay in whole or in part, at any time from time to time, the principal amount outstanding under this Note (initially $44,800,000, as specified in Paragraph 1(a)), provided that, in the case of prepayment in whole, Lender shall simultaneously receive in immediately available funds, in addition to the entire principal amount then outstanding under this Note as of the date of prepayment, (i) all unpaid interest accrued under this Note pursuant to Paragraph 1(a) as of the date of prepayment, and (ii) all other sums owing under this Note.

In the case of a partial prepayment by Borrower of principal owing under this Note, such payment shall be made in immediately available funds and applied by Lender in the following order: (i) first, to all unpaid interest accrued under this Note pursuant to Paragraph 1(a) as of the date of prepayment on the principal amount being prepaid, (ii) second, to all other sums then due and owing under this Note (other than principal), and (iii) third, to the outstanding principal balance under this Note.

(b) [Reserved].

(c) (i) If within one year after the date hereof, Borrower or any of its Affiliates directly or indirectly exchanges or disposes of (or enters into an agreement or agreements with respect thereto) any or all of the Acquired Assets (to any transferee other than an entity which has the same ultimate beneficial ownership as the transferor had immediately prior to such transfer) for an aggregate sales price in cash, obligations or other consideration in an amount greater than One Hundred Fifty Million Dollars ($150,000,000), Borrower shall, on the date on which the consummation of such a transaction occurs, (i) prepay the entire outstanding principal of this Note and all accrued and unpaid interest thereon and all other sums payable under this Note and the other Loan Documents in full and (ii) pay to Lender in immediately available funds (except as provided in Paragraph 13(c)(ii) below) to an account designated by Lender in writing, an amount equal to the product of (x) Fifty Percent (50%) multiplied by (y) the excess of the aggregate sales price over (A) One Hundred Fifty Million Dollars ($150,000,000) less (B) the amount equal to the (i) aggregate consideration received by Lender, or any of its Affiliates, in connection with the disposition of the Aircraft Dry Leases or (ii) the amount of proceeds received by Lender or any of its Affiliates in connection with the refinancing of the Aircraft pursuant to Paragraph 13(b) of the Long-Term Note, which obligations are secured by the Mortgage. Borrower agrees that it will notify Lender in writing no later than three (3) Business Days prior to entering into a transaction or agreement of the type specified in this Paragraph 13(c).

(ii) In the event the consideration received or to be received by Borrower in a transaction of the type set forth in Paragraph 13(c)(i) is to be paid in whole or in part other than in Dollars, for purposes of Paragraph 13(c)(i), the value of such consideration shall be mutually agreed between Borrower and Lender. Notwithstanding anything in this Paragraph 13 to the contrary, in the event Borrower receives non-Dollar consideration in a transaction of the type set forth in Paragraph 13(c)(i), unless otherwise agreed between Borrower and Lender, any payment by Borrower to Lender under Paragraph 13(c)(i) shall be made pro rata (based on the amount of non-Dollar consideration relative to the amount of Dollar consideration received by Lender in such transaction(s)) in such non-Dollar consideration.

(d) No principal amount repaid may be reborrowed.

14. Usury Laws

This Note and the other Loan Documents are subject to the express condition that at no time shall any Maker be obligated or required to pay interest on the Obligations at a rate which could subject the holder of this Note either to civil or criminal liability as a result of being in excess of the maximum interest rate which is permitted by applicable law. If, by the terms of this Note and the other Loan Documents, any Maker is at any time required or obligated to pay interest on the Obligations at a rate in excess of such maximum rate, the rate of interest under the same shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate, to the extent permitted by law, shall be applied, at the option of Lender, against any sums outstanding in such order as Lender may determine. The right to accelerate this Note pursuant to Paragraph 3 hereof does not include a right to require payment of any interest which has not otherwise accrued by the date of such acceleration, and Lender does not intend to collect

any unearned interest in the event of acceleration; provided, however, that Lender shall, to the extent specified herein, be entitled to receive interest at the applicable rate herein specified on any amounts payable pursuant to this Note through the date collected.

15. Consent to Jurisdiction; Waiver of Jury Trial

(a) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS NOTE OR THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF TULSA, OKLAHOMA AND BY EXECUTION AND DELIVERY OF THIS NOTE, EACH MAKER HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY (INCLUDING THE MORTGAGED PROPERTY), GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PRECEDING. EACH MAKER HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK PERSONAL JURISDICTION OVER IT, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS NOTE OR THE OTHER LOAN DOCUMENTS BROUGHT IN ANY OF THE AFOREMENTIONED COURTS, THAT SUCH COURTS LACK PERSONAL JURISDICTION OVER THE MAKERS. EACH MAKER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY, IN ADDITION TO SUCH OTHER METHODS AS ARE PERMITTED UNDER APPLICABLE LAW, THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS FOR NOTICES PURSUANT TO PARAGRAPH 8 HEREOF, SUCH SERVICE TO BECOME EFFECTIVE THIRTY (30) DAYS AFTER SUCH MAILING. EACH MAKER HEREBY IRREVOCABLY WAIVES ANY OBJECTION TO SUCH SERVICE OF PROCESS AND FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY ACTION OR PROCEEDING COMMENCED HEREUNDER THAT SERVICE OF PROCESS WAS IN ANY WAY INVALID OR INEFFECTIVE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANY OF THE MAKERS IN ANY OTHER JURISDICTION.

(b) EACH MAKER HEREBY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS NOTE OR THE OTHER LOAN DOCUMENTS BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (A) ABOVE AND HEREBY FURTHER WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH MAKER AND LENDER HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER LOAN DOCUMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY.

16. Recourse

The Makers shall be jointly and severally subject to full personal liability, including, without limitation, full recourse to the property (including the Mortgaged Property) and the assets of the Makers, for the repayment of any indebtedness evidenced by this Note or the other Loan Documents to which Borrower is a party and the payment and performance of the other Obligations, provided that such recourse shall not extend to (i) any officer, director, employee, agent or representative of any Maker or (ii) any shareholder of WCG.

17. Recovery of Judgments

The recovery of any judgment by Lender and/or the levy of execution under any judgment upon the Mortgaged Property, shall not affect in any manner or to any extent the lien of any of the Loan Documents securing this Note upon, or any security interest in, the Mortgaged Property, or any rights, remedies or powers of Lender under any of the Loan Documents, but such liens and such security interests, and such rights, remedies and powers of Lender, shall continue unimpaired as before. The exercise by Lender of its rights and remedies, and the entry of any judgment by Lender shall not adversely affect in any way the rate of interest payable hereunder on any amounts due to Lender, but interest shall continue to accrue on such amounts at the Default Rate specified herein.

18. No Joint Venture

The relationship created under this Note and the other Loan Documents is solely that of debtor and creditor. Nothing herein or in the other Loan Documents is intended to create nor shall it create an equity investment on the part of Lender or a joint venture, partnership, tenancy in common or joint tenancy relationship between the Makers (individually or collectively) and Lender or render Lender in any way responsible for any of the debts, losses and liabilities of the Makers. Lender does not owe any fiduciary obligation under the Loan Documents or by operation of law to any Maker, or any of their officers, directors, partners, agents or representatives. The Makers and Lender agree that each shall report this transaction for income tax purposes, and file all related tax returns, in a manner consistent with the form of this transaction as a loan.

19. Sales and Pledges

Lender shall have the right to enter into and consummate any sale(s) and/or pledge(s) and/or transfers of its interests in the Loan, this Note and/or the other Loan Documents and the Makers, upon the reasonable request of Lender and at the expense of the Makers, shall promptly execute, acknowledge, deliver and record or file such instruments and do such further acts as may be reasonably necessary, desirable or proper to carry out such right.

20. Jointly Drawn

This Note and the other Loan Documents are the result of a full and complete negotiation at arms length between the respective parties hereto and thereto. Accordingly, no prior drafts of the Note or any of the Loan Documents, or any memoranda prepared by Lender, or any of the Makers shall be used to construe or interpret any provision of this Note or any other

Loan Document. Lender and the Makers expressly acknowledge that this Note and the other Loan Documents were jointly drawn between the Lender and the Makers and no inference shall therefore be drawn against any of them based upon the identity of the preparer of this Note and/or the other Loan Documents.

21. Successors and Assigns

This Note inures to the benefit of and binds Lender and the Makers and their respective permitted successors and assigns, and reference to such parties whenever occurring herein, shall be deemed to include such party's respective permitted successors and assigns. However, none of the Makers shall voluntarily, or by operation of law, assign or transfer any interest which it may have under the Note or the other Loan Documents without the prior written approval of Lender, which approval may be withheld in its sole and absolute discretion.

22. Nature of WCL's and WCG's Obligations

WCL and WCG, by their execution of this Note, unconditionally and irrevocably agree to be liable for the full and prompt payment and performance when due of the Obligations if not paid or performed as and when from time to time due by Borrower, including, without limitation, the payment of the Loan and all interest, fees and other charges payable hereunder and under the other Loan Documents. Notwithstanding any characterization of WCL or WCG herein (or in any other document) as a "maker", "co-maker", "obligor", or "co-obligor" (or any other word of similar meaning) of this Note, WCL and WCG shall be jointly and severally liable for and shall be obligated to and they shall, jointly and severally, pay and perform the Obligations, to the effect that they jointly and severally hereby guaranty payment and performance of the Obligations. In the event of the Borrower's failure to do so, each of WCL and WCG shall, upon Lender's demand, pay and perform the same as though each of them was, jointly and severally with Borrower, a co-maker with primary (as distinct from contingent) liability hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, this Note has been executed as of the date first above written.

BORROWER:

WILLIAMS TECHNOLOGY CENTER, LLC,
a Delaware limited liability company

By: Williams Communications, LLC, a Delaware limited liability company, its sole member and manager

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

GUARANTORS:

WILTEL COMMUNICATIONS GROUP, INC.,
a Nevada corporation

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

WILLIAMS COMMUNICATIONS, LLC,
a Delaware limited liability company

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

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SHORT TERM NOTE PAYMENT IN KIND (PIK) AMORTIZATION SCHEDULE

Original Principal Balance of $44,800,000.00

Interest Rate Periods Per the Grid in Section 1(a) of the Short Term Note

Based upon the Closing Date: 10/15/02

Accrued Interest Paid In Kind in Arrears and Capitalized Annually at the beginning of the next Interest Rate Period

Full Payment of Principal and Accrued Interest of $74,360,295.30 Due on Maturity Date of December 29, 2006

Period	Date	Interest Rate	Principal Balance	Payment In Kind Accrued Interest
-	0	10/15/02	$ 44,800,000.00	
1	11/01/02	10.00%		$199,111.11
2	12/01/02	10.00%		$373,333.33
3	01/01/03	10.00%		$373,333.33
4	02/01/03	10.00%		$373,333.33
5	03/01/03	10.00%		$373,333.33
6	04/01/03	10.00%		$373,333.33
7	05/01/03	10.00%		$373,333.33
8	06/01/03	10.00%		$373,333.33
9	07/01/03	10.00%		$373,333.33
10	08/01/03	10.00%		$373,333.33
11	09/01/03	10.00%		$373,333.33
12	10/01/03	10.00%		$373,333.33
13	11/01/03	10.00%		$373,333.33
14	12/01/03	10.00%		$373,333.33
15	01/01/04	10.00%	$ 50,225,777.78	$5,425,777.78
16	02/01/04	12.00%		$502,257.78
17	03/01/04	12.00%		$502,257.78
18	04/01/04	12.00%		$502,257.78
19	05/01/04	12.00%		$502,257.78
20	06/01/04	12.00%		$502,257.78
21	07/01/04	12.00%		$502,257.78
22	08/01/04			

12.00%
$502,257.78
23 09/01/04
12.00%
$502,257.78
24 10/01/04
12.00%
$502,257.78
25 11/01/04
12.00%
$502,257.78
26 12/01/04
12.00%
$502,257.78
27 01/01/05
12.00% $
56,252,871.11
$6,027,093.33
$502,257.78
28 02/01/05
14.00%
$656,283.50
29 03/01/05
14.00%
$656,283.50

Period Date	Interest Rate	Principal Balance	Payment In Kind Accrued Interest
30	04/01/05	14.00%	$656,283.50
31	05/01/05	14.00%	$656,283.50
32	06/01/05	14.00%	$656,283.50
33	07/01/05	14.00%	$656,283.50
34	08/01/05	14.00%	$656,283.50
35	09/01/05	14.00%	$656,283.50
36	10/01/05	14.00%	$656,283.50
37	11/01/05	14.00%	$656,283.50
38	12/01/05	14.00%	$656,283.50
39	01/01/06	14.00%	$ 64,128,273.07	$7,875,401.96
40	02/01/06	16.00%	$855,043.64
41	03/01/06	16.00%	$855,043.64
42	04/01/06	16.00%	$855,043.64
43	05/01/06	16.00%	$855,043.64
44	06/01/06	16.00%	$855,043.64
45	07/01/06	16.00%	$855,043.64
46	08/01/06	16.00%	$855,043.64
47	09/01/06	16.00%	$855,043.64
48	10/01/06	16.00%	$855,043.64
49	11/01/06	16.00%	$855,043.64
50	12/01/06	16.00%	$855,043.64
51	12/29/06	16.00%	$ 74,360,295.30	$10,232,022.24	$826,542.19

CONFORMED COPY

LONG TERM NOTE

$100,000,000

October 15, 2002

FOR VALUE RECEIVED, the undersigned, WILLIAMS TECHNOLOGY CENTER, LLC, a Delaware limited liability company having an address at One Technology Center, Tulsa, OK 74103 ("Borrower"), and, for the sole purpose and to the effect specified in Paragraph 22 hereof, WILTEL COMMUNICATIONS GROUP, INC., a Nevada corporation (formerly known as Williams Communications Group, Inc., a Delaware corporation, prior to its reorganization pursuant to the Plan) having an address at One Technology Center, Tulsa, OK 74103 ("WCG"), and WILLIAMS COMMUNICATIONS, LLC, a Delaware limited liability company having an address at One Technology Center, Tulsa, OK 74103 ("WCL"), (Borrower, WCG and WCL being sometimes individually referred to herein as a "Maker" and collectively as the "Makers") jointly and severally, irrevocably, absolutely and unconditionally promise to pay WILLIAMS HEADQUARTERS BUILDING COMPANY, a Delaware corporation which, together with its successors and assigns of its interest in this note (this "Note"), is referred to in this Note as "Lender", at The Williams Companies, Inc., Attn: Corporate Treasury, Mail Drop 50-4, One Williams Center, Tulsa, Oklahoma 74172, or such other place as Lender may from time to time designate, the principal sum of ONE HUNDRED MILLION DOLLARS ($100,000,000) (the "Loan"), together with interest on unpaid principal from the date hereof to the date paid at the rate of seven percent (7%) per annum with principal and interest payable in the manner specified below in lawful money of the United States. All capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the Mortgage (as defined in Paragraph 2 hereof).

WHEREAS, Borrower is a wholly owned subsidiary of WCL and WCL is a wholly owned subsidiary of WCG;

WHEREAS, each Maker will obtain benefits from Lender's making the Loan and, in order to induce Lender to make the Loan, WCL and WCG have agreed to perform their obligations set forth herein; and

WHEREAS, it is a condition precedent to Lender's making the Loan to Borrower that Borrower and the other Makers shall have executed and delivered this Note;

NOW, THEREFORE, to satisfy the condition in the preceding paragraph and to induce Lender to make the Loan, in consideration thereof, and in consideration of the benefits to accrue to the Makers therefrom, the receipt and sufficiency of which are hereby acknowledged by the Makers, the Makers jointly and severally agree and covenant to comply with the terms and provisions hereof.

1. Payment of Principal and Interest

Principal and interest shall be payable as follows:

1.1. Installments of Principal and Interest

(a) On the first day of the first calendar month after the date hereof (the "Initial Date"), Borrower shall pay to Lender an installment of interest equal to the amount of interest that has accrued on and from the date hereof up to and including the final day of the month prior to the Initial Date.

(b) Commencing on the Initial Date and continuing thereafter on the first day of each of the following months for a total of ninety (90) calendar months, Borrower shall pay to Lender installments of principal and interest each in the amounts and on the dates specified in Schedule A attached hereto, subject to adjustment pursuant to Paragraph 13(b). The amount of each such constant monthly installment specified in Schedule A is based on amortization of the initial principal amount of the Loan specified above and accrued interest on unpaid principal at the rate of seven percent (7%) per annum in 360 monthly installments and based on payment in advance (i.e., not in arrears).

(c) The entire unpaid principal balance of this Note and all accrued but unpaid interest under this Note and all other sums payable under this Note and the Loan Documents (as defined in Paragraph 2 hereof) shall be due and payable in full on April 1, 2010 or such earlier date as same may become due and payable pursuant to the terms hereof (the "Maturity Date").

(d) All payments by Borrower on account of principal and interest and any fees and charges payable hereunder or under any other Loan Document shall be made to Lender unconditionally and without deduction, setoff or counterclaim of any kind. If any payment hereunder becomes due and payable on a day which is not a Business Day (as hereinafter defined), the maturity thereof shall be extended to the next succeeding Business Day. As used herein, "Business Day" shall mean a day other than a Saturday, Sunday or day on which banks are authorized to be closed in Tulsa, Oklahoma.

(e) Payments in federal funds immediately available in the place designated for payment received by Lender prior to 2:00 p.m. local time at the place of payment on a day in which Lender is open for business shall be credited prior to the close of business. Any payment received after 2:00 p.m. local time at said place of payment on a day on which Lender is open for business shall be deemed to be received on the next succeeding Business Day.

(f) Except as provided in Paragraph 13 hereof, each monthly installment paid pursuant to Paragraph 1.1(b) hereof shall be applied first to the payment of accrued interest and then to reduction of principal. All other payments received under this Note shall be applied to any outstanding fees, charges, advances, interest and principal in such order and amounts as Lender shall determine in its sole discretion.

(g) In the event that at any time any payment received by Lender hereunder shall be deemed by a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under any bankruptcy, insolvency or other debtor relief law, then the obligation to make such payment shall survive any cancellation or satisfaction of

this Note or return thereof to the Makers and shall not be discharged or satisfied with any prior payment thereof or cancellation of this Note, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof, and such payment shall be due and payable upon demand.

1.2 Calculation of Interest

Interest payable on the unpaid principal balance shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each.

2. Security

This Note is secured by that certain Mortgage with Power of Sale, Security Agreement, Assignment of Leases, Rents and Profits, Financing Statement and Fixture Filing, of even date herewith, made by Borrower to Lender (the "Mortgage") to be recorded in the County Clerk's Office of Tulsa County, Oklahoma and that certain Pledge Agreement, of even date herewith, made by CG Austria, Inc., a Delaware corporation to Lender (the "Pledge") (this Note, the Short-Term Note, the Mortgage, the Pledge and any other documents or instruments now or hereinafter entered into from time to time further evidencing or securing the indebtedness evidenced hereby, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, being collectively referred to herein as the "Loan Documents").

3. Default; Acceleration

Upon the occurrence and during the continuance of any "Event of Default" (as defined in the Mortgage) (an "Event of Default"), the entire principal sum and all other sums payable hereunder and under the Loan Documents, together with all accrued interest thereon, shall at the option of Lender, immediately become due and payable, without notice or demand. Failure to exercise this option shall not constitute a waiver of the right to exercise same in the event of any subsequent Event of Default.

4. Late Payment Charge; Default Interest

In addition to the payment of all principal, interest and other fees or expenses payable under this Note, if any payment under this Note (whether of principal, interest or other fees or expenses and including the payment due on the Maturity Date) (i) is, more than two (2) times in any twelve (12) month period, not paid by the due date thereof, the Borrower shall pay to Lender without any requirement of notice or demand by Lender, a late payment charge equal to two percent (2%) of the amount of the delinquent payment, and (ii) is not paid by the date which is five (5) days after the due date thereof, then such unpaid amounts hereunder, together with all accrued but unpaid interest thereon, shall, on and from the original due date without any requirement of notice or demand by Lender, bear interest at the rate of nine percent (9)% per annum (the "Default Rate"), instead of at the rate of seven percent (7%) per annum. THE MAKERS ACKNOWLEDGE AND AGREE THAT (x) LENDER'S ACTUAL DAMAGES RESULTING FROM ANY SUCH DEFAULT OR DELINQUENCY AND RELATING TO LOST USE OF FUNDS AND COSTS OF INTERNAL ADMINISTRATION OF DELINQUENT PAYMENTS HEREUNDER OR RELATING TO SUCH DEFAULT WOULD BE EXTREMELY DIFFICULT TO ASCERTAIN, AND (y) UNDER THE CIRCUMSTANCES

IN EXISTENCE AS OF THE DATE HEREOF, INTEREST HEREUNDER ACCRUED AT THE DEFAULT RATE AND SUCH LATE CHARGE CONSTITUTE A REASONABLE LIQUIDATION OF SUCH DAMAGES AND DO NOT CONSTITUTE A PENALTY. No provision of this Note (including without limitation the provisions for a late payment charge, accrual of interest at the Default Rate, or for the continued accrual of interest on any amounts remaining unpaid after the Maturity Date) shall be construed as in any way excusing Borrower from its obligations to make each payment as and when due under this Note. Acceptance by Lender of any late charge and/or interest at the Default Rate shall not be deemed a waiver of any of Lender's rights and remedies hereunder or under the other Loan Documents.

5. Costs of Collection

The Makers jointly and severally promise to pay (a) all costs and expenses reasonably incurred, including, without limitation, attorneys' fees and disbursements, if this Note or any portion of this Note is placed in the hands of any attorney for collection and such collection is effected without suit; (b) out-of-pocket attorneys' fees and disbursements reasonably incurred and all other costs, expenses and fees reasonably incurred by Lender in enforcing its rights under this Note or the other Loan Documents, including, without limitation, the institution of a judicial or foreclosure sale or other power of sale or a suit to collect all or any portion of amounts owing hereunder or thereunder or any appeals therefrom, until payment of the full amount due to Lender is made; and (c) all out-of-pocket costs and expenses reasonably incurred by Lender (including, without limitation, actual attorneys' fees and disbursements) in connection with any bankruptcy, insolvency or reorganization proceeding or receivership involving any of the Makers, including, without limitation, attorneys' fees and disbursements reasonably incurred in making any appearances in any such proceeding or in seeking relief from any stay or injunction issued in or arising out of any such proceeding or any appeals therefrom.

6. Certain Waivers

Except as otherwise expressly specified in this Note, the Mortgage or any of the other Loan Documents, each of the Makers jointly and severally waive diligence, grace, demand, presentment for payment, exhibition of this Note, protest and notice of protest and notice of nonpayment. Any payment by any of the Makers or other circumstance which by operation of law tolls any statute of limitations as to any of the Makers shall operate to toll the statute of limitations as to all of them. From time to time, without affecting the obligation of the Makers to pay the outstanding principal balance of this Note and observe the covenants contained herein, without giving notice to or obtaining the consent of the Makers, and without liability on the part of Lender, Lender may, at the option of Lender, extend the time for payment of said outstanding principal balance, or any part thereof, reduce the payments thereon, release anyone liable for any of said outstanding principal balance, accept a renewal of this Note, join in any extension or subordination agreement, release any security given in respect hereof, take or release other or additional security, and agree in writing with the Makers to modify the rate of interest or period of amortization of this Note or change the amount of the monthly installments payable hereunder.

No single or partial exercise of any power, right or privilege of Lender hereunder or under the other Loan Documents and no course of dealing between the Lender on the one

hand and any one or more of the Makers on the other hand, shall operate as a waiver of or preclude other and further exercise thereof or the exercise of any other power, right or privilege of Lender. Lender shall at all times have the right to proceed against any portion of the Mortgaged Property pursuant to and in accordance with the Mortgage and/or against any one or more of the Makers in such order and in such manner as Lender may deem fit, without waiving any rights with respect to any of the other Makers or other portion of the Mortgaged Property. No delay, action or omission on the part of Lender in exercising any right or remedy hereunder shall operate or be construed as a waiver or release of (i) such right or remedy or of any other right or remedy of Lender, (ii) any liability or obligation of the Makers hereunder or under the other Loan Documents or (iii) an Event of Default. The rights and remedies of Lender herein provided are cumulative and not exclusive of any other rights or remedies which the Lender would have hereunder, under the other Loan Documents or at law or in equity.

7. Loss, Theft, Destruction or Mutilation of Note

In the event of the loss, theft or destruction of this Note, upon Borrower's receipt of a reasonably satisfactory indemnification agreement executed in favor of the Makers by the party who held this Note immediately prior to its loss, theft or destruction, or in the event of the mutilation of this Note, upon Lender's surrender to Borrower of the mutilated Note, the Makers shall execute and deliver to such party or Lender, as the case may be, a new promissory note in form and content identical to this Note in replacement of the lost, stolen, destroyed or mutilated Note.

8. Notices

Any notice and other communication required or desired to be given or delivered under this Note shall be made in accordance with the notice provisions of the Mortgage directed to the intended party at its respective address set forth on the first page hereof.

9. Time of Essence

Time is of the essence in the performance of each and every provision of this Note.

10. Severability

If any provision of this Note or the other Loan Documents shall for any reason be held unenforceable or void by a court of competent jurisdiction in any respect, then such provision shall be deemed separable from the remaining provisions hereof and shall in no way affect any other provision or the validity of this Note.

11. Amendment or Waiver; etc.

This Note may not be changed, extended, modified, or amended except by an instrument in writing signed by Lender and the Makers and none of the rights or benefits of Lender hereunder can be waived except in a written instrument signed by Lender.

12. Governing Law

This Note shall be governed by and construed and interpreted in accordance with the laws of the State of Oklahoma, without regard to conflicts of laws principles. To the fullest extent permitted by applicable law, each of Lender on the one hand and the Makers jointly and severally on the other hand, hereby unconditionally and irrevocably waive any claim to assert that the laws of any other jurisdiction govern this Note and acknowledge and agree that this Note represents its knowing, voluntary and conscious decision made with full advice of counsel, and that the State of Oklahoma has a substantial relationship to the parties hereto and the transactions contemplated hereby.

13. Prepayment

(a) Borrower shall have the right without any premium or penalty to prepay in whole or in part, at any time from time to time, the principal amount outstanding under this Note, provided that, in the case of prepayment in whole, Lender shall simultaneously receive in immediately available funds, in addition to the entire principal amount outstanding under this Note as of the date of prepayment, (i) all interest accrued and unpaid as of the date of prepayment and (ii) all other sums owing under this Note and under the other Loan Documents.

In the case of a partial prepayment by Borrower, such payment shall be made in immediately available funds and applied by Lender in the following order: (i) first, to all interest accrued under the Loan Documents and unpaid as of the date of prepayment on the principal amount being prepaid, (ii) second, to all other sums then due and owing under this Note (other than principal) and under the other Loan Documents, and (iii) third, to the outstanding principal balance under this Note, without reduction in the amount of the monthly installments payable pursuant to the terms hereof.

(b) If TWC has transferred to WCL the entire ownership interest in the entity holding title to the Aircraft, WCL, having the exclusive right to do so, shall dispose of the Aircraft on commercially reasonable terms and at market rates, and shall cause the net proceeds of any such disposition (collectively, a "Disposition") to be paid at the closing of such Disposition to Lender. If such Disposition does not occur on or before April 13, 2003, which is 180 days after the date hereof (the "Termination Date"), then WCL shall pay to Lender within three (3) Business Days after the Termination Date, an amount (the "Fee") equal to 3 times the difference between (a) the amount of the last (monthly) installment of Rent (as such term is defined in each Aircraft Dry Lease) under each of the Aircraft Dry Leases which would have been payable prior to the Termination Date if the Aircraft Dry Leases were then still in effect and (b) that portion of the Monthly Debt Service (as defined below) payment which is attributable to $20,000,000 of principal under this Note. The Fee shall not be applied against the principal of this Note. On the Termination Date, all accrued and unpaid interest on this Note, together with interest which would accrue thereunder through the last day of the month in which such Termination Date occurs, shall be paid commencing with the installment of Rent which is due on the first day of the second month which commences after the Termination Date. Thereafter, the monthly installments of principal and interest payable by Borrower under this Note (hereinafter, in this Paragraph 13(b), the "Monthly Debt Service") shall be changed to equal the sum of (A) the monthly payment amount which would be necessary to amortize a principal amount of

$80,000,000 with interest on the unpaid principal thereof at a rate of 7% per annum in equal monthly installments over 360 months (but there shall be no corresponding reduction of the principal amount of this Note or extension of the maturity date thereof); and (B) the monthly Rent which would have been payable under each of the Aircraft Dry Leases (if they were then still in effect). A portion of each monthly Rent payment referred to in clause (B) above equal to the sum of the portions of the corresponding payments for the corresponding month under the Aircraft Dry Leases which would have been applied to principal thereunder (the "Allocated Lease Principal") shall be applied against the principal of this Note. Thereafter, upon the Disposition of the Aircraft, and application of the proceeds thereof against the principal of this Note (i) the sums specified in clause (B) above shall no longer be payable; and (ii) the fixed monthly payment amount referred to in clause (A) above shall, for the period commencing on the date of such Disposition and continuing thereafter for the remainder of the period to the scheduled maturity date of this Note, be changed to equal the product of (x) the original Monthly Debt Service under this Note and (y) a fraction, the numerator of which is $100,000,000 minus (without duplication) the Allocated Lease Principal, minus all other principal payments made under this Note and minus net proceeds of the Disposition of the Aircraft which were applied to reduce the outstanding principal of this Note, and the denominator of which is $100,000,000. Any net proceeds from the sale of the Aircraft Dry Leases or the Disposition of the Aircraft received by Lender or any of its Affiliates after the date hereof shall be applied to reduce the principal balance of this Note in accordance with the terms hereof.

(c) (i) If within one year after the date hereof, Borrower or any of its Affiliates directly or indirectly exchanges or disposes of (or enters into an agreement or agreements with respect thereto) any or all of the Acquired Assets (to any transferee other than an entity which has the same ultimate beneficial ownership as the transferor had immediately prior to such transfer) for an aggregate sales price in cash, obligations or other consideration in an amount greater than One Hundred Fifty Million Dollars ($150,000,000), Borrower shall, on the date on which the consummation of such a transaction occurs, (i) prepay the entire principal of this Note and all accrued and unpaid interest thereon and all other sums payable under this Note and the other Loan Documents in full and (ii) pay to Lender in immediately available funds (except as provided in Paragraph 13(c)(ii) below) to an account designated by Lender in writing, an amount equal to the product of (x) Fifty Percent (50%) multiplied by (y) the excess of the aggregate sales price over (A) One Hundred Fifty Million Dollars ($150,000,000) less (B) the amount equal to the (i) aggregate consideration received by Lender, or any of its Affiliates, in connection with the disposition of the Aircraft Dry Leases or (ii) the amount of proceeds received by Lender or any of its Affiliates in connection with the refinancing of the Aircraft pursuant to Paragraph 13(b), which obligations are secured by the Mortgage. Borrower agrees that it will notify Lender in writing no later than three (3) Business Days prior to entering into a transaction or agreement of the type specified in this Paragraph 13(c).

(ii) In the event the consideration received or to be received by Borrower in a transaction of the type set forth in Paragraph 13(c)(i) is to be paid in whole or in part other than in Dollars, for purposes of Paragraph 13(c)(i), the value of such consideration shall be mutually agreed between Borrower and Lender. Notwithstanding anything in this Paragraph 13 to the contrary, in the event Borrower receives non-Dollar consideration in a transaction of the type set forth in Paragraph 13(c)(i), unless otherwise agreed between Borrower and Lender, any payment by Borrower to Lender under Paragraph 13(c)(i) shall be made pro rata (based on the amount of

non-Dollar consideration relative to the amount of Dollar consideration received by Lender in such transaction(s)) in such non-Dollar consideration.

(d) No principal amount repaid may be reborrowed.

14. Usury Laws

This Note and the other Loan Documents are subject to the express condition that at no time shall any Maker be obligated or required to pay interest on the Obligations at a rate which could subject the holder of this Note either to civil or criminal liability as a result of being in excess of the maximum interest rate which is permitted by applicable law. If, by the terms of this Note and the other Loan Documents, any Maker is at any time required or obligated to pay interest on the Obligations at a rate in excess of such maximum rate, the rate of interest under the same shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate, to the extent permitted by law, shall be applied, at the option of Lender, against any sums outstanding in such order as Lender may determine. The right to accelerate this Note pursuant to Paragraph 3 hereof does not include a right to require payment of any interest which has not otherwise accrued by the date of such acceleration, and Lender does not intend to collect any unearned interest in the event of acceleration; provided, however, that Lender shall, to the extent specified herein, be entitled to receive interest at the applicable rate herein specified on any amounts payable pursuant to this Note through the date collected.

15. Consent to Jurisdiction; Waiver of Jury Trial

(a) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS NOTE OR THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF TULSA, OKLAHOMA AND BY EXECUTION AND DELIVERY OF THIS NOTE, EACH MAKER HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY (INCLUDING THE MORTGAGED PROPERTY), GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PRECEDING. EACH MAKER HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK PERSONAL JURISDICTION OVER IT, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS NOTE OR THE OTHER LOAN DOCUMENTS BROUGHT IN ANY OF THE AFOREMENTIONED COURTS, THAT SUCH COURTS LACK PERSONAL JURISDICTION OVER THE MAKERS. EACH MAKER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY, IN ADDITION TO SUCH OTHER METHODS AS ARE PERMITTED UNDER APPLICABLE LAW, THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS FOR NOTICES PURSUANT TO PARAGRAPH 8 HEREOF, SUCH SERVICE TO BECOME EFFECTIVE THIRTY (30) DAYS AFTER SUCH MAILING. EACH MAKER HEREBY IRREVOCABLY WAIVES ANY OBJECTION TO SUCH SERVICE OF PROCESS AND FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY ACTION OR PROCEEDING COMMENCED HEREUNDER THAT

SERVICE OF PROCESS WAS IN ANY WAY INVALID OR INEFFECTIVE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANY OF THE MAKERS IN ANY OTHER JURISDICTION.

(b) EACH MAKER HEREBY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS NOTE OR THE OTHER LOAN DOCUMENTS BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (A) ABOVE AND HEREBY FURTHER WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH MAKER AND LENDER HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER LOAN DOCUMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY.

16. Recourse

The Makers shall be jointly and severally subject to full personal liability, including, without limitation, full recourse to the property (including the Mortgaged Property) and the assets of the Makers, for the repayment of any indebtedness evidenced by this Note or the other Loan Documents to which Borrower is a party and the payment and performance of the other Obligations, provided that such recourse shall not extend to (i) any officer, director, employee, agent or representative of any Maker or (ii) any shareholder of WCG.

17. Recovery of Judgments

The recovery of any judgment by Lender and/or the levy of execution under any judgment upon the Mortgaged Property, shall not affect in any manner or to any extent the lien of any of the Loan Documents securing this Note upon, or any security interest in, the Mortgaged Property, or any rights, remedies or powers of Lender under any of the Loan Documents, but such liens and such security interests, and such rights, remedies and powers of Lender, shall continue unimpaired as before. The exercise by Lender of its rights and remedies, and the entry of any judgment by Lender shall not adversely affect in any way the rate of interest payable hereunder on any amounts due to Lender, but interest shall continue to accrue on such amounts at the Default Rate specified herein.

18. No Joint Venture

The relationship created under this Note and the other Loan Documents is solely that of debtor and creditor. Nothing herein or in the other Loan Documents is intended to create nor shall it create an equity investment on the part of Lender or a joint venture, partnership, tenancy in common or joint tenancy relationship between the Makers (individually or

collectively) and Lender or render Lender in any way responsible for any of the debts, losses and liabilities of the Makers. Lender does not owe any fiduciary obligation under the Loan Documents or by operation of law to any Maker, or any of their officers, directors, partners, agents or representatives. The Makers and Lender agree that each shall report this transaction for income tax purposes, and file all related tax returns, in a manner consistent with the form of this transaction as a loan.

19. Sales and Pledges

Lender shall have the right to enter into and consummate any sale(s) and/or pledge(s) and/or transfers of its interests in the Loan, this Note and/or the other Loan Documents and the Makers, upon the reasonable request of Lender and at the expense of the Makers, shall promptly execute, acknowledge, deliver and record or file such instruments and do such further acts as may be reasonably necessary, desirable or proper to carry out such right.

20. Jointly Drawn

This Note and the other Loan Documents are the result of a full and complete negotiation at arms length between the respective parties hereto and thereto. Accordingly, no prior drafts of the Note or any of the Loan Documents, or any memoranda prepared by Lender, or any of the Makers shall be used to construe or interpret any provision of this Note or any other Loan Document. Lender and the Makers expressly acknowledge that this Note and the other Loan Documents were jointly drawn between the Lender and the Makers and no inference shall therefore be drawn against any of them based upon the identity of the preparer of this Note and/or the other Loan Documents.

21. Successors and Assigns

This Note inures to the benefit of and binds Lender and the Makers and their respective permitted successors and assigns, and reference to such parties whenever occurring herein, shall be deemed to include such party's respective permitted successors and assigns. However, none of the Makers shall voluntarily, or by operation of law, assign or transfer any interest which it may have under the Note or the other Loan Documents without the prior written approval of Lender, which approval may be withheld in its sole and absolute discretion.

22. Nature of WCL's and WCG's Obligations

WCL and WCG, by their execution of this Note, unconditionally and irrevocably agree to be liable for the full and prompt payment and performance when due of the Obligations if not paid or performed as and when from time to time due by Borrower, including, without limitation, the payment of the Loan and all interest, fees and other charges payable hereunder and under the other Loan Documents. Notwithstanding any characterization of WCL or WCG herein (or in any other document) as a "maker", "co-maker", "obligor", or "co-obligor" (or any other word of similar meaning) of this Note, WCL and WCG shall be jointly and severally liable for and shall be obligated to and they shall, jointly and severally, pay and perform the Obligations, to the effect that they jointly and severally hereby guaranty payment and performance of the Obligations. In the event of the Borrower's failure to do so, each of WCL and WCG shall, upon Lender's demand, pay and perform the same as though each of them was,

jointly and severally with Borrower, a co-maker with primary (as distinct from contingent) liability hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, this Note has been executed as of the date first above written.

BORROWER:

WILLIAMS TECHNOLOGY CENTER, LLC,
a Delaware limited liability company

By: Williams Communications, LLC, a Delaware limited liability company, its sole member and manager

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

GUARANTORS:

WILTEL COMMUNICATIONS GROUP, INC.,
a Nevada corporation

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

WILLIAMS COMMUNICATIONS, LLC,
a Delaware limited liability company

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and and Assistant Secretary

CONFORMED COPY

This document is intended
to be recorded in
Tulsa County, Oklahoma

This Mortgage was prepared by
and when recorded should be returned to:

Roger W. Noble
White & Case LLP
1155 Avenue of the Americas
New York, New York 10036
(212)819-8970
1149477/0008

MORTGAGE WITH POWER OF SALE, SECURITY AGREEMENT,

ASSIGNMENT OF LEASES, RENTS AND PROFITS,

FINANCING STATEMENT AND FIXTURE FILING

made by

WILLIAMS TECHNOLOGY CENTER, LLC

as the Mortgagor,

to

WILLIAMS HEADQUARTERS BUILDING COMPANY

as the Mortgagee

- ---

A POWER OF SALE HAS BEEN GRANTED IN THIS MORTGAGE. A POWER OF SALE MAY ALLOW THE MORTGAGEE TO TAKE THE MORTGAGED PROPERTY AND SELL IT WITHOUT GOING TO COURT IN A FORECLOSURE ACTION UPON DEFAULT BY THE MORTGAGOR UNDER THIS MORTGAGE.

MORTGAGE WITH POWER OF SALE, SECURITY AGREEMENT,
ASSIGNMENT OF LEASES, RENTS AND PROFITS,
FINANCING STATEMENT AND FIXTURE FILING

THIS MORTGAGE WITH POWER OF SALE, SECURITY AGREEMENT, ASSIGNMENT OF LEASES, RENTS AND PROFITS, FINANCING STATEMENT AND FIXTURE FILING, dated as of October 15, 2002 (as amended, restated, modified or supplemented from time to time, this "Mortgage"), made by WILLIAMS TECHNOLOGY CENTER, LLC, a Delaware limited liability company (the "Mortgagor"), having an address at One Technology Center, Mail Drop 15, Tulsa, Oklahoma 74103, as the mortgagor, to WILLIAMS HEADQUARTERS BUILDING COMPANY, a Delaware corporation (together with any successor mortgagee, the "Mortgagee"), having an address at One Williams Center, Mail Drop 41-3, Tulsa, Oklahoma 74172, as the mortgagee.

All capitalized terms used but not otherwise defined herein shall have the same meanings ascribed to such terms in the Note described below.

WITNESSETH:

WHEREAS, the Mortgagee as seller, the Mortgagor as purchaser, Wiltel Communications Group, Inc., a Nevada corporation, formerly known as Williams Communications Group, Inc., a Delaware corporation, prior to its reorganization pursuant to the Plan ("WCG"), Williams Communications, LLC, a Delaware limited liability company ("WCL") and Williams Aircraft Leasing, LLC are parties to that certain Real Property Purchase and Sale Agreement dated as of July 26, 2002 (as amended, the "Purchase Agreement");

WHEREAS, in consideration of the benefits to the Mortgagor derived from the Purchase Agreement, and the Mortgagee's performance of its obligations thereunder (including, without limitation, the Mortgagee's conveyance of the Land and Improvements (each as hereinafter defined) to the Mortgagor pursuant thereto) the Mortgagor, WCG, and WCL executed and delivered to the Mortgagee as payee, (a) a promissory note dated as of even date herewith in the original principal amount of $100,000,000, with a maturity date of April 1, 2010 or such earlier date to which it may be accelerated pursuant to the terms thereof (as hereafter amended, extended, replaced, restated, supplemented, restructured, increased or refinanced from time to time, "Long-Term Note"); and (b) a promissory note dated as of even date herewith in the aggregate (principal and interest) amount of $74,360,295.30 with a maturity date of December 29, 2006 or such earlier date to which it may be accelerated pursuant to the terms thereof (as hereafter amended, extended, replaced, restated, supplemented, restructured, increased or refinanced from time to time, the "Short-Term Note");

WHEREAS, the Mortgagor is a wholly owned direct subsidiary of WCL and WCL is a wholly owned direct subsidiary of WCG and each of WCL and WCG will benefit from the extensions of credit under the Notes;

WHEREAS, the Mortgagor is the owner of fee simple title to the Land and the Improvements (each as hereinafter defined) subject to Permitted Encumbrances (as hereinafter defined);

WHEREAS, it is a condition precedent to the extensions of credit under the Notes that (a) the Mortgagor shall have executed and delivered to the Mortgagee this Mortgage and (b) WCL and WCG (the "Guarantors") shall have guaranteed the Obligations (as hereinafter defined); and

WHEREAS, the Mortgagor desires to enter into this Mortgage to satisfy the condition in the preceding paragraph and to secure (and this Mortgage shall secure) the following, whether now existing or hereafter arising:

(i) the full and prompt payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of all obligations, liabilities and indebtedness of the Mortgagor and the Guarantors under this Mortgage, the Pledge (as hereinafter defined) and the Notes including, without limitation, payment of principal, premium and interest including, without limitation, all interest that accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency, reorganization or similar proceeding of the Mortgagor, WCL and/or WCG at the applicable rates provided for in the Notes, whether or not a claim for post-petition interest is allowed in any such proceeding;

(ii) any and all sums advanced by the Mortgagee (in accordance with the terms of this Mortgage) in order to preserve the Mortgaged Property or preserve its security interest in the Mortgaged Property;

(iii) in the event of any proceeding for the collection or enforcement of any indebtedness, obligations, or liabilities of the Mortgagor, WCL and/or WCG under the Notes or this Mortgage, all out-of pocket expenses reasonably incurred of re-taking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Mortgaged Property, or of any exercise by the Mortgagee of its rights hereunder or under the Notes, including reasonable attorneys' fees and disbursements and court costs (including without limitation all such amounts referred to in Section 4.08 hereof);

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 4.10 hereof; and

(v) any and all renewals, extensions and modifications of any of the obligations and liabilities referred to in clauses (i) through (iv) above, inclusive;

all obligations, liabilities, sums and expenses set forth in clauses (i) through (v) above being herein collectively called the "Obligations".

NOW, THEREFORE, as security for the Obligations and in consideration of the payment of ten dollars ($10.00) and the other benefits accruing to the Mortgagor, the receipt and sufficiency of which are hereby acknowledged, THE MORTGAGOR HEREBY MORTGAGES, GRANTS, BARGAINS, SELLS, CONVEYS AND CONFIRMS TO THE MORTGAGEE AND

ITS SUCCESSORS AND ASSIGNS AND HEREBY GRANTS TO THE MORTGAGEE AND ITS SUCCESSORS AND ASSIGNS A SECURITY INTEREST IN, WITH POWER OF SALE (subject to applicable law), all of the following property, rights, interests and estates owned or hereafter acquired by Mortgagor:

A. The land described in EXHIBIT A hereto, together with all rights, privileges, franchises and powers related thereto which are appurtenant to said land or its ownership, including all minerals, oil and gas and other hydrocarbon substances thereon or therein; waters, water courses, water stock, water rights (whether riparian, appropriative, or otherwise, and whether or not appurtenant), sewer rights, shrubs, crops, trees, timber and other emblements now or hereafter on, under or above the same or any part or parcel thereof (collectively, the "Land");

B. All buildings, structures, tenant improvements (including, but not limited to, Fixtures (as defined below) which are incorporated into the Building) and other improvements of every kind and description now or hereafter located in or on the Land, including, but not limited to, all structures, improvements, rail spurs, dams, reservoirs, water, sanitary and storm sewers, drainage, electricity, steam, gas, telephone and other utility facilities, parking areas, roads, driveways, walks and other site improvements of every kind and description now or hereafter erected or placed on the Land, together with all additions thereto and all renewals, alterations, substitutions and replacements thereof (collectively, the "Improvements");

C. All equipment, machinery, and fixtures (as defined in Article 9 of the Uniform Commercial Code), and other items of real and/or personal property, including all components thereof, now and/or hereafter located in, on or used in connection with, or incorporated into Improvements, including, without limitation, the Central Plant (as hereinafter defined) if and to the extent Mortgagor now or hereafter has any interest therein and all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus (other than individual units), sprinkler systems and fire and theft protection equipment, towers and other devices for the transmission of radio, television and other signals, together with all replacements, substitutions, renewals, modifications, alterations and additions thereto (excluding the Excluded Property, collectively, the "Fixtures");

D. All surface rights, appurtenant rights and easements, rights of way, and other rights appurtenant to the use and enjoyment of or used in connection with the Land and/or the Improvements;

E. All streets, roads and public places (whether open or proposed) now or hereafter adjoining or otherwise providing access to the Land, the land lying in the bed of such streets, roads and public places, and all other sidewalks, alleys, ways, passages, vaults, water courses, strips and gores of land now or hereafter adjoining or used or intended to be used in connection with all or any part of the Land and/or the Improvements;

F. Any leases, lease guaranties or any other agreements (whether verbal or written) relating to the use and occupancy of the Land and/or the Improvements or any portion

thereof, including, but not limited to, any use or occupancy arrangements created pursuant to Section 365(h) of Title 11 of the United States Code (the "Bankruptcy Code") or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings, or any assignment for the benefit of creditors, in respect of any tenant or occupant of any portion of the Land and/or the Improvements (collectively, the "Leases");

G. All rents, issues and profits arising from any of the Leases (collectively, the "Rents");

H. To the extent assignable, all permits, licenses and rights relating to the use, occupation and operation of the Land and/or the Improvements;

I. Any zoning lot agreements, air rights and development rights which may be vested in the Mortgagor together with any additional air rights or development rights which have been or may hereafter be conveyed to or become vested in the Mortgagor; and

J. All proceeds (including insurance and Condemnation [as hereinafter defined] proceeds) and products of the conversion, voluntary or involuntary, including, but not limited to, those from sale, exchange, transfer, collection, loss, damage, disposition, substitution or replacement, of any of the foregoing, whether into cash, liquidated claims or otherwise.

All of the forgoing estates, rights, properties and interests hereby mortgaged to the Mortgagee are sometimes referred to collectively herein as the "Mortgaged Property." Notwithstanding anything to the contrary contained in this Mortgage, the Mortgagee shall not have a Lien on, and the term "Mortgaged Property" shall not include, any Excluded Property (as hereinafter defined).

TO HAVE AND TO HOLD the above granted and described Mortgaged Property unto the Mortgagee and to its successors and assigns for the uses and purposes set forth herein until the Obligations are paid and performed in full.

PROVIDED, HOWEVER, that if the Obligations shall have been paid and performed in full, then, in such case the Mortgagee shall, at the request and expense of the Mortgagor, promptly satisfy this Mortgage (without recourse and without representations or warranties) and the estate, right, title and interest of the Mortgagee in the Mortgaged Property shall cease, and upon payment to the Mortgagee of all out-of-pocket costs and expenses reasonably incurred for the preparation of the release hereinafter referenced and all recording costs if allowed by law, the Mortgagee shall promptly release the Lien of this Mortgage by proper instrument.

ARTICLE I

REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS OF THE MORTGAGOR

1.01 Title to the Mortgaged Property. The Mortgagor represents and warrants: (a) it has fee simple title to the Land and Improvements and good title to the remainder of the

Mortgaged Property, free and clear of any Liens, other than the Liens specified on EXHIBIT B attached hereto (the "Permitted Encumbrances"); Mortgagor shall warrant, defend and preserve such title and the validity and priority of the lien of this Mortgage against the claims of all Persons; (b) upon being recorded in the real property records of Tulsa County, this Mortgage will be a valid first priority Lien upon the Mortgaged Property (subject only to the Permitted Encumbrances existing on the date hereof); (c) it has the power and authority to encumber the Mortgaged Property in the manner set forth herein; and (d) there are no defenses or offsets to this Mortgage or to the Obligations which it secures. The Mortgagor shall take no action nor shall it fail to take any action which would result in an impairment of the Lien of this Mortgage or which would form the basis for any Person(s) to properly claim an interest in the Mortgaged Property (including, without limitation, any claim for adverse use or possession or any implied dedication or easement by prescription) other than Permitted Encumbrances. If any Lien (other than a Permitted Encumbrance) attaches to the Mortgaged Property, the Mortgagor shall promptly, at its expense: (a) provide the Mortgagee with written notice of such Lien, including information relating to the amount of such Lien; and (b) pay the Lien in full or take such other action as shall be required to cause the Lien to be released; provided, that, after written notice to Mortgagee, Mortgagor, at its own expense, may contest such Lien by appropriate legal proceedings, promptly initiated and conducted in good faith and with due diligence, provided that (i) no Event of Default has occurred and is continuing, (ii) Mortgagor is permitted to do so under any other mortgage or deed of trust affecting the Mortgaged Property, (iii) the proceeding is permitted under and is conducted in accordance with the provisions, if any, of the Credit Agreement and shall not constitute a default thereunder, (iv) neither the Mortgaged Property, or any part thereof, nor the Mortgagor shall be affected in any material adverse way as a result of such proceeding, and (v) the Lien has been discharged of record (by payment, bonding or in a manner otherwise reasonably acceptable to Mortgagee). If an Event of Default shall have occurred and be continuing, the Mortgagee may, but shall not be obligated, to pay any such asserted Lien if not timely paid by the Mortgagor.

1.02 Compliance with Law. The Mortgagor represents and warrants that it possesses all material environmental and other licenses, authorizations, registrations, permits and/or approvals required by Governmental Authorities (as hereinafter defined) for the ownership or operation of the Land, Improvements and Fixtures (each being defined as a "License"), all of which, the Mortgagor hereby represents and warrants, are in full force and effect, and are not the subject of any revocation proceeding, release, suspension or forfeiture. The Mortgagor represents and warrants that the present and contemplated use and occupancy of the Land, Improvements and Fixtures does not violate any License. The Mortgagor shall take no action nor shall it fail to take any action with respect to any License or the zoning classification of the Mortgaged Property if such action or failure to act would have a material adverse effect on the value, use and/or operation of the Mortgaged Property or would cause or result in the revocation, suspension or forfeiture of any License.

1.03 Payment and Performance of Obligations. The Mortgagor shall pay and perform all of the Obligations when due and payable without offset or counterclaim. The Mortgagor shall observe and comply in all respects with all of the terms, provisions, conditions, covenants and agreements to be observed and performed by it under the Loan Documents.

1.04 Maintenance, Repair, Alterations, Etc. The Mortgagor shall: (i) keep and maintain the Improvements and Fixtures in good condition and repair (normal wear and tear, casualty and condemnation excepted, subject to subsection (iii) below and Section 1.07); (ii) make or cause to be made, as and when necessary, all repairs, renewals and replacements, structural and nonstructural, exterior and interior which are necessary to so maintain the Improvements and Fixtures in good condition; (iii) restore, repair or replace any Improvement or Fixture which may be damaged or destroyed so that the same shall be at least substantially equal to its value and condition immediately prior to the damage or destruction; (iv) not commit or permit any waste or deterioration (normal wear and tear excepted) of the Improvements and Fixtures; (v) not permit the Improvements or Fixtures to be demolished or altered in any manner that substantially decreases the value thereof; (vi) promptly pay when due all claims for labor performed and materials furnished therefor, provided, that, after notice to Mortgagee, Mortgagor, at its own expense, may contest such claims and any Liens related thereto by appropriate legal proceedings, promptly initiated and conducted in good faith and with due diligence, provided that (A) no Event of Default has occurred and is continuing, (B) Mortgagor is permitted to do so under any other mortgage or deed of trust affecting the Mortgaged Property, (C) the proceeding is permitted under and is conducted in accordance with the provisions, if any, of the Credit Agreement and shall not constitute a default thereunder, (D) neither the Mortgaged Property, or any part thereof, nor Mortgagor shall be affected in any material adverse way as a result of such proceeding, and (E) the Lien has been discharged of record (by payment, bonding or in a manner otherwise reasonably acceptable to Mortgagee) and (vii) comply with all applicable statutes, regulations and orders of all Governmental Authorities, as well as comply with the provisions of any lease, easement or other agreement affecting all or any part of the Mortgaged Property, except to the extent that any failure to so comply would not have a material adverse effect on the value, use and/or operation of the Mortgaged Property.

1.05 Required Insurance; Use of Proceeds. The Mortgagor shall keep the Improvements and Fixtures insured against loss or damage by fire, hazards customarily included within "extended coverage" policies, and any other casualties, liabilities, contingencies, risks or hazards, including flood and earthquake, which are customarily insured against by owners and/or lenders with respect to similar properties located in the geographical region of the Improvements, in an amount not less than the full replacement cost of the Improvements and Fixtures with a company or companies and in such form and with such endorsements as shall be required by and be reasonably satisfactory to the Mortgagee. The Mortgagor shall also carry public liability insurance in such form and amounts and with such companies as are reasonably satisfactory to the Mortgagee. The Mortgagee agrees that the types of insurance currently purchased by the Mortgagor with respect to the Mortgaged Property, as disclosed in writing to the Mortgagee, are presently satisfactory for purposes of this Mortgage. The Mortgagee shall be named an additional insured under the public liability insurance policy, a loss payee under any rental interruption insurance policy (whether or not required hereunder) and an additional insured and as loss payee under the hazard insurance policy. All of the above-mentioned insurance policies shall be endorsed with a standard noncontributory mortgagee clause in favor of and in form reasonably acceptable to the Mortgagee, and may expire, be cancelled or be modified only upon at least thirty (30) days prior written notice to the Mortgagee. Certificates of such insurance reasonably satisfactory to the Mortgagee, together with, upon demand from time to time by the Mortgagee, receipts evidencing the payment of premiums thereon, shall be delivered to and be held by the Mortgagee. At least thirty (30) days prior to the expiration date of any such policy,

the Mortgagor shall deliver to the Mortgagee evidence of the renewal or replacement of such policy in a form reasonably satisfactory to the Mortgagee, which evidence may be in the form of certificates of insurance demonstrating compliance with the terms hereof. In the event that any such certificate of insurance and evidence of payment of the premium therefor are not so delivered to the Mortgagee, the Mortgagor hereby specifically authorizes the Mortgagee to obtain such insurance upon ten (10) days prior notice to Mortgagor. Without releasing the Mortgagor from any obligation hereunder, the Mortgagee may (but is not obligated to) obtain such insurance as hereinabove set forth through or from any reasonably acceptable insurance agency or company. The Mortgagee shall not be chargeable with or responsible for the procurement or maintenance of any such insurance or the collection of any proceeds from such insurance. The Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any insurance, incur any liability for or with respect to the amount of insurance carried, form or legal sufficiency of insurance contracts, solvency of insurance companies, or payment or defense of lawsuits, and the Mortgagor hereby expressly assumes full responsibility therefor and agrees to indemnify, defend and hold the Mortgagee harmless from and against all loss, cost, expense and liability, if any, with respect thereto. Except as otherwise provided by applicable law, the Mortgagee may from time to time furnish to any insurance agency or company, or any other Person, any information contained in or extracted from any certificate of insurance delivered to the Mortgagee hereunder and any information concerning this Mortgage. The Mortgagor hereby assigns to the Mortgagee all insurance proceeds which the Mortgagor may be entitled to receive under any insurance policy issued with respect to the Mortgaged Property, whether or not required hereunder. In the event of the foreclosure or other transfer of the title to the Mortgaged Property in extinguishment of the Obligations, in whole or in part, secured hereby, all right, title and interest of the Mortgagor in and to any payments in satisfaction of claims under any casualty insurance policy issued with respect to the Mortgaged Property shall pass to the purchaser, transferee or grantee of the Mortgaged Property. The Mortgagor shall give prompt written notice to the Mortgagee of the occurrence of any damage to or destruction of the Improvements (which term as used in this Section 1.05 and in Section 1.07 shall include Fixtures) in excess of $2,000,000, generally describing the extent of the damage or destruction to the Improvements. In the event of any damage to or destruction of the Improvements or any part thereof which would reduce the value of the Improvements by less than 35%, Mortgagor shall have the right to adjust and collect all proceeds of insurance with respect to such damage or destruction and Mortgagor shall promptly repair such damage in a manner that will result in the Improvements being of the same or better condition and quality as immediately prior to such damage or destruction, with all repairs to be performed and completed in compliance with all federal, state and local laws, rules, regulations, and ordinances; provided however, that the Mortgagee shall have the right to participate in and monitor any restoration work and participate in and approve the settlement of any claim in respect of any damage or destruction which would reduce the value of the Improvements by greater than $10,000,000. If a casualty occurs which would reduce the value of the Improvements by more than 35%, the Mortgagee may upon notice to Mortgagor declare the Obligations immediately due and payable, collect all insurance proceeds payable with respect to such casualty, and apply such proceeds against the Obligations in such order and amounts as the Mortgagee may determine in its sole discretion.

1.06 Preservation of Property. The Mortgagor agrees to pay for any and all reasonable fees, costs and expenses incurred in connection with the creation, preservation or protection of

the Mortgagee's Liens on the Mortgaged Property, including, without limitation, all fees and taxes in connection with the recording or filing of instruments and documents in public offices (including stamp and mortgage recording taxes or other taxes imposed on the Mortgagee by virtue of its ownership of this Mortgage), which are imposed upon the recording of this Mortgage or thereafter, all reasonable attorneys' fees, payment or discharge of any taxes or Liens upon or in respect of the Mortgaged Property, premiums for insurance with respect to the Mortgaged Property and all other fees, costs and expenses reasonably incurred in connection with protecting, maintaining or preserving the Mortgaged Property and the Mortgagee's interest therein, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions, suits or proceedings arising out of or relating to the Mortgaged Property.

1.07 Condemnation. Should the Mortgagor receive any notice that the Land or Improvements or any part thereof or interest therein may be taken or damaged by reason of any public improvements or condemnation proceeding or in any other similar manner (a "Condemnation"), the Mortgagor shall give prompt written notice thereof to the Mortgagee. In the event of any Condemnation, the Mortgagee shall have the right to participate in any settlement of any claim made by Mortgagor in respect of such Condemnation if the value of the property taken exceeds $10,000,000 or if such claim is otherwise in an amount which exceeds $10,000,000. In the event of a Condemnation or successive Condemnations which would reduce the value of the Land and the Improvements by 35% or less, Mortgagor shall have the right to adjust and collect all compensation, awards, damages and proceeds payable on account of such Condemnation or Condemnations and shall promptly restore the (remainder of the Land and Improvements (after giving effect to such Condemnation) to a fully functional operating unit, with all restoration work being performed and completed in compliance with all federal, state and local laws, rules, regulations, and ordinances, and shall, promptly upon receipt, apply any remaining proceeds of its Condemnation award to payment of the Obligations as a prepayment. In the event of a Condemnation or successive Condemnations which would reduce the value of the Land and Improvements by more than 35%, the Mortgagee may upon notice to Mortgagor declare the Obligations immediately due and payable, collect all compensation, awards, damages and proceeds payable on account of such Condemnation or Condemnations, and apply such compensation, awards, damages, and proceeds against the Obligations in such order and amounts as the Mortgagee may determine in its sole discretion.

1.08 Inspections. The Mortgagor hereby authorizes the Mortgagee, its agents, employees and representatives, upon reasonable prior written notice to the Mortgagor (except in an emergency or following the occurrence and during the continuance of any Event of Default, in which case notice shall not be required) to visit and inspect the Mortgaged Property or any portion(s) thereof, all at such reasonable times and as often as the Mortgagee may reasonably request.

1.09 Transfers.

(a) Neither the Mortgagor nor WCG shall Transfer (as hereinafter defined), or agree to Transfer, in any manner either voluntarily or involuntarily (other than a Condemnation), by operation of law or otherwise, all or any portion of the Mortgaged Property, or any interest therein (including any air or development rights) without, in any such case, the prior written consent of the Mortgagee which may be granted or denied in the Mortgagee's sole discretion.

Notwithstanding the foregoing to the contrary, any Permitted Transfer (as hereinafter defined) may be made without the consent of the Mortgagee provided that, with respect to any Permitted Transfer which would adversely affect the value, use and/or operation of the Mortgaged Property or the Mortgagor's and/or any Guarantor's ability to pay or perform the Obligations, at least ten (10) Business Days prior to the effective date of such Permitted Transfer the Mortgagor gives notice to the Mortgagee describing such Permitted Transfer in detail reasonably sufficient to establish that it is a Permitted Transfer. All Transfers shall be subject and subordinate (except with respect to Liens described in clause (e) of Exhibit B) to the Lien and the terms, covenants and conditions of this Mortgage and all other Loan Documents. Notwithstanding anything herein to the contrary, if any Transfer will result in the conveyance of fee simple title to all or any portion of the Mortgaged Property, it shall be a condition precedent to such Transfer and the Mortgagee's consent thereto that the transferee of such Mortgaged Property assume all of the Obligations; provided that, in no event shall such assumption be deemed to be a release of the Mortgagor's or any Guarantor's obligations under the Loan Documents. Consent to one such Transfer shall not be deemed to be a waiver of the right to refuse consent to future or successive Transfers.

(b) As used herein "Transfer" shall mean:

(i) any transfer, sale, assignment, conveyance or other disposition, whether voluntarily or involuntarily, directly or indirectly, of the Mortgaged Property, by operation of law or otherwise; and

(ii) any sale, transfer, merger or other disposition of a controlling or majority of the equity interests in the Mortgagor;

(c) As used herein, "Permitted Transfer" shall mean:

(i) Permitted Encumbrances (as such term is defined in Section 1.01(a) hereof);

(ii) the granting of the Second Mortgage, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of October 15, 2002 made by Mortgagor, as mortgagor, to the Administrative Agent, as mortgagee (the "Second Mortgage") and intended to be recorded in the real estate records of Tulsa County, Oklahoma immediately subsequent to the recording of this Mortgage; provided that that Lien of the Second Mortgage is subordinate and junior to the Lien and the provisions, terms, and conditions of this Mortgage;

(iii) any transfer of all or part of the equity interests in Mortgagor to any entity of which WCG owns directly or indirectly a majority of the equity interests;

(iv) the granting to the Administrative Agent of a security interest in all of the equity interests in the Mortgagor and the Guarantors pursuant to the Credit Agreement; and

(v) provided that no Event of Default has occurred and is continuing, any Lease of the Mortgaged Property or any part thereof entered into in accordance with the provision of Section 1.14 hereof.

(d) Notwithstanding anything is this Section 1.09 to the contrary, any Transfer (including, without limitation, Permitted Transfers), whether or not consent is required hereunder, shall not be deemed to release the Mortgagor or any Guarantor from its obligations under the Loan Documents.

1.10 Hazardous Substances.

(a) The following terms shall have the following meanings: (i) the term "Hazardous Material" shall mean any material or substance that is now or hereafter defined as a hazardous waste, hazardous substance, pollutant or contaminant under any Environmental Law, or which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous (including, without limitation, asbestos or PCB's in any form or condition) or which is or contains petroleum, gasoline, diesel fuel or another petroleum hydrocarbon product and which, in each instance specified above, is now or hereafter regulated under any Environmental Law; and (ii) the term "Environmental Laws" shall collectively mean all present and future laws, statutes, ordinances, rules, regulations, orders, codes, licenses, permits, decrees, judgments, or directives of any Governmental Authority and relating to Hazardous Materials or addressing the protection of the environment or human health.

(b) The Mortgagor hereby represents and warrants to the Mortgagee that: (i) no Hazardous Material is currently located at, on, in, or under the Land, Fixtures or the Improvements in violation of any Environmental Laws, except in quantities not prohibited by Environmental Laws; (ii) no releasing, emitting, discharging, leaching, dumping or disposing of any Hazardous Material from the Land, Fixtures or the Improvements onto or into any other property or from any other property onto or into the Land, Fixtures or Improvements has occurred or is occurring in violation of any Environmental Laws; (iii) no notice of violation, Lien, complaint, suit, order or other notice with respect to the Land, Improvements or Fixtures is presently outstanding under any Environmental Laws; and (iv) the Land, Improvements and Fixtures and the operation thereof are in full compliance with all Environmental Laws, except to the extent non-compliance would not result in the imposition of any fine, penalty and/or other liability or damages to the Mortgagee or the Mortgagor in excess of $100,000 per occurrence and provided that any such non-compliance is not caused by the willful misconduct of the Mortgagor or its agents, employees, invitees or Affiliates. The Mortgagor shall comply (subject to subclause (iv) of the preceding sentence), and shall exercise reasonable efforts to cause all tenants or other occupants of the Land and the Improvements to comply, in all respects with all Environmental Laws, and will not generate, store, handle, process, dispose of or otherwise use, and will not permit any tenant or other occupant of the Land and the Improvements to generate, store, handle, process, dispose of or otherwise use, Hazardous Materials at, in, on or under the Land, Fixtures or the Improvements in a manner that could reasonably be expected to lead to the imposition on the Mortgagor, the Mortgagee or the Land, Fixtures, Improvements or Fixtures of any liability or Lien of any nature whatsoever under any Environmental Laws. The Mortgagor shall notify the Mortgagee promptly in the event of any spill or other release of any Hazardous Material at, in, on, or under the Land, Improvements or Fixtures which is required to be reported

to a Governmental Authority under any Environmental Laws, will promptly forward to the Mortgagee copies of any notices received by the Mortgagor relating to alleged violations of any Environmental Laws and will promptly pay when due any fine or assessment against the Mortgagor, the Mortgagee or the Land, Improvements or Fixtures relating to any Environmental Laws; provided that, after written notice to Mortgagee, Mortgagor, at its own expense, may contest any such fine or assessment or any resulting environmental Lien by appropriate legal proceedings, promptly initiated and conducted in good faith and with due diligence, provided, that, (i) no Event of Default has occurred and is continuing, (ii) the Mortgagor is permitted to do so under any other mortgage or deed of trust affecting the Mortgaged Property, (iii) the proceeding is permitted under and is conducted in accordance with the provisions, if any, of Credit Agreement and shall not constitute a default thereunder, (iv) neither the Mortgaged Property, or any part thereof nor the Mortgagor shall be affected in any material adverse way as a result of such proceeding, and (v) the Lien has been discharged of record (by payment, bonding or in a manner otherwise reasonably acceptable to the Mortgagee) or if no such Lien has been recorded, Mortgagor shall have furnished such security as may be required in the proceeding, or as may be reasonably requested by Mortgagee, to insure that no environmental lien is recorded and that the payment of any contested sums, together with all interest and penalties thereon as may be necessary to protect the Mortgagor and the Mortgagee from any exposure to liability by reason of such noncompliance pending resolutions of such contest.

(c) If at any time it is determined that the operation or use of any portion of the Mortgaged Property violates any applicable Environmental Laws or that there are Hazardous Materials located at, in, on, or under the Mortgaged Property which, under any Environmental Laws, require special handling in collection, storage, treatment or disposal, or any other form of cleanup or corrective action, the Mortgagor shall, within thirty (30) days after receipt of notice thereof from any Governmental Authority, take, at its sole cost and expense, such actions as may be necessary to fully comply in all respects with all Environmental Laws, provided, however, that if such compliance cannot reasonably be completed within such thirty (30) day period, the Mortgagor shall commence such necessary action within such thirty (30) day period and shall thereafter diligently and expeditiously proceed to fully comply in all respects and in a timely fashion with all Environmental Laws. If the Mortgagor fails to timely take any such action, the Mortgagee may, in its sole and absolute discretion, after five (5) days prior written notice to the Mortgagor make advances or payments towards the performance or satisfaction of the same, but shall in no event be under any obligation to do so.

(d) All sums so advanced or paid by the Mortgagee (including, without limitation, counsel and consultant fees and expenses reasonably incurred, investigation and laboratory fees and expenses, and fines or other penalty payments) and all sums advanced or paid in connection with any judicial or administrative investigation or proceeding relating thereto, will immediately, upon demand, become due and payable from the Mortgagor and shall bear interest at the Default Rate from the date any such sums are so advanced or paid by the Mortgagee until the date any such sums are paid by the Mortgagor to the Mortgagee. The Mortgagor will execute and deliver, promptly upon request, such instruments as may be necessary to cause the Mortgaged Property to secure all sums so advanced or paid by the Mortgagee. If a Lien is filed against the Mortgaged Property by any Governmental Authority in connection with any violation of Environmental Laws and the Mortgagor is not contesting same in accordance with the provisions of Section 1.10 (b), then the Mortgagor will, within thirty (30) days from the date that the

Mortgagor is first aware that such Lien has been placed against the Mortgaged Property (or within such shorter period of time as may be specified by the Mortgagee if such Governmental Authority has commenced steps to cause the Mortgaged Property to be sold pursuant to such Lien) either (i) pay the claim and remove the Lien, or (ii) furnish a cash deposit, bond or such other security with respect thereto as is reasonably satisfactory in all respects to the Mortgagee and is sufficient to effect a complete discharge of such Lien of record.

(e) The Mortgagee may, at its option, at intervals of not less than two years, or more frequently if the Mortgagee reasonably believes that a Hazardous Material or other environmental condition violates or threatens to violate any Environmental Law, cause an environmental audit of the Mortgaged Property or portions thereof to be conducted at the Mortgagor's expense to confirm the Mortgagor's compliance with the provisions of this Section 1.10, and the Mortgagor shall cooperate in all reasonable ways with the Mortgagee in connection with any such audit.

(f) If this Mortgage is foreclosed, or if the Mortgaged Property is sold pursuant to the provisions of this Mortgage, or if the Mortgagor tenders a deed or assignment in lieu of foreclosure or sale, the Mortgagor shall deliver the Mortgaged Property to the purchaser at foreclosure or sale or to the Mortgagee, its nominees, or wholly owned subsidiary, as the case may be, in a condition that complies in all respects with all Environmental Laws. The Mortgagor will defend, protect, indemnify, and hold harmless the Mortgagee and its employees, agents, officers, and directors, from and against any and all claims, demands, penalties, causes of action, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, foreseen or unforeseen, contingent or otherwise (including, without limitation, counsel and consultant fees and expenses reasonably incurred, investigation and laboratory fees and expenses, court costs, and litigation expenses) arising out of, or in any way related to: (i) any breach by the Mortgagor of any of the provisions of this Section 1.10, (ii) the presence, disposal, spillage, discharge, emission, leakage, release, or threatened release of any Hazardous Material which is at, in, on, under, about, from or affecting the Mortgaged Property prior to the date on which title to the Mortgaged Property is transferred to the Mortgagee or its successors and assigns pursuant to foreclosure or deed-in-lieu of foreclosure, including without limitation any damage or injury resulting from any such Hazardous Material to or affecting the Mortgaged Property or the soil, water, air, vegetation, buildings, personal property, persons or animals located on the Mortgaged Property or on any other property or otherwise; (iii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to any such Hazardous Material; (iv) any lawsuit brought or threatened, settlement reached, or order or directive of or by any Governmental Authority relating to such Hazardous Material; or (v) any violation of any Environmental Laws (collectively, "Indemnified Environmental Liabilities"), but excluding any Indemnified Environmental Liabilities to the extent arising on or after the date hereof from the gross negligence or willful misconduct of the Mortgagee or any of its Affiliates. The obligations and liabilities of the Mortgagor under this paragraph shall survive and continue in full force and effect and shall not be terminated, discharged or released, in whole or in part, irrespective of whether the Obligations have been paid in full and irrespective of any foreclosure of this Mortgage, sale of the Mortgaged Property pursuant to the provisions of this Mortgage or acceptance by the Mortgagee, its nominee or wholly owned subsidiary of a deed or assignment in lieu of foreclosure or sale.

1.11 After Acquired Property Interests. All right, title and interest of the Mortgagor in and to the Mortgaged Property, hereafter acquired by the Mortgagor (the "After Acquired Property Interests"), immediately upon such acquisition, and in each such case, without any further mortgage, conveyance, assignment or other act by the Mortgagor, shall become subject to the Lien of this Mortgage. The Mortgagor shall execute and deliver to the Mortgagee all such other mortgages and other agreements as the Mortgagee may reasonably require for the purpose of expressly and specifically subjecting such After Acquired Property Interests to the Lien of this Mortgage.

1.12 Authority of the Mortgagor; Validity. The Mortgagor represents and warrants that its execution and delivery of, and performance under this Mortgage and the other Loan Documents to which it is a party: (i) are within its power; (ii) do not require any government approval (other than the Confirmation Order); (iii) do not materially violate any provisions of law or any order of any court or agency of government, (iv) do not violate the charter documents to which it is a party or any indenture, agreement or any other instrument to which it is a party or by which it is bound on the Effective Date or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument; and (v) constitutes its legal, valid, binding and enforceable obligation, except to the extent that the enforceability of this Mortgage may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally and general principles of equity.

1.13 Additional Debt. The Mortgagor shall not create or suffer to exist any indebtedness which is not permitted under the Credit Agreement or any indebtedness for borrowed money, secured or unsecured, direct or indirect, absolute or contingent (including issuance of any guarantee of such indebtedness).

1.14 Leasing. In respect of each Lease which may be entered into on or after the date hereof, the following shall apply: the Lien and estate, as well as the provisions, terms, and conditions of each Lease shall in all respects be subordinate and junior to the Lien and the provisions terms and conditions of this Mortgage and shall (i) contain an express statement so providing, (ii) be on terms consistent with this Mortgage; (iii) require the tenant thereunder to execute, upon request by the Mortgagee, from time to time, a tenant estoppel certificate and/or subordination agreement, reasonably satisfactory to Mortgagor, and (iv) be for a use and occupancy permitted by applicable law, including Environmental Laws, zoning regulations and building codes. Mortgagor shall be responsible for an act and omission of lessees under the Leases; to the effect that any such acts or omissions by such lessees shall constitute a breach by the Mortgagor hereunder if and to the extent same would be a breach if committed by the Mortgagor itself.

ARTICLE II

SECURITY AGREEMENT

2.01 Grant of Security; Incorporation by Reference.

In addition to constituting a mortgage Lien on those portions of the Mortgaged Property classified as real property (including Fixtures to the extent they are real property), this Mortgage

shall constitute a security agreement within the meaning of the Uniform Commercial Code with respect to those parts of the Mortgaged Property classified as personal property, including Fixtures to the extent they are personal property.

2.02 Fixture Filing and Financing Statements.

This Mortgage constitutes a security agreement, fixture filing and financing statement as those terms are used in the Uniform Commercial Code. For purposes of this Section 2.02, this Mortgage is to be filed and recorded in, among other places, the real estate records of Tulsa County, Oklahoma, in which the Land is located and the following information is included: (1) the Mortgagor shall be deemed the "Debtor" with the address set forth for the Mortgagor on the first page of this Mortgage which the Mortgagor certifies is accurate; (2) the Mortgagee shall be deemed to be the "Secured Party" with the address set forth for the Mortgagee on the first page of this Mortgage and shall have all of the rights of a secured party under the Uniform Commercial Code; (3) this Mortgage covers goods which are or are to become Fixtures and the portions of the Mortgaged Property which are or may become Fixtures are described by item or type in the granting clauses hereof; (4) the name of the record owner of the Land is the Debtor; (5) the organizational identification number of the Debtor is 73-1619292; (6) the Debtor is a limited liability company, organized under the laws of the State of Delaware; and (7) the legal name of the Debtor is Williams Technology Center, LLC. The Debtor hereby authorizes the Mortgagee to file any financing statements covering the Mortgaged Property and terminations thereof or amendments or modifications thereto without the signature of the Debtor where permitted by applicable law.

ARTICLE III

ASSIGNMENT OF LEASES, RENTS AND PROFITS

3.01 Assignment. The Mortgagor hereby absolutely, irrevocably and unconditionally sells, assigns, transfers and conveys to the Mortgagee all of the Mortgagor's right, title and interest in and to all current and future Leases and Rents, including those Rents now due, past due, or to become due by virtue of any Lease. The Mortgagor intends that this assignment constitute a present and absolute assignment and not an assignment for additional security only. Such assignment to the Mortgagee shall not be construed to bind the Mortgagee to the performance of any of the covenants, conditions or provisions contained in any Lease or otherwise impose any obligation upon the Mortgagee. If an Event of Default shall have occurred and be continuing, the Mortgagor covenants that it will not thereafter collect or accept payment of any Rents more than one month prior to the due dates of such Rents and that no Rents will be waived, released, reduced, discounted or otherwise discharged or compromised by the Mortgagor, except with respect to Leases of less than 10,000 square feet or as may be previously approved in writing by the Mortgagee. The Mortgagor agrees that it will not assign any of the Leases or Rents to any other Person, except for Permitted Transfers. The Mortgagee shall have no liability for any loss which may arise from a failure or inability to collect any Rents. The Mortgagor shall maintain all security deposits in accordance with applicable law.

3.02 Revocable License; Agent. Notwithstanding the foregoing, but subject to the terms of this Article III, the Mortgagee hereby grants to the Mortgagor a revocable license to

enter into, modify, administer and otherwise deal with all Leases and to collect the Rents and hereby directs each tenant under a Lease to pay such Rents to, or at the direction, of the Mortgagor, until such time as the Mortgagee provides notice to the contrary to such tenants. Any Rents received by Mortgagor in good funds, shall be held by the Mortgagor in trust for the benefit of Mortgagee for application to the then currently due and next accruing portion of the Obligations, up to but not in excess of the then currently due or next accruing portion of the Obligations, provided however, so long as an Event of Default has not occurred and is continuing, the Mortgagor may transfer any Rents received to a third party and shall not be required to keep any such trust funds in a segregated account and Mortgagor may commingle such trust funds with other general funds of Mortgagor.

3.03 Rents.

(a) If an Event of Default shall have occurred and be continuing, the Mortgagee may by notice to the Mortgagor, terminate the license granted in Section 3.02 hereof and the Mortgagee shall immediately and automatically be entitled to possession of all Rents, regardless whether the Mortgagee enters upon or takes control of the Mortgaged Property. Upon the revocation of such license, the Mortgagor grants to the Mortgagee the right, at its option, to exercise all the rights granted in Section 4.02(a) hereof. Nothing herein contained shall be construed as constituting the Mortgagee a mortgagee or trustee in possession in the absence of the taking of actual possession of the Mortgaged Property by the Mortgagee pursuant to such Section 4.02(a).

(b) From and after the termination of such license, the Mortgagor shall, if the Mortgagee so directs in writing, be the agent for the Mortgagee for collection of the Rents and all of the Rents so collected by the Mortgagor shall be held in trust by the Mortgagor for the sole and exclusive benefit of the Mortgagee and the Mortgagor shall, within two (2) Business Days after receipt of any Rents, pay the same to the Mortgagee to be applied by the Mortgagee as provided herein. All Rents collected shall be applied against all expenses of collection (including, but not limited to, attorneys' fees), costs of operation and management of the Mortgaged Property reasonably incurred and the Obligations, in whatever order or priority as to any of such items as the Mortgagee directs in its sole and absolute discretion and without regard to the adequacy of its security. Neither demand for nor collection of Rents by the Mortgagee shall constitute any assumption by the Mortgagee of any obligations under any Lease or agreement relating thereto.

(c) Any funds reasonably expended by the Mortgagee during the existence of an Event of Default to take control of and manage the Mortgaged Property and collect the Rents shall become part of the Obligations secured hereby. Such amounts shall be payable upon demand given by the Mortgagor to the Mortgagee and shall bear interest from the date of expenditure at the Default Rate set forth in the Note.

3.4 Sale of Mortgaged Property.

(a) Upon any permitted sale of the Mortgaged Property by or for the benefit of the Mortgagee pursuant to this Mortgage, the Rents shall be included in such sale and shall pass to the purchaser free and clear of any rights granted herein to the Mortgagor.

(b) The Mortgagor acknowledges and agrees that, upon recordation of this Mortgage, the Mortgagee's interest in the Rents shall be deemed to be fully perfected, "choate" and enforceable against the Mortgagor and all third parties, including, without limitation, any debtor in possession or trustee in any case under the Bankruptcy Code, without the necessity of (i) commencing a foreclosure action with respect to this Mortgage, (ii) furnishing notice to the Mortgagor or tenants under the Leases, (iii) making formal demand for the Rents, (iv) taking possession of the Mortgaged Property as a lender-in-possession, (v) obtaining the appointment of a receiver of the Rents, (vi) sequestering or impounding the Rents or (vii) taking any other affirmative action.

3.05 Bankruptcy Provisions. Without limiting the provisions of this Article III or the absolute nature of the assignment of the Rents hereunder, the Mortgagor and the Mortgagee agree that, to the extent that the assignment of the Rents hereunder is deemed to be other than an absolute assignment, (a) this Mortgage shall constitute a "security agreement" for purposes of Section 552(b) of the Bankruptcy Code, (b) the security interest created by this Mortgage extends to the property intended to be covered by this Mortgage which is acquired before the commencement of a bankruptcy case and to all amounts paid as Rents and (c) such security interest shall extend to all Rents acquired by the estate after the commencement of any bankruptcy case. Without limiting the absolute nature of the assignment of the Rents hereunder, to the extent the Mortgagor (or the Mortgagor's bankruptcy estate) shall be deemed to hold any interest in the Rents after the commencement of a voluntary or involuntary bankruptcy case, the Mortgagor hereby acknowledges and agrees that such Rents are and shall be deemed to be "cash collateral" under Section 363 of the Bankruptcy Code.

ARTICLE IV

EVENTS OF DEFAULT AND REMEDIES

4.01 Events of Default. The occurrence of any of the following events, shall constitute an event of default (each an "Event of Default") hereunder:

(a) any failure to make any payment in respect of the Obligations when and as same shall become due (subject to any applicable grace periods), including without limitation, any payment to be made by the Mortgagor pursuant to Paragraph 13 of the Notes, whether at the due date thereof or a date fixed for prepayment thereof or otherwise and such failure shall continue for a period of five (5) days;

(b) a default shall occur under any one or more of Sections 1.05, 1.09, 1.10 or 1.13 and such default is not cured prior to the expiration of any applicable grace periods;

(c) a default by the Mortgagor and/or any Guarantor in the due observance or performance of any other covenant or agreement in the Notes, this Mortgage or in any of the other Loan Documents (other than those defaults specified in subsections (a) and (b) of this Section) and such default shall continue for a period of thirty (30) days after notice thereof shall have been given to the Mortgagor by the Mortgagee; provided, however, that if such default shall not be curable within said thirty (30) day period, then so long as the Mortgagor is diligently and continuously proceeding to cure such default, then such default shall not constitute an Event of

Default unless it shall continue uncured for one hundred twenty (120) days after the giving by the Mortgagee of such notice to the Mortgagor;

(d) by order of a court of competent jurisdiction, a trustee, receiver or liquidator shall be appointed with respect to the Mortgaged Property, the Mortgagor, any Guarantor and such order shall not be discharged or dismissed within sixty (60) days after such appointment;

(e) the Mortgagor and/or any Guarantor shall file a petition in bankruptcy or for an arrangement or for reorganization pursuant to the United States Federal Bankruptcy Code, or the Mortgagor or any Guarantor shall be adjudicated a bankrupt by a court of competent jurisdiction, or the Mortgagor and/or any Guarantor shall make an assignment for the benefit of creditors, or the Mortgagor shall consent to the appointment of a receiver or receivers of all or any part of the Mortgaged Property;

(f) any of the creditors of the Mortgagor and/or any Guarantor shall file a petition in bankruptcy against the Mortgagor and/or for reorganization pursuant to the United States Federal Bankruptcy Code and such petition shall not be discharged or dismissed within sixty (60) days after the date on which such petition was filed;

(g) the rendering of a final judgment or judgment for the payment of money, not subject to appeal or covered by insurance under a policy under which the insurer shall, in writing, have accepted defense and liability, against the Mortgagor in an aggregate amount in excess of $2,000,000 and same is not discharged or otherwise satisfied within sixty (60) days from the entry date thereof; and

(h) any representation or warranty made by the Mortgagor and/or any Guarantor in any of the Loan Documents shall have been false or misleading in any material respect as of the date such representation or warranty was made.

4.02 Remedies Upon Default. If an Event of Default shall have occurred and be continuing, the Mortgagee may, in the Mortgagee's sole discretion, either itself or by or through one or more trustees, agents, nominees, assignees or otherwise, to the fullest extent permitted by law, exercise any or all of the following rights and remedies individually, collectively or cumulatively:

(a) either in person or by its agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, (i) enter upon and take possession of the Mortgaged Property or any part thereof and of all books, records and accounts directly relating thereto, and without in any event being constituted a mortgagee-in-possession in its own name or in the name of the Mortgagor, and do or cause to be done any acts which it deems necessary or desirable to preserve the value of the Mortgaged Property or any part thereof or interest therein, increase the income therefrom or protect the security hereof; (ii) with or without taking possession of the Mortgaged Property make such repairs, alterations, additions and improvements as the Mortgagee deems necessary or desirable and do any and all acts and perform any and all work which the Mortgagee deems necessary or desirable to complete any unfinished construction on the Mortgaged Property; (iii) make, cancel or modify Leases and sue for or otherwise collect the Rents thereof, including those past due and unpaid;

(iv) make any payment or perform any act which the Mortgagor has failed to make or perform hereunder; (v) appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of the Mortgagee; (vi) pay, purchase, contest or compromise any encumbrance, charge or Lien on the Mortgaged Property; and (vii) take such other actions as the Mortgagee deems necessary or reasonably desirable in accordance with applicable law;

(b) commence and maintain one or more actions at law or in equity or by any other appropriate remedy (i) to protect and enforce the Mortgagee's rights hereunder, including for the specific performance of any covenant or agreement herein contained (which covenants and agreements the Mortgagor agrees shall be specifically enforceable by injunctive or other appropriate equitable remedy), (ii) to collect any sum then due hereunder, (iii) to aid in the execution of any power herein granted, or (iv) to foreclose this Mortgage in accordance with Section 4.03 hereof;

(c) exercise any or all of the remedies available to a secured party under the Uniform Commercial Code;

(d) without notice or demand, presentment, notice of intention to accelerate or of acceleration, protest or notice of protest, all of which are hereby waived by the Mortgagor, declare all of the Obligations immediately due and payable, and upon such declaration all of such Obligations shall become and be immediately due and payable, anything in this Mortgage or the other Loan Documents to the contrary notwithstanding; and

(e) exercise any other right or remedy available to the Mortgagee under the Loan Documents.

4.03 Right of Foreclosure.

(a) If an Event of Default shall have occurred and be continuing, the Mortgagee shall have the right, in its sole discretion, to proceed at law or in equity to foreclose this Mortgage with respect to all or any portion of the Mortgaged Property, either by judicial action or by power of sale. The Mortgagor hereby grants to and confers upon the Mortgagee the power to sell the Mortgaged Property or any portion thereof in the manner and pursuant to the procedures set forth in the Oklahoma Power of Sale Mortgage Foreclosure Act, 46 O.S. Sections 40-49, as amended and in effect from time to time (the "Act") or pursuant to other applicable statutory or judicial authority. If no cure is effected within the time limits set forth in the Act, the Mortgagee may accelerate the Obligations without further notice and may then proceed in the manner and subject to the conditions of the Act to send to the Mortgagor and other necessary parties a notice of sale and may sell and convey the Mortgaged Property in accordance with the Act. The Mortgagee may foreclose this Mortgage by exercising said power of sale or, at the Mortgagee's sole option, by judicial foreclosure proceedings as provided by law. No action of the Mortgagee based upon the provisions contained herein or in the Act, including, without limitation, the giving of the notice of intent to foreclose by power of sale or the notice of sale, shall constitute an election of remedies which would preclude the Mortgagee from accelerating the Obligations and pursuing judicial foreclosure before or at any time after commencement of the power of sale foreclosure procedure. If the Mortgaged Property consists of several lots,

parcels or items of Mortgaged Property, the Mortgagee may, in its sole discretion: (i) designate the order in which such lots, parcels or items shall be offered for sale or sold, or (ii) elect to sell such lots, parcels or items through a single sale, or through two or more successive sales, or in any other manner the Mortgagee may elect. Should the Mortgagee desire that more than one sale or other disposition of the Mortgaged Property be conducted, the Mortgagee may, at its option, cause the same to be conducted simultaneously, or successively, on the same day, or at such different days or times and in such order as the Mortgagee may elect, and no such sale shall terminate or otherwise affect the lien of this Mortgage on any part of the Mortgaged Property not sold until all Obligations have been fully paid in cash and performed. The Mortgagee may elect to sell the Mortgaged Property for cash or credit. The Mortgagee may, to the extent permitted by law, adjourn from time to time any sale by it to be made under or by virtue of this Mortgage by announcement at the time and place appointed for such sale or for such adjourned sale or sales; and, to the extent permitted by law, the Mortgagee may make such sale at the time and place to which the same shall be so adjourned. Following the occurrence and during the continuance of an Event of Default, with respect to all components of the Mortgaged Property, the Mortgagee is hereby appointed the true and lawful attorney-in-fact of the Mortgagor (which appointment is irrevocable and coupled with an interest), in its name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the Mortgaged Property, and for that purpose the Mortgagee may execute all necessary instruments of conveyance, assignment, transfer and delivery, and may substitute one or more persons with such power, the Mortgagor hereby ratifying and confirming all that its said attorney-in-fact or such substitute or substitutes shall lawfully do by virtue hereof. Notwithstanding the foregoing, the Mortgagor, if so requested by the Mortgagee, shall ratify and confirm any such sale or sales by executing and delivering to the Mortgagee or to such purchaser or purchasers all such instruments as may be advisable, in the judgment of the Mortgagee, for such purpose, and as may be designated in such request. To the extent permitted by law, any such sale or sales made under or by virtue of this Article IV shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of the Mortgagor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against the Mortgagor and against any and all persons claiming or who may claim the same, or any part thereof, from, through or under the Mortgagor. Upon any sale made under or by virtue of this Article IV, the Mortgagee may, to the extent permitted by law, bid for and acquire the Mortgaged Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the Obligations secured hereby the net sale price after deducting therefrom the expenses of the sale and the cost of the action and any other sums which the Mortgagee is authorized to deduct by law or under this Mortgage.

(b) Any foreclosure of this Mortgage and any other transfer of all or any part of the Mortgaged Property in extinguishment of all or any part of the Obligations may, at the Mortgagee's option, be subject to any or all Leases of all or any part of the Mortgaged Property and the rights of tenants under such Leases. No failure to make any such tenant a defendant in any foreclosure proceedings or to foreclose or otherwise terminate any such Lease and the rights of any such tenant in connection with any such foreclosure or transfer shall be, or be asserted to be, a defense or hindrance to any such foreclosure or transfer or to any proceedings seeking collection of all or any part of the Obligations (including, without limitation, any deficiency remaining unpaid after completion of any such foreclosure or transfer).

(c) If the Mortgagor retains possession of the Mortgaged Property or any part thereof subsequent to a sale, the Mortgagor will be considered a tenant at sufferance of the purchaser, and will, if the Mortgagor remains in possession after demand to remove, be guilty of forcible detainer and will be subject to eviction and removal, forcible or otherwise, with or without process of law, and all damages to the Mortgagor by reason thereof are hereby expressly waived by the Mortgagor.

4.04 Application of Proceeds. The proceeds of any sale of, and the Rents and other amounts generated by the holding, leasing, management, operation or other use of, the Mortgaged Property pursuant to this Mortgage shall be applied by the Mortgagee (or the receiver, if one is appointed) to the Obligations in such order and amounts as the Mortgagee determines in its sole discretion.

4.05 Appointment of Receiver. Upon the occurrence and during the continuance of an Event of Default, the Mortgagee as a matter of strict right and without notice to the Mortgagor or anyone claiming under the Mortgagor, and without regard to the adequacy or the then value of the Mortgaged Property or the interest of the Mortgagor therein or the solvency of any party bound for payment of the Obligations, the Mortgagee shall have the right to apply to any court of competent jurisdiction to appoint a receiver or receivers of the Mortgaged Property, and the Mortgagor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have all the usual rights, powers and duties of receivers in like or similar cases and all the rights, powers and duties of the Mortgagee in case of entry as provided in Section 4.02 hereof, including, but not limited to, the full power to rent, maintain and otherwise operate the Mortgaged Property upon such terms as are approved by such court and shall continue as such and exercise all such powers until the date of confirmation of sale of the Mortgaged Property unless such receivership is sooner terminated.

4.06 Exercise of Rights and Remedies. The entering upon and taking possession of the Mortgaged Property, the collection of any Rents and the exercise of any of the other rights contained in this Article IV, shall not, alone, cure or waive any Event of Default or notice of default hereunder or invalidate any act done in response to such Event of Default or pursuant to such notice of default and, notwithstanding the continuance in possession of the Mortgaged Property or the collection, receipt and application of Rents, the Mortgagee shall be entitled to exercise every right provided for herein or in the other Loan Documents, or at law or in equity upon the occurrence of any Event of Default.

4.07 Remedies Not Exclusive. The Mortgagee shall be entitled to enforce payment and performance of the Obligations and to exercise all rights and powers under this Mortgage or any of the other Loan Documents or any laws now or hereafter in force, notwithstanding that some or all of the Obligations may now or hereafter be otherwise secured, whether by mortgage, deed of trust, security deed, pledge, lien, assignment or otherwise. Neither the acceptance of this Mortgage or its enforcement, whether by court action or pursuant to the powers herein contained, shall prejudice or in any manner affect the Mortgagee's right to realize upon or enforce any other security now or hereafter held by the Mortgagee, it being agreed that the Mortgagee shall be entitled to enforce this Mortgage and any other security now or hereafter held by the Mortgagee in such order and manner as it may in its absolute and sole discretion and election determine. No remedy herein conferred upon or reserved to the Mortgagee is intended to be exclusive of any

other remedy herein or in any of the other Loan Documents or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy to which the Mortgagee is entitled may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Mortgagee, and the Mortgagee may pursue inconsistent remedies. No delay or omission of the Mortgagee to exercise any right or power accruing upon any Event of Default shall impair any right or power or shall be construed as a waiver of any Event of Default or any acquiescence therein. If the Mortgagee shall have proceeded to invoke any right or remedy hereunder or under the other Loan Documents and shall thereafter elect to discontinue or abandon it for any reason, the Mortgagee shall have the unqualified right to do so and, in such an event, the rights and remedies of the Mortgagee shall continue as if such right or remedy had never been invoked and no such discontinuance or abandonment shall waive any Event of Default which may then exist or the right of the Mortgagee thereafter to exercise any right or remedy under the Loan Documents for such Event of Default.

4.08 WAIVER OF REDEMPTION, NOTICE, MARSHALLING, ETC. NOTWITHSTANDING ANYTHING HEREIN CONTAINED TO THE CONTRARY, TO THE EXTENT PERMITTED BY LAW, THE MORTGAGOR: (A) ACKNOWLEDGING THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO ITS RIGHTS HEREUNDER, WILL NOT (I) AT ANY TIME INSIST UPON, OR PLEAD, OR IN ANY MANNER WHATSOEVER, CLAIM OR TAKE ANY BENEFIT OR ADVANTAGE OF ANY STAY OR EXTENSION OR MORATORIUM LAW, ANY LAW RELATING TO THE ADMINISTRATION OF ESTATES OF DECEDENTS, REDEMPTION, STATUTORY RIGHT OF REDEMPTION, OR THE MATURING OR DECLARING DUE OF THE WHOLE OR ANY PART OF THE OBLIGATIONS, NOTICE OF INTENTION OF SUCH MATURING OR DECLARING DUE, OTHER NOTICE (WHETHER OF DEFAULTS, ADVANCES, THE CREATION, EXISTENCE, EXTENSION OR RENEWAL OF ANY OF THE OBLIGATIONS OR OTHERWISE, EXCEPT FOR RIGHTS TO NOTICES EXPRESSLY GRANTED HEREIN OR IN THE LOAN DOCUMENTS), SUBROGATION, ANY SET-OFF RIGHTS, HOMESTEAD OR ANY OTHER EXEMPTIONS FROM EXECUTION OR SALE OF THE MORTGAGED PROPERTY OR ANY PART THEREOF, WHEREVER ENACTED, NOW OR AT ANY TIME HEREAFTER IN FORCE, WHICH MAY AFFECT THE COVENANTS AND TERMS OF PERFORMANCE OF THIS MORTGAGE, OR (II) AFTER ANY SUCH SALE OR SALES, CLAIM OR EXERCISE ANY RIGHT UNDER ANY STATUTE HERETOFORE OR HEREAFTER ENACTED TO REDEEM THE MORTGAGED PROPERTY SO SOLD OR ANY PART THEREOF; AND (B) COVENANTS NOT TO HINDER, DELAY OR IMPEDE THE EXECUTION OF ANY POWER HEREIN GRANTED OR DELEGATED TO THE MORTGAGEE, BUT TO SUFFER AND PERMIT THE EXECUTION OF EVERY POWER AS THOUGH NO SUCH LAW OR LAWS HAD BEEN MADE OR ENACTED. THE MORTGAGOR, FOR ITSELF AND ALL WHO MAY CLAIM UNDER IT, WAIVES, TO THE EXTENT THAT IT LAWFULLY MAY, ALL RIGHT TO HAVE THE MORTGAGED PROPERTY MARSHALLED UPON ANY FORECLOSURE HEREOF. APPRAISEMENT OF THE MORTGAGED PROPERTY IS HEREBY WAIVED OR NOT WAIVED AT THE OPTION OF THE MORTGAGEE, SUCH OPTION TO BE EXERCISED AT OR PRIOR TO THE ENTRY OF JUDGMENT IN ANY FORECLOSURE ACTION.

4.09 Expenses of Enforcement. In connection with any action to enforce any remedy of the Mortgagee under this Mortgage, the Mortgagor agrees to pay all out-of-pocket costs and expenses which may be reasonably paid or incurred by or on behalf of the Mortgagee, including, without limitation, reasonable attorneys' fees, receiver's fees, appraiser's fees, outlays for documentary and expert evidence, stenographer's charges, publication costs, and costs (which may be estimated as to items to be expended after entry of the decree) of procuring all such abstracts of title, title searches and examinations, title insurance policies and similar data and assurances with respect to title and value as the Mortgagee may deem necessary or desirable, and neither the Mortgagee nor any other Person shall be required to accept tender of any portion of the Obligations unless the same be accompanied by a tender of all such expenses, costs and commissions. All of the costs and expenses described in this Section 4.09 and such expenses and fees as may be reasonably incurred by the Mortgagee in any litigation or proceeding (including appellate proceedings) arising from the enforcement of this Mortgage or the Mortgaged Property (including, without limitation, the occupancy thereof or any construction work performed thereon), including bankruptcy proceedings, or in preparation for the commencement or defense of any such proceeding or such threatened suit or proceeding whether or not an action is actually commenced, shall be immediately due and payable by the Mortgagor, with interest thereon at the Default Rate and shall be part of the Obligations secured by this Mortgage.

4.10 Indemnity.

(a) The Mortgagor agrees to indemnify, reimburse and hold the Mortgagee and its successors, permitted assigns, employees, affiliates and agents (hereinafter in this Section 4.10 referred to individually as "Indemnitee," and collectively as "Indemnitees") harmless from any and all liabilities, obligations, damages, penalties, claims, demands, actions, suits, judgments and any and all costs, expenses or disbursements (including attorneys' fees and expenses reasonably incurred) (for the purposes of this Section 4.10 the foregoing are collectively called "expenses") (collectively the "Indemnified Liabilities") of whatsoever kind and nature imposed on, asserted against or reasonably incurred by any of the Indemnitees relating to or arising out of this Mortgage or in connection with the administration of the transactions contemplated hereby or the enforcement of any of the terms of, or the preservation of any rights under this Mortgage, or in any way relating to or arising out of the manufacture, ownership, ordering, purchase, delivery, control, acceptance, lease, financing, possession, operation, condition, sale, return or other disposition, or use of the Mortgaged Property (including, without limitation, latent or other defects, whether or not discoverable), the violation of the laws of any country, state or other governmental body or unit, any tort (including, without limitation, claims arising or imposed under the doctrine of strict liability, or for or on account of injury to or the death of any person (including any Indemnitee), or property damage), or contract claim; provided that no Indemnitee shall be indemnified pursuant to this Section 4.10 for Indemnified Liabilities to the extent caused by the gross negligence or willful misconduct of such Indemnitee (as determined by a court of competent jurisdiction in a final and non-appealable decision) on or after the date hereof. The Mortgagor agrees that upon notice by any Indemnitee of the assertion of an Indemnified Liability, the Mortgagor shall assume full responsibility for the defense thereof. Each Indemnitee agrees to use its best efforts to promptly notify the Mortgagor of any such assertion of which such Indemnitee has knowledge.

(b) If and to the extent that the obligations of the Mortgagor under this Section 4.10 are unenforceable pursuant to applicable law, the Mortgagor hereby agrees to the extent permitted by applicable law to make the maximum contribution to the payment and satisfaction of such obligations which is permissible under applicable law.

4.11 Indemnity Obligations Secured by Mortgaged Property; Survival. Any amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement from Mortgagor pursuant to this Mortgage or any other Loan Document shall constitute Obligations secured by the Mortgaged Property. The indemnity obligations of the Mortgagor contained in this Article IV shall continue in full force and effect notwithstanding the full payment of all of the other Obligations and notwithstanding the full payment of all principal and interest payable under the Note and the discharge of the lien of this Mortgage.

ARTICLE V

ADDITIONAL REMEDIES

5.01 Additional Remedies.

(a) The Mortgagor acknowledges and agrees that the Obligations are secured by the Mortgaged Property. The Mortgagor specifically acknowledges and agrees that the Mortgaged Property, in and of itself, if foreclosed or realized upon might not be sufficient to satisfy the outstanding amount of the Obligations. Accordingly, the Mortgagor acknowledges that any other assets of the Mortgagor may be pursued by the Mortgagee in separate proceedings in the various States, counties and other countries where such assets may be located and additionally that the Mortgagor and the Guarantors will remain liable for any deficiency judgments in addition to any amounts the Mortgagee may realize on sales of such other property or any other assets of such parties. Specifically, and without limitation of the foregoing, it is agreed that it is the intent of the Mortgagor and the Mortgagee that in the event of a foreclosure of this Mortgage, the Obligations shall not be deemed merged into any judgment of foreclosure, but rather shall remain outstanding. It is the further intent and understanding of the Mortgagor and the Mortgagee that if an Event of Default shall have occurred and be continuing, the Mortgagee may pursue all Mortgaged Property with the Obligations remaining outstanding and in full force and effect notwithstanding any judgment of foreclosure or any other judgment which the Mortgagee may obtain.

(b) The Mortgagor waives and relinquishes any and all rights it may have, whether at law or equity, to require the Mortgagee to proceed to enforce or exercise any rights, powers and remedies it may have under the Loan Documents in any particular manner or in any particular order. Furthermore, the Mortgagor acknowledges and agrees that the Mortgagee shall be allowed to enforce payment and performance of the Obligations and to exercise all rights and powers provided under this Mortgage, or the other Loan Documents or under any provision of law, by one or more proceedings, (whether contemporaneous, consecutive or both). Neither the acceptance of this Mortgage or any other Loan Document nor the enforcement in one proceeding, whether by court action, power of sale, or otherwise, shall prejudice or in any way limit or preclude enforcement of such documents through one or more additional proceedings.

(c) The Mortgagor further agrees that any particular remedy or proceeding, including, without limitation, foreclosure through court action (in a state or federal court) or power of sale, may be brought and prosecuted as to all or any part of the Mortgaged Property, wherever located, without regard to the fact that any one or more prior or contemporaneous proceedings have been situated elsewhere with respect to the same or any other part of the Mortgaged Property.

(d) The Mortgagee may resort to any other security of the Mortgaged Property held by the Mortgagee for the payment of the Obligations in such order and manner as the Mortgagee may elect.

(e) Notwithstanding anything contained herein to the contrary, the Mortgagee shall be under no duty to the Mortgagor or others, including, without limitation, the holder of any junior, senior or subordinate mortgage on the Mortgaged Property or any part thereof or on any other security held by the Mortgagee, to exercise or exhaust all or any of the rights, powers and remedies available to the Mortgagee.

(f) Notwithstanding anything contained herein to the contrary, if an Event of Default occurs (i) the Mortgagee shall endeavor to give the Administrative Agent a courtesy copy of any notice of such default simultaneously with its giving of any such notice to the Mortgagor to the extent that the Mortgagor is required to receive notice thereof under the Loan Documents, provided that, in no event shall the Mortgagee's failure to give such notice to the Administrative Agent preclude or in any way limit the Mortgagee's rights or remedies pursuant to this Mortgage or the other Loan Documents; and (ii) to the extent the Mortgagor can cure such default under the Loan Documents, the Mortgagee shall accept such cure directly from the Administrative Agent if so tendered.

ARTICLE VI

MISCELLANEOUS

6.01 Governing Law. The provisions of this Mortgage shall be governed by and construed under the laws of the State of Oklahoma.

6.02 Limitation on Interest. It is the intent of the Mortgagor and the Mortgagee in the execution of this Mortgage and all other Loan Documents to contract in strict compliance with applicable usury laws. In furtherance thereof, the Mortgagee and the Mortgagor stipulate and agree that none of the terms and provisions contained in this Mortgage shall ever be construed to create a contract for the use, forbearance or retention of money requiring payment of interest at a rate in excess of the maximum interest rate permitted to be charged under applicable law. If this Mortgage or any other Loan Documents violate any such applicable usury law, then the interest rate payable in respect of the Notes shall be the highest rate permissible under applicable law. The right to accelerate the Notes pursuant to Section 4.02 hereof does not include a right to require payment of any interest which has not otherwise accrued by the date of such acceleration, and Lender does not intend to collect any unearned interest in the event of acceleration; provided, however, that Lender shall, to the extent specified herein, be entitled to receive interest at the applicable rate herein specified on any amounts payable pursuant to this Mortgage through the date collected.

6.03 Notices. Except as otherwise expressly provided herein, all notices, requests, demands or other communications provided for hereunder shall be in writing and mailed, transmitted via facsimile, or delivered via courier service: if to the Mortgagor, at its address set forth in the first paragraph hereof, Attention: General Counsel, facsimile (918) 547-2360; if to the Mortgagee, at its address set forth in the first paragraph hereof, with copy to White & Case LLP at 1155 Avenue of the Americas, New York, NY 10036, Attention: John Reiss, Esq. and Roger Noble, Esq., facsimile (212) 354-8113; if to the Administrative Agent for the purposes set forth in Section 5.01(f), at Bank of America, N.A. 901 Main Street, 66th Floor, Dallas, Texas 75202-3714, Attention: John W. Woodiel III, facsimile, (214) 209-3533, with a copy to Clifford Chance US LLP, 200 Park Avenue, New York, NY 10166, Attention: Dawn Goldberg, Esq., facsimile (212) 878-8375; or at such other address as shall be designated by such party in a written notice to the other parties hereto. All notices required or permitted hereunder shall be given either by (a) personal delivery, (b) professional expedited delivery service (postage prepaid), (c) facsimile (provided that a confirmation copy immediately follows by any of the other methods of delivery permitted herein), or (d) certified mail return receipt requested (postage prepaid), and if so given, shall be deemed to have been given either at the time of personal delivery, or, in the case of expedited delivery service, as of the date of delivery or the date of attempted or refused delivery at the address or in the manner provided herein, or, in the case of facsimile with confirmation as required above, upon receipt or, in the case of certified mail, five (5) Business Days after posting with the U.S. Postal Service.

6.04 Captions. The captions or headings at the beginning of each Article and Section hereof are for the convenience of the parties hereto and are not a part of this Mortgage.

6.05 Amendment. None of the terms and conditions of this Mortgage may be changed, waived, modified or varied in any manner whatsoever except with the prior written consent of the Mortgagee and the Mortgagor.

6.06 Obligations Absolute. Except to the extent, if any, otherwise expressly hereafter agreed by the Mortgagee and the Mortgagor by an amendment pursuant to Section 6.05, the obligations of the Mortgagor hereunder shall remain in full force and effect without regard to, and shall not be impaired by, (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Mortgagor; (b) any exercise or non-exercise, or any waiver of, any right, remedy, power or privilege under or in respect of this Mortgage or any other Loan Document; or (c) any amendment to or modification of any Loan Document; whether or not the Mortgagor shall have notice or knowledge of any of the foregoing.

6.07 Further Assurances. The Mortgagor shall, upon the reasonable request of the Mortgagee and at the expense of the Mortgagor: (a) promptly correct any defect, error or omission which may be discovered in this Mortgage or any UCC financing statements filed in connection herewith; (b) promptly execute, acknowledge, deliver and record or file, as applicable, such further agreements, instruments and documents (including, without limitation, further mortgages, deeds of trust, security deeds, security agreements, financing statements, continuation statements and assignments of rents or leases) and promptly do such further acts as may be necessary or reasonably desirable to carry out the terms and purposes of this Mortgage and to subject to the Liens and security interests hereof, any of the Mortgaged Property; and (c) promptly execute, acknowledge, deliver, procure and record or file any document or

instrument (including specifically any financing statement) reasonably required by the Mortgagee to protect, continue or perfect the liens or the security interests hereunder against the rights or interests of third persons.

6.08 Partial Invalidity. If any of the provisions of this Mortgage or the application thereof to any person, party or circumstances shall to any extent be invalid or unenforceable, the remainder of this Mortgage, or the application of such provision or provisions to persons, parties or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected thereby, and every provision of this Mortgage shall be valid and enforceable to the fullest extent permitted by law.

6.09 Partial Releases. No release from the lien of this Mortgage of any part of the Mortgaged Property by the Mortgagee shall in any way alter, vary or diminish the force or effect of this Mortgage on the balance of the Mortgaged Property or the priority of the lien of this Mortgage on the balance of the Mortgaged Property.

6.10 RESERVED.

6.11 Covenants Running with the Land. All Obligations are intended by the Mortgagor and the Mortgagee to be, and shall be construed as, covenants running with the Mortgaged Property. As used herein, "Mortgagor" shall refer to the party named in the first paragraph of this Mortgage and to any subsequent owner of any interest in all or any portion of the Mortgaged Property. All persons who may have or acquire an interest in the Mortgaged Property shall be deemed to have notice of, and be bound by, the terms of the Notes and the other Loan Documents; provided, however, that no such party shall be entitled to any rights thereunder without prior written consent of the Mortgagee.

6.12 Successors and Assigns. This Mortgage shall be binding upon and inure to the benefit of the Mortgagee and the Mortgagor and their respective successors and assigns. Except as otherwise permitted by the Notes, the Mortgagor shall not assign any rights, duties, or obligations hereunder.

6.13 Purpose of Notes. The Mortgagor hereby represents and agrees that the Notes secured by this Mortgage are being obtained for business or commercial purposes, and the proceeds thereof will not be used for personal, family, residential, household or agricultural purposes.

6.14 No Joint Venture or Partnership. The relationship created hereunder and under the other Loan Documents is that of creditor/debtor. The Mortgagee does not owe any fiduciary obligation to the Mortgagor and/or any of the Mortgagor's officers, partners, agents, or representatives pursuant to the Loan Documents. Nothing herein or in any other Loan Document is intended to create a joint venture, partnership, tenancy-in-common or joint tenancy relationship between the Mortgagor and the Mortgagee.

6.15 RESERVED.

6.16 Full Recourse. This Mortgage is made with full recourse to the Mortgagor and to all assets of the Mortgagor, including the Mortgaged Property and pursuant to and upon all the

warranties, representations, covenants and agreements on the part of the Mortgagor contained herein and in the other Loan Documents, provided that such recourse shall not extend to (i) any officer, director, employee, agent or representative of (x) the Mortgagor or (y) any Guarantor or (ii) any shareholder of WCG (except to the extent that the Mortgagor or any Guarantor is a shareholder of WCG).

6.17 RESERVED.

6.18 Acknowledgment of Receipt. The Mortgagor hereby acknowledges receipt of a true copy of this Mortgage.

6.19 Release Upon Full Payment. Following the Termination Date (as hereinafter defined), this Mortgage shall be released of record, and the Mortgagee, at the request and expense of the Mortgagor, will promptly execute and deliver to the Mortgagor (without recourse and without representation or warranty) a proper instrument or instruments acknowledging the satisfaction and termination of this Mortgage and release of the Liens of this Mortgage; provided, however, that all indemnities set forth herein (including, without limitation Section 4.10 hereof) shall survive such termination. As used herein, the "Termination Date" shall mean the date upon which all Obligations of the Mortgagor under the Notes and the other Loan Documents shall have been paid and performed in full.

6.20 Time of the Essence. Time is of the essence with respect to the obligations of the Mortgagor under this Mortgage.

6.21 The Mortgagee's Powers. Without affecting the liability of any other Person liable for the payment and performance of the Obligations and without affecting the Lien of this Mortgage in any way, the Mortgagee may, from time to time, regardless of consideration and without notice to or consent by the holder of any subordinate Lien, right, title or interest in or to the Mortgaged Property, (a) release any Persons liable for the Obligations, (b) extend the maturity of, increase or otherwise alter any of the terms of the Obligations, (c) modify the interest rate payable on the principal balance of the Obligations, (d) release or reconvey, or cause to be released or reconveyed all or any portion of the Mortgaged Property, or (e) take or release any other or additional security for the Obligations.

6.22 Rules of Usage; Certain Defined Terms. The following rules of usage shall apply to this Mortgage unless otherwise required by the context:

(a) Singular words shall connote the plural as well as the singular, and vice versa, as may be appropriate.

(b) The words "herein", "hereof" and "hereunder" and words of similar import appearing in this Mortgage shall be construed to refer to such document as a whole and not to any particular section, paragraph or other subpart thereof unless expressly so stated.

(c) References to any Person shall include such Person and its successors and permitted assigns.

(d) Each of the parties hereto and their counsel have reviewed and revised, or requested revisions to, this Mortgage, and the usual rule of construction that any ambiguities are to be resolved against the drafting party shall be inapplicable in the construction and interpretation of such documents and any amendments or exhibits thereto.

(e) Unless an express provision requires otherwise, each reference to "the Mortgaged Property" shall be deemed a reference to "the Mortgaged Property or any part thereof".

(f) As used in this Mortgage, the following terms shall have the meanings set forth in this paragraph (f):

"Acquired Assets" shall have the meaning provided in the Purchase Agreement.

"Administrative Agent" means Bank of America, N.A., as administrative agent for the Lenders under the Credit Agreement and any successor or other administrative agent under the Credit Agreement.

"Affiliate" shall mean with respect to any Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person.

"Aircraft Dry Leases" shall mean (a) the Aircraft Dry Lease (N358WC) dated as of September 13, 2001 by and between Williams Aircraft Leasing, LLC, as "Lessor", and WCL, as "Lessee", and/or (b) the Aircraft Dry Lease (N359WC) dated as of September 13, 2001 by and between Williams Aircraft Leasing, LLC, as "Lessor", and WCL, as "Lessee".

"Bankruptcy Court" means the United States Bankruptcy Court for the Southern District of New York.

"Business Day" shall mean a day other than a Saturday, Sunday or day on which banks are authorized to be closed in Tulsa, Oklahoma.

"Central Plant" shall mean the equipment, fixtures, piping, wiring, machinery, and all other items of personal property comprising the plant for chilled and hot water production and circulation, and electricity generation and transmission located in the basement of the building comprising a portion of the Improvements, which building is commonly known as One Technology Center or the Williams Technology Center, as described in the Central Plant Lease.

"Central Plant Lease" shall mean that certain Lease Agreement originally entered into between the Mortgagor, as "Landlord," and the Mortgagee, as "Tenant," effective as of April 23, 2001, as the same may be amended, supplemented or otherwise modified from time to time,

"control" (including with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or partnership interests, by contract or otherwise.

"CGI" means CG Austria, Inc., a Delaware corporation and wholly owned subsidiary of WCL.

"Chapter 11 Cases" means the cases commenced by the Debtors under chapter 11, title 11, United States Code, 11 U.S.C. sec. 101 et seq., in the Bankruptcy Court.

"Confirmation Order" has the meaning specified in the Plan.

"Credit Agreement" means that certain Second Amended and Restated Credit and Guaranty Agreement dated as of September 8, 1999, as amended and restated as of April 25, 2001, and as further amended and restated as of October 15, 2002, among WCL, as borrower, the guarantors party thereto, the Lenders, the Administrative Agent, JP Morgan Chase Bank as Syndication Agent, and Salomon Smith Barney Inc. and Merrill Lynch & Co., as Co-Documentation Agents, as the same may be further amended, restated, modified, supplemented, extended, renewed, consolidated, restructured, rearranged, refinanced, refunded or replaced from time to time.

"Debtors" means WCG and CGI.

"Default Rate" has the meaning specified in the Long-Term Note.

"Effective Date" has the meaning specified in the Plan.

"Equitable Mortgage" shall mean that certain Equitable Mortgage dated as of October 15, 2002 made by CGI to the Mortgagee, as the same may be amended, supplemented or otherwise modified from time to time.

"Excluded Property" means the following: (a) all equipment, machinery and other items of personal property (including the components thereof), together with all replacements, substitutions, renewals, modifications, alterations and additions thereto and the proceeds thereof, now or hereafter located in, on or affixed to the Improvements that are necessary or used predominantly for the operation of the telecommunications network owned or operated by Mortgagor and/or the Guarantors, including without limitation the items described on Exhibit C attached hereto; provided, however, notwithstanding anything to the contrary contained in this Mortgage (including the inclusion of any item described on Exhibit C), the Second Mortgage or the Loan Documents (as defined in the Second Mortgage), "Excluded Property" shall not include any real property or fixtures (as such term is defined in the Uniform Commercial Code) located in, on or affixed to the Improvements); and (b) any equipment or machinery (other than any equipment or machinery existing on the date hereof or any replacement thereof) securing purchase money indebtedness or operating leases of the Mortgagor incurred to finance the acquisition of such equipment or machinery if the written terms and conditions governing such purchase money indebtedness or operating leases prohibit other Liens on or security interests in the equipment or machinery financed thereunder.

"Governmental Authority" shall mean the Federal government, or any state or other political subdivision thereof, or any agency, court or body of the Federal government, any state or other political subdivision thereof, exercising executive, legislative, judicial, regulatory or administrative functions and which shall have jurisdiction on the matter in question.

"Lenders" shall mean each of the Lenders from time to time party to the Credit Agreement.

"Lien" shall mean any mortgage, security interest, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention

agreement, any financing or similar statement or notice filed under the Uniform Commercial Code or any other similar recording or notice statute, and any lease having substantially the same effect as any of the foregoing).

"Loan Documents" means the Notes, this Mortgage, the Equitable Mortgage, the Pledge, UCC-1 financing statements and any other documents or instruments further evidencing or securing the Obligations.

"Notes" means the collective reference to the Long-Term Note and the Short-Term Note.

"Person" shall mean any individual, partnership, joint venture, limited liability company, firm, corporation, association, trust or other enterprise or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means the Second Amended Joint Chapter 11 Plan of Reorganization of the Debtors filed with the Bankruptcy Court on August 12, 2002, and the Plan Schedules and Plan Documents (as each such term is defined therein), and all supplements, appendices, and schedules to any of the foregoing, either in their present form or as any of them may be amended, restated, or modified from time to time.

"Pledge" means that certain Pledge Agreement of even date herewith made by CGI for the benefit of the Mortgagee.

"Uniform Commercial Code" means the Uniform Commercial Code as from time to time in effect in the State of Oklahoma.

6.23 No Off-Set. All sums payable by the Mortgagor shall be paid without counterclaim, other compulsory counterclaims, set-off, or deduction and without abatement, suspension, deferment, diminution or reduction, and the Obligations shall in no way be released, discharged or otherwise affected (except as provided in Section 1.05 and Section 1.07 or as otherwise expressly provided herein) by reason of: (i) any damage or any condemnation of the Mortgaged Property or any part thereof; (ii) any title defect or encumbrance or any eviction from the Mortgaged Property or any part thereof by title paramount or otherwise; or (iii) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to the Mortgagee or the Mortgagor, or any action taken with respect to this Mortgage by any agent or receiver of the Mortgagee. Except as may otherwise be expressly provided in the Notes, the Mortgagor waives, to the extent permitted by applicable law, all rights now or hereafter conferred by law or otherwise to any abatement, suspension, deferment, diminution or reduction of any of the Obligations.

6.24 Consent to Jurisdiction and Service of Process; Waiver of Jury Trial.

(a) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS MORTGAGE OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE STATE AND FEDERAL COURTS OF OKLAHOMA, WHICH IN EACH CASE IS LOCATED IN THE COUNTY OF TULSA, AND, BY EXECUTION AND DELIVERY OF THIS MORTGAGE, THE MORTGAGOR HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH LEGAL ACTION OR PROCEEDING. THE MORTGAGOR HEREBY

FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK JURISDICTION OVER THE MORTGAGOR, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS MORTGAGE OR ANY OTHER LOAN DOCUMENT BROUGHT IN ANY OF THE AFORESAID COURTS THAT ANY SUCH COURT LACKS JURISDICTION OVER THE MORTGAGOR. THE MORTGAGOR FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE MORTGAGOR AT ITS ADDRESS FOR NOTICES PURSUANT TO SECTION 6.03 HEREOF, SUCH SERVICE TO BECOME EFFECTIVE 30 DAYS AFTER SUCH MAILING. THE MORTGAGOR HEREBY IRREVOCABLY WAIVES ANY OBJECTION TO SUCH SERVICE OF PROCESS AND FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY ACTION OR PROCEEDING COMMENCED HEREUNDER OR ANY OTHER LOAN DOCUMENT THAT SUCH SERVICE OF PROCESS WAS IN ANY WAY INVALID OR INEFFECTIVE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE MORTGAGEE, TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE MORTGAGOR IN ANY OTHER JURISDICTION (INCLUDING THE JURISDICTION IN WHICH THE MORTGAGED PROPERTY IS LOCATED).

(b) THE MORTGAGOR HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS MORTGAGE OR ANY OTHER DOCUMENT BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (a) ABOVE AND HEREBY FURTHER IRREVOCABLY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH OF THE MORTGAGOR AND THE MORTGAGEE HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS MORTGAGE, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

6.25 Future Advances. This Mortgage secures all Obligations under the Loan Documents, now or hereafter incurred, whether interest or otherwise, and whether the same shall be deferred, accrued or capitalized, including future advances and re-advances, if any, pursuant to the Notes or the other Loan Documents, whether such advances are obligatory or to be made at the option of the Mortgagee, or otherwise, to the same extent as if such future advances were made on the date of the execution of this Mortgage. The Lien of this Mortgage shall be valid as to all indebtedness secured hereby, including future advances, from the time of its filing for record in the recorder's office of the county in which the Mortgaged Property is located.

6.26 Mortgagor's Address. The address of the Mortgagee set forth in the first paragraph of this Mortgage is the mailing address of the Mortgagee for purposes of 19 O.S. Section 298 and 68 O.S. Section 3127.

[Signature Page follows]

IN WITNESS WHEREOF, the Mortgagor has caused this Mortgage to be duly executed and delivered as of the day and year first above written.

WILLIAMS TECHNOLOGY CENTER, LLC,
a Delaware limited liability company

By: Williams Communications, LLC,
a Delaware limited liability company,
as sole member and manager

By: /s/ Howard S. Kalika

Title: Vice President

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

This instrument was acknowledged before me this 15th day of October, 2002, by Howard S. Kalika as Vice President of Williams Communications, LLC, a Delaware limited liability company, as Sole Member and Manager of Williams Technology Center, LLC, a Delaware limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

/s/ Yahayra Reyes

Notary Public

Print or Type Name: Yahayra Reyes

My Commission Expires:

[SEAL]

EXHIBIT 10.50

FIRST AMENDMENT TO REAL PROPERTY PURCHASE AND SALE AGREEMENT

THIS FIRST AMENDMENT dated as of October 15, 2002 (this "Amendment") to Real Property Purchase and Sale Agreement dated as of July 26, 2002 (the "Agreement"), is entered into by and among Williams Headquarters Building Company, a Delaware corporation ("Seller"), Williams Technology Center, LLC, a Delaware limited liability company ("Purchaser"), Williams Communications, LLC, a Delaware limited liability company ("WCL"), Williams Communications Group, Inc., a Delaware corporation ("Communications"), Williams Aircraft Leasing, LLC, a Delaware limited liability company ("WAL"), WilTel Communications Group, Inc., a Nevada corporation ("New WCG"), Williams Aircraft, Inc., a Delaware corporation ("WAI") and CG Austria, Inc., a Delaware corporation ("CG Austria"). All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement (as amended by the Amendment).

WHEREAS, the parties have agreed to modify the provisions relating to the payment of the Purchase Price and certain other provisions of the Agreement pursuant to the terms of this Amendment;

WHEREAS, Communications and its subsidiary, CG Austria, Inc., a Delaware corporation, filed voluntary petitions on April 22, 2002 for relief pursuant to chapter 11 of title 11 of the United States Code, 11 U.S.C. Sections 101-1330 (as amended, the "Bankruptcy Code"), which cases are pending in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") and procedurally consolidated under Case No. 02-11957; and

WHEREAS, pursuant to and in connection with the Second Amended Joint Chapter 11 Plan of Reorganization of Communications and CG Austria, Inc., a Delaware corporation ("CG Austria") dated August 12, 2002, filed with the U.S. Bankruptcy Court for the Southern District of the State of New York (the "Plan") and the Escrow Agreement (hereinafter defined), the parties hereto have determined to amend the Agreement to consummate the Plan and the transactions contemplated thereby and in connection therewith allow New WCG, the successor entity to Communications created pursuant to and in accordance with the Plan, and WAI to become parties to the Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and obligations contained herein, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto hereby agree as follows:

1. Section 1.01 of the Agreement is hereby amended by deleting the defined term "Purchase Money Note" set forth therein and substituting in lieu thereof the defined term "Purchase Money Notes" as follows:

"Purchase Money Notes" shall mean the collective reference to the Long Term Note and the Short Term Note, each of which shall be secured by the Purchase Money Mortgage and the Pledge Agreement.

2. Section 1.01 of the Agreement is hereby amended by adding the following defined terms thereto:

"Administrative Services Agreement" shall mean the Amended and Restated Administrative Services Agreement dated as of April 23, 2001, between TWC and Communications, as amended, restated, supplemented or otherwise modified from time to time.

"Agreement for Resolution of Continuing Contract Disputes" shall mean the Agreement for the Resolution of Continuing Contract Disputes dated as of July 26, 2002, among TWC, Communications and WCL, as amended, restated, supplemented or otherwise modified from time to time.

"Aircraft Refinancing Net Cash Proceeds" shall have the meaning specified in Section 2.08(b).

"Australian Legal Opinion" shall mean an opinion of Atanaskovic Hartnell addressed to Seller and its successors and assigns dated as of the Closing Date, opining as to the enforceability of the Equitable Mortgage, the perfection of the security interest granted thereby and such other matters incident to the Transactions contemplated by the Equitable Mortgage and the Pledge Agreement, which shall be in form and substance reasonably satisfactory to Seller.

"Building Purchase Escrowee" means Lawyers Title Insurance Corporation, acting in the capacity of title insurance company pursuant to the Title Instruction Letter.

"Building Purchase Closing Documents" means the collective reference to the Company Building Purchase Closing Documents and the TWC Building Purchase Closing Documents.

"CG Austria" shall mean CG Austria, Inc., a Delaware corporation.

"Company Building Purchase Closing Documents" shall have the meaning specified in the Escrow Agreement.

"Equitable Mortgage" means that certain Second Equitable Mortgage of Shares dated as of October 15, 2002, executed by CG Austria in favor of Seller, as amended, restated, supplemented or otherwise modified from time to time.

"Escrow Agent" shall mean The Bank of New York, a New York banking corporation.

"Escrow Agreement" shall mean the Escrow Agreement dated as of October 15, 2002, among New WCG, TWC, Leucadia and the Escrow Agent, as amended, restated, supplemented or otherwise modified from time to time.

"Escrow Period" shall mean the period between (a) October 15, 2002 and (b) the earlier of (i) the Escrow Period Termination Date or (ii) the Escrow Period Breakage Date.

"Escrow Period Breakage Date" shall mean any date on which the Escrow Period terminates other than as a result of the occurrence of an Escrow Period Termination Date.

"Escrow Period Purchase Agreement Default" shall mean the occurrence and continuance of one or more of the following during the Escrow Period (in each case taking into account any grace period or grace periods specified in Section 7.07 (b) of this Agreement (which shall be applicable in all respects during the Escrow Period): (a) the breach or violation of any representation or warranty under Article III of this Agreement; (b) the breach of or violation of any covenant under Article IV of this Agreement; or (c) the breach of any term or provision specified in Section 5.03 of this Agreement.

"Escrow Period Differential" shall have the meaning specified in Section 2.08 of this Agreement.

"Escrow Period Termination Date" shall mean the date on which the Building Purchase Closing Documents are released by the Escrow Agent pursuant to and in accordance with Section 4 of the Escrow Agreement.

"Intercreditor Agreement (Mortgage)" shall mean that certain Intercreditor and Subordination Agreement (Mortgaged Property) dated as of October 15, 2002, by and between Seller and the Bank Agent, as amended, restated, supplemented or otherwise modified from time to time, relating to the Purchase Money Mortgage.

"Intercreditor Agreement (Pledge Agreement)" shall mean that certain Intercreditor and Subordination Agreement (PowerTel Collateral) dated as of October 15, 2002, by and between Seller and the Bank Agent, as amended, restated, supplemented or otherwise modified from time to time, relating to the Pledge Agreement, in the form attached hereto as Exhibit 8.

"Intercreditor Agreements" shall mean the collective reference to the Intercreditor Agreement (Pledge Agreement) and the Intercreditor Agreement (Mortgage).

"Jones Day Legal Opinion" shall mean an opinion of Jones, Day, Reavis & Pogue reasonably satisfactory to Seller addressed to Seller dated as of the Closing Date, opining as to the organization and good standing of Purchaser, WCL and CG Austria in the State of Delaware, authorization of the execution, delivery and performance by Purchaser and WCL of the Purchase Money Notes, authorization of the execution and delivery by Purchaser of the Purchase Money Mortgage and authorization

of the execution and delivery by CG Austria of the Pledge Agreement, and the execution and delivery of the Pledge Agreement by, and the enforceability of the Pledge Agreement against, CG Austria and such other matters incident to the Transactions contemplated herein, which shall be in form and substance reasonably satisfactory to Seller.

"Leucadia" shall mean Leucadia National Corporation, a New York corporation.

"Loan Documents" shall have the meaning specified in the WCG Bank Facility.

"Long Term Note" shall have the meaning provided in Section 2.02(b) of this Agreement.

"New WCG" shall mean WilTel Communications Group, Inc., a Nevada corporation, the successor entity to Communications created pursuant to the Plan.

"New WCG Legal Opinion" shall mean an opinion of Jones Vargas addressed to Seller dated as of the Closing Date, opining as to the incorporation, existence and good standing of New WCG under the laws of the State of Nevada, authorization of the execution and delivery by New WCG of the Purchase Money Notes, and such other matters incident to the Transactions contemplated herein, which shall be in form and substance reasonably satisfactory to Seller.

"Plan" shall mean the Second Amended Joint Chapter 11 Plan of Reorganization of Communications and CG Austria dated August 12, 2002, filed with the U.S. Bankruptcy Court for the Southern District of the State of New York, as may be amended, supplemented or otherwise modified from time to time.

"Pledge Agreement" shall mean that certain Pledge Agreement dated as of October 15, 2002, made by CG Austria in favor of Seller at Closing (as amended, restated, supplemented or otherwise modified from time to time), including the Acknowledgment, Consent and Agreement attached thereto, in form attached hereto as Exhibit 9 pursuant to which (a) CG Austria shall pledge and grant a security interest in all of its right, title and interest in and to the Pledged Shares and certain related collateral to Seller, in form and substance mutually satisfactory to Purchaser and Seller, provided that any such liens and security interest shall be expressly junior and subordinate to the liens and security interests granted by CG Austria to the Bank Agent pursuant to the terms thereof and shall be subject to the Intercreditor Agreement (Pledge Agreement); and (b) CG Austria shall agree to cause WCP to amend its organizational documents or to enter into other agreements and documents to make WCP a "special purpose entity", the purpose and activities of which shall be limited to owning the stock of PowerTel and to conduct activities necessary or appropriate in connection with such ownership.

"Pledged Shares" shall mean 66% of the beneficial interests of WCP.

"PowerTel" shall mean PowerTel Limited (f/k/a Spectrum Network Systems Limited) (ACN 001 760 103), a corporation organized and existing under the laws of Australia.

"Purchase Agreement" shall mean the Agreement of Purchase and Sale dated as of September 13, 2001 among Williams Technology Center, LLC, a Delaware limited liability company, as "Seller", Williams Headquarters Building Company, a Delaware corporation, as "Purchaser", and Williams Communications, LLC, a Delaware limited liability company, as "Guarantor", as amended, restated, supplemented or otherwise modified from time to time.

"Sale Leaseback Default" shall mean the occurrence and continuance of any "Event of Default" specified in the defined term "Event of Default" (as such term is defined in the Master Lease or in any Sale Leaseback Transaction Document or any default or event of default under, or any breach or violation of any term or provision of, any Sale Leaseback Transaction Document (in each case after taking into account any applicable grace period or grace periods).

"Sale Leaseback Transaction Documents" shall mean the Master Lease and the Aircraft Dry Leases, as any of the foregoing may have been amended, restated, supplemented or otherwise modified through and including the Closing Date and as any of the foregoing may be amended, restated, supplemented or otherwise modified from time to time following the Closing Date.

"Second Mortgage" shall mean that certain Second Mortgage, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of October 15, 2002, made by Purchaser in favor of the Bank Agent for the benefit of the Lenders, as amended, restated, supplemented or otherwise modified from time to time, pursuant to which Purchaser shall grant mortgage liens and security interests in all of its right, title and interest in certain of the Acquired Assets and related collateral to the Bank Agent for the benefit of the Lenders, provided that any such liens and security interest shall be expressly junior and subordinate to the liens and security interests granted by Purchaser to the Seller in the Mortgaged Property (as such term is defined in the Purchase Money Mortgage) and related collateral pursuant to the terms thereof and shall be subject to the Intercreditor Agreement (Mortgage).

"Side Letter" means that certain Letter Agreement dated as of October 15, 2002, among Seller, Purchaser, WCL and New WCG, with respect to the Purchase Money Mortgage, in the form attached hereto as Exhibit E.

"Termination Statements" shall mean UCC financing statement amendments prepared for filing under the Uniform Commercial Code of each jurisdiction as may be necessary to terminate the security interests and liens in favor of Seller created pursuant to and in accordance with the Master Lease.

"Title Instruction Letter" shall mean that Title Instruction Letter dated as of October 15, 2002, issued to the Building Purchase Escrowee, among Purchaser, Seller, Building Purchase Escrowee and the Bank Agent, as amended, supplemented or otherwise modified from time to time.

"Title Policies" shall have the meaning specified in the Title Instruction Letter.

"TWC Building Purchase Closing Documents" shall have the meaning specified in the Escrow Agreement.

"TWC Party" shall mean TWC, Seller, WAL, WAI and any of their respective subsidiaries and Affiliates.

"WCG Party" shall mean New WCG, Communications, WCL, Purchaser and any of their respective subsidiaries and Affiliates.

"Williams Aircraft Leasing Transfer Agreement" shall mean the Membership Interest Purchase Agreement, between WAI, as "Seller", and WCL, as "Purchaser", in the form attached hereto as Exhibit F.

"Williams Aircraft Leasing Transfer Documents" shall mean the Williams Aircraft Leasing Transfer Agreement and all other agreements, instruments, documents, and certificates required or reasonably requested by Purchaser or WCL in connection therewith.

"WAI" shall mean Williams Aircraft, Inc., a Delaware corporation, and the sole member of Williams Aircraft Leasing, LLC, a Delaware limited liability company.

"WAL" shall mean Williams Aircraft Leasing, LLC, a Delaware limited liability company.

"WCP" shall mean WilTel Communications Pty Limited (ACN 081 547 042), a corporation organized and existing under the laws of Australia.

3. Section 1.01 of the Agreement is hereby amended by deleting the defined term "Cash Portion of the Purchase Price" therein in its entirety.

4. Section 1.01 of the Agreement is hereby amended by amending and restating the defined term "Financing Statements" in full to read as follows:

"Financing Statements" shall mean UCC-1 financing statements for filing under the Uniform Commercial Code of each jurisdiction as may be necessary or, in the reasonable opinion of Seller, desirable to perfect the security interest created by the Purchase Money Mortgage and the Pledge Agreement.

5. Section 1.01 of the Agreement is hereby amended by amending and restating the defined term "Purchase Money Mortgage" in full to read as follows:

> "Purchase Money Mortgage" shall mean the Mortgage With Power of Sale, Security Agreement, Assignment of Leases, Rents and Profits, Financing Statement and Fixture Filing, to be granted at Closing by Purchaser in favor of Seller in a form reasonably acceptable to each of Purchaser and Seller.

6. Section 1.01 of the Agreement is hereby amended by amending and restating the defined term "WCG Bank Facility" in full to read as follows:

> "WCG Bank Facility" shall mean the Second Amended and Restated Credit and Guaranty Agreement dated as of September 8, 1999, as amended and restated as of April 25, 2001, and as further amended and restated as of October 15, 2002, among WCL, as "Borrower", New WCG and the other Guarantors referred to therein, the Lenders referred to therein, the Bank Agent, JP Morgan Chase Bank as Syndication Agent, and Salomon Smith Barney Inc. and Merrill Lynch & Co., as Co-Documentation Agents (as further amended, restated, replaced, renewed, extended, consolidated, modified, supplemented, refinanced or refunded (in whole or in part), from time to time.

7. Section 1.01 of the Agreement is hereby amended by amending the defined term "Settlement Agreement" by adding thereto the phrase ", as amended, restated, supplemented or otherwise modified from time to time" immediately after the phrase "and the Transactions" set forth on the last line thereof.

8. Section 1.01 of the Agreement is hereby amended by amending the defined term "Master Lease" by adding thereto the phrase ", as amended, restated, supplemented or otherwise modified from time to time" immediately after the phrase "Real Property and Improvements" set forth on the last line thereof.

9. Section 2.02(a) and Section 2.02(b) of the Agreement are each hereby amended and restated in full to read as follows:

> "(a) Forty Four Million Eight Hundred Thousand Dollars ($44,800,000) (which sum reflects the original $50,000,000 portion of the Purchase Price reduced by $5,200,000 relating to the net credits agreed to by the Parties pursuant to the Construction Agreement), in the form of a promissory note made by Purchaser and WCL, as co-issuers, and guaranteed by New WCG (the "Short Term Note"). The original principal amount of the Short-Term Note shall be $44,800,000 (the "Loan"). The Short Term Note shall have the stated face amount of $74,360,295.30 (the "Stated Amount"), and reference to such amount shall include the original principal amount of $44,800,000 and all accrued but unpaid interest thereon. The calculation of the Stated Amount shall assume that all interest payable under the Short-Term Note shall accrue and be capitalized pursuant to the terms set forth below and that the original

principal amount and all such accrued and capitalized interest will be paid to Seller on December 29, 2006 (the "Maturity Date"). All interest on the outstanding principal balance of the Short Term Note shall accrue at the following rates of interest during the following periods and shall be capitalized to the outstanding principal amount of the Loan at the end of such periods: (i) first, at the initial rate of ten percent (10%) per annum, commencing on the Closing Date and continuing thereafter until December 31, 2003, and all such interest that accrues and remains unpaid during such period shall be capitalized as principal of the Short-Term Note on December 31, 2003; (ii) second, at the rate of twelve percent (12%) per annum, commencing on January 1, 2004 and continuing thereafter until December 31, 2004, and all such interest that accrues and remains unpaid during such period shall be capitalized as principal of the Short-Term Note on December 31, 2004; (iii) third, at the rate of fourteen percent (14%) per annum, commencing on January 1, 2005 and continuing thereafter until December 31, 2005, and all such interest that accrues and remains unpaid during such period shall be capitalized as principal of the Short-Term Note on December 31, 2005; and (iv) sixteen percent (16%) per annum, commencing on January 1, 2006 and continuing thereafter until the Maturity Date, and all such interest that accrues and remains unpaid during such period shall be payable on the Maturity Date.

(b) One Hundred Million Dollars ($100,000,000) in the form of a promissory note made by Purchaser and WCL, as co-issuers, and guaranteed by New WCG (the "Long Term Note") which amount may be reduced in accordance with Section 2.08 and Section 7.21 hereof. The Long Term Note shall bear interest at the rate of seven percent (7%) per annum, amortized over 30 years, with the entire outstanding principal balance and accrued but unpaid interest thereon due and payable in full on the date which is seven and one half (7 1/2) years from the Closing Date."

10. Section 2.03 of the Agreement is hereby amended by deleting the phrase "simultaneously with the satisfaction or waiver of all of the conditions set forth in Article V hereof, or at such other time and date as Seller and Purchaser shall agree" set forth therein and substituting in lieu thereof the phrase "on and as of October 15, 2002, provided that all conditions set forth in Article V hereof are satisfied or waived".

11. Section 2.04(f) of the Agreement is hereby amended by adding thereto the phrase "and the Termination Statements" immediately after the phrase "Initialed Title Commitment" set forth therein.

12. Section 2.04(h) of the Agreement is hereby deleted in its entirety.

13. Section 2.04(k) of the Agreement is hereby amended by deleting the word "and" at the end of the second line thereof.

14. Section 2.04(l) of the Agreement is hereby amended and restated in full to read as follows:

> "(l) the Side Letter, duly executed by Seller; and"

15. Section 2.04 of the Agreement is hereby amended by adding thereto a new subsection (m) to read as follows:

> "(m) all other previously undelivered documents required by this Agreement to be delivered by Seller to Purchaser at or prior to the Closing in connection with the Transactions."

16. Section 2.05(a) of the Agreement is hereby deleted in its entirety.

17. Section 2.05(b) of the Agreement is hereby amended by adding thereto the phrase "Pledge Agreement," immediately before the phrase "Purchase Money Notes".

18. Section 2.05(e) of the Agreement is hereby amended by (a) adding thereto the phrase ", the Jones Day Legal Opinion and the New WCG Legal Opinion" immediately after the phrase "Legal Opinion" and by deleting (b) the word "and" set forth therein.

19. Section 2.05(f) of the Agreement is hereby amended and restated in full to read as follows:

> "(f) the Side Letter, duly executed by Purchaser, WCL and New WCG; and"

20. Section 2.05 of the Agreement is hereby amended by adding thereto a new subsection (g) to read as follows:

> "(g) all other previously undelivered documents required by this Agreement to be delivered by Purchaser to Seller at or prior to the Closing in connection with the Transactions."

21. Article II of the Agreement is hereby amended by adding thereto a new Section 2.07 to read as follows:

> "2.07 Delivery of Closing Documents. The parties hereto hereby agree that all of the Building Purchase Closing Documents and the Title Instruction Letter shall be executed (as applicable) and, together with the Title Instruction Letter, shall be delivered into escrow pursuant to the terms of the Escrow Agreement; provided, however, that the Pledge Agreement, Equitable Mortgage, the Australian Legal Opinion, the Intercreditor Agreement (Pledge Agreement) and the related UCC-1 shall be executed and delivered into Escrow on or before October 23, 2002, in accordance with the terms and provisions of the Escrow Agreement. The Escrow Agreement shall direct the Escrow Agent to deliver certain of the Closing Documents and the Title Instruction Letter to the Building Purchase Escrowee to consummate the transactions contemplated by the Closing Documents if the

conditions specified in the Escrow Agreement are met or waived in accordance with the terms thereof."

22. Article II of the Agreement is hereby amended by adding thereto a new Section 2.08 to read as follows:

"2.08 True-Up.

(a) The parties hereto hereby agree that all regularly scheduled payments due and owing by Purchaser to Seller under the Master Lease and the Aircraft Dry Leases during the Escrow Period shall be paid by Purchaser to Seller in accordance with the terms of the Master Lease and the Aircraft Dry Leases, respectively, during the Escrow Period until the Escrow Period Termination Date. Upon the occurrence of the Escrow Period Termination Date, Purchaser and Seller shall calculate the difference and associated timing (if any) of (a) the aggregate amount paid by Purchaser to Seller pursuant to and in accordance with the Master Lease and the Aircraft Dry Leases during the Escrow Period and (b) the aggregate amount that would have been paid by the Co-Makers to Seller under the Purchase Money Notes during the Escrow Period (the "Escrow Period Differential") in the same manner set forth on Schedule 2.08(a) attached hereto, and TWC, Seller, WAI or any of their respective Affiliates receiving such Escrow Period Differential shall thereafter immediately apply or cause to be applied the Escrow Period Differential first to accrued but unpaid interest of and then to outstanding principal of the Long-Term Note as specifically set forth in Schedule 2.08(a).

(b) If the Aircraft Dry Leases are refinanced at any time during the Escrow Period (the "Aircraft Refinancing"), (i) TWC and Seller shall on the date of any such Aircraft Refinancing cause WAI to execute and deliver, and WCL shall execute and deliver, the Williams Aircraft Leasing Purchase Agreement and the other Williams Aircraft Leasing Transfer Documents, (ii) Purchaser and Seller shall calculate in good faith the net cash proceeds of such Aircraft Refinancing (the "Aircraft Refinancing Net Cash Proceeds"), and (iii) TWC, Seller, WAI or any of their respective Affiliates receiving such Aircraft Refinancing Net Cash Proceeds shall immediately thereafter apply or cause to be applied such Aircraft Refinancing Net Cash Proceeds pro rata to the then outstanding principal balances under the Master Lease specified on each of the three amortization schedules attached hereto as Schedule 2.08(b)-1, Schedule 2.08(b)-2 and Schedule 2.08(b)-3, respectively.

(c) If the Aircraft Refinancing occurs during the Escrow Period and an Escrow Period Termination Date occurs thereafter, TWC and Seller shall calculate in good faith the Aircraft Refinancing Net Cash Proceeds and TWC, Seller, WAI or any of their respective Affiliates receiving such Aircraft Refinancing Net Cash Proceeds shall immediately thereafter apply or cause to be

applied such Aircraft Refinancing Net Cash Proceeds first to accrued but unpaid interest (if any) of and then to outstanding principal of the Long-Term Note.

(d) If the Aircraft Refinancing does not occur during the Escrow Period and an Escrow Period Breakage Date occurs, the Master Lease, the Aircraft Dry Leases and the other existing Sale Leaseback Transaction Documents shall continue in full force and effect."

23. Section 3.01 of the Agreement is hereby amended by (a) deleting the word "and" set forth at the end of the last line of subsection (j) thereof; and (b) deleting the period in the last line of subsection (k) thereof and substituting in lieu thereof a semi-colon.

24. Section 3.02 of the Agreement is hereby amended by (a) deleting the word "and" set forth in the last line of subsection (f) thereof; and (b) deleting the period in the last line of subsection (g) thereof and substituting in lieu thereof a semi-colon.

25. Article III of the Agreement is hereby amended by amending and restating Section 3.05 set forth therein in full to read as follows:

"3.05 Survival and Continuation of Representations and Warranties During Escrow Period. The parties hereto hereby agree that all representations and warranties set forth in this Article III shall survive the Closing Date and shall in any event be true and correct on and as of the Escrow Period Termination Date."

26. Article IV of the Agreement is hereby amended by adding a new Section 4.13 thereto to read as follows:

"4.13 Survival and Continuation of Covenants During Escrow Period. The parties hereto hereby agree that the covenants specified in Section 4.01, Section 4.02, Section 4.09, Section 4.10, Section 4.11 and Section 4.12 shall survive the Closing Date and shall continue in full force and effect during the Escrow Period until the occurrence of the Escrow Period Termination Date."

27. The caption immediately below the caption "ARTICLE V" of the Agreement is hereby amended in full to read "CONDITIONS PRECEDENT; ESCROW PERIOD DEFAULTS".

28. Article V of the Agreement is hereby amended by adding thereto a new Section 5.03 to read as follows:

"5.03 Escrow Period Purchase Agreement Defaults. The parties hereto hereby agree that upon the occurrence and during the continuance of an Escrow Period Purchase Agreement Default (a) the defaulting party or parties shall upon obtaining notice of such Escrow Period Purchase Agreement Default promptly thereafter provide written notice of such Escrow Period Default to each other non-defaulting party hereto, and describe in reasonable detail therein the nature of such Escrow Period Purchase Agreement Default and the actions proposed to be

undertaken by such defaulting party or parties for the prompt resolution and cure thereof; and (b) the non-defaulting party or parties' remedy or remedies for any such Escrow Period Purchase Agreement Default shall be limited solely to seeking recovery of the actual damages incurred by such non-defaulting party or parties arising in respect of such Escrow Period Purchase Agreement Default (i) first, by seeking such recovery under and pursuant to the Title Policies (if applicable) and (ii) second, by seeking such recovery thereof from the defaulting party or parties."

29. Article V of the Agreement is hereby amended by adding thereto a new Section 5.04 to read as follows:

"5.04 Escrow Period Sale Leaseback Defaults. The parties hereto hereby agree that upon the occurrence and during the continuance of a Sale Leaseback Default (a) the defaulting party or parties shall upon the occurrence and during the continuance of such Sale Leaseback Default promptly thereafter provide written notice of such Sale Leaseback Default to each other non-defaulting party hereto, and describe in reasonable detail therein the nature of such Sale Leaseback Default and the actions proposed to be undertaken by such defaulting party or parties for the prompt resolution and cure thereof within the applicable grace period provided under the Sale Leaseback Transaction Documents, if any; and (b) the non-defaulting party or parties shall, only for such Sale Leaseback Defaults as are non-material and/or non-monetary, forbear from exercising any rights or remedies available to it or them under any Sale Leaseback Transaction Document until the occurrence of the earlier of the Escrow Period Termination Date or the Escrow Period Breakage Date, provided that there shall be no termination or acceleration of the Master Lease except for a payment default or cancellation of the insurance required thereunder that in each case continues beyond one Business Day after taking into account any applicable grace period.

30. Section 7.21 of the Agreement is hereby amended by deleting the first, second, third and fourth sentences therefrom and substituting in lieu thereof the following:

"The parties hereto hereby agree that (A) TWC, Seller, WAI and WAL shall have the exclusive right to dispose of or refinance the Aircraft Dry Leases on commercially reasonable terms and at market rates prior to the Closing Date and (B) if TWC, Seller, WAI and WAL shall not have disposed of or refinanced the Aircraft Dry Leases by the Closing Date, then TWC, Seller, WAI, WAL, WCL and WTC, shall each continue to be bound by the terms and provisions of each Aircraft Dry Lease (as applicable), provided that upon the occurrence of the Aircraft Refinancing, TWC and Seller shall on the date of any such Aircraft Refinancing cause WAI to execute and deliver, and WCL shall execute and deliver, the Williams Aircraft Leasing Purchase Agreement and the other Williams Aircraft Leasing Transfer Documents, and TWC and Seller shall apply the Aircraft Refinancing Net Cash Proceeds to accrued but unpaid interest on and

outstanding principal of the Long-Term Note, all pursuant to and in accordance with Section 2.08 hereof."

31. Section 7.21 of the Agreement is further amended by (a) deleting the term "Disposition" as set forth in the second sentence thereof (after giving effect to the amendments to Section 7.21 of the Agreement as specified in Section 28 of this Amendment) and substituting in lieu thereof the phrase "Aircraft Refinancing or other disposition of the Aircraft"; and (b) deleting therefrom the last sentence thereof.

32. Article VII of the Agreement is hereby amended by adding a new Section 7.26 thereto to read as follows:

"7.26. Side Letter. The parties hereto hereby agree to execute and deliver the Side Letter on the Closing Date."

33. The Agreement is hereby amended by adding thereto (a) a new Schedule 2.08(a) in the form of Schedule 1 attached hereto; (b) a new Schedule 2.08(b)-1 in the form of Schedule 2 attached hereto; (c) a new Schedule 2.08(b)-2 in the form of Schedule 3 attached hereto; and (d) a new Schedule 2.08(b)-3 in the form of Schedule 4 attached hereto.

34. Exhibit D (Permitted Exceptions) to the Agreement is hereby amended and restated in its entirety in the form of Exhibit 1 attached hereto.

35. The Agreement is hereby amended by adding thereto (a) a new Exhibit E (Side Letter) in substantially the form of Exhibit 2 attached hereto; and (b) a new Exhibit F (Williams Aircraft Leasing Transfer Agreement) in substantially the form of Exhibit 3 attached hereto.

36. The Agreement is hereby amended by (a) except as provided in subsection (b) of this Paragraph 34, deleting the phrase "Purchase Money Note" in each instance where it appears therein and substituting in lieu thereof in each such instance the phrase "Purchase Money Notes" and (b) deleting the phrase "Purchase Money Note" in each instance referenced in Section 7.21 of the Agreement and substituting in lieu thereof in each such instance the phrase "Long Term Note."

37. The Agreement is hereby amended by deleting the phrase "Cash Portion of the Purchase Price" in each instance where it appears therein.

38. Purchaser, WCL, Communications and New WCG shall each use their best efforts to ensure that any lien or security interest in the Acquired Assets granted by any of them to the Bank Agent for the benefit of the Lenders under Loan Documents shall be subject and fully subordinate to the first priority mortgage liens and security interests granted by Purchaser to Seller in certain of the Acquired Assets (except for the Excluded Property (as such term is defined in the Purchase Money Mortgage)) pursuant to the Purchase Money Mortgage (as the same may be amended, restated, supplemented or otherwise modified from time to time) and the other rights and remedies of Seller pursuant thereto. Each of New WCG, Purchaser, WCL, Communications and Seller hereby acknowledge and agree that Purchaser may execute and deliver the Second Mortgage.

39. The parties hereto agree to execute and deliver (or to cause the execution and delivery of), on or prior to the Closing Date, each of (a) the POP Easement Agreement dated as of October 15, 2002 between Seller and Williams Field Services Company, a Delaware corporation, as "Grantors" and Purchaser, as "Grantee", in the form of Exhibit 4 attached hereto; (b) the Satellite Easement Agreement dated as of October 15, 2002 between Seller and Williams Field Services Company, as "Grantors" and Purchaser, as "Grantee", in the form of Exhibit 5 attached hereto; and (c) the First Amendment to Agreement for the Resolution of Continuing Contract Disputes dated as of October 15, 2002, among TWC, Communications and WCL, in the form of Exhibit 6 attached hereto.

40. The parties hereto hereby agree that Exhibit 7 attached hereto shall constitute, and shall be submitted by the parties hereto on or prior to the Closing Date as, the Company Building Purchase Closing Documents and the TWC Building Purchase Closing Documents set forth on Exhibit B to the Escrow Agreement.

41. Seller has requested that the other parties hereto agree to waive, and the parties hereto hereby agree to waive, the requirement specified in Section 2.04(i) of the Agreement that Seller deliver the consents specified in Schedule 3.01(e) to the Agreement (each a "Consent" and collectively the "Consents") at Closing (such waiver being hereinafter referred to as the "Waiver"), provided that Seller shall promptly endeavor to obtain and deliver each Consent to Purchaser. The Waiver shall be specifically limited as set forth herein and shall not otherwise affect Seller's obligation to obtain and deliver each Consent to Purchaser under this Agreement. As consideration for granting the Waiver, Seller hereby agrees to indemnify, reimburse and hold harmless each of Purchaser, WCL, New WCG and Communications and each of their respective successors and assigns (hereinafter, an "Indemnitee" and collectively the "Indemnitees"), to the fullest extent permitted by applicable law, from any and all liabilities, obligations, damages, penalties, claims, demands, actions, suits, judgments and any and all costs, expenses or disbursements (including attorneys' fees and expenses reasonably incurred) (collectively, the "Indemnified Liabilities") of whatsoever kind and nature imposed on or reasonably incurred by any of the Indemnitees as a result of, relating to or arising out of any actual or prospective claim, litigation or other proceeding relating to or arising out of the Waiver or Seller's failure to obtain and deliver any Consent to Purchaser, provided that no Indemnitee shall be indemnified pursuant to this Section 41 for Indemnified Liabilities to the extent caused by the gross negligence or willful misconduct of any Indemnitee (as determined by a court of competent jurisdiction in a final non-appealable decision) on or after the date hereof. The obligations of Seller under this Section 41 shall survive and remain in full force and effect until Seller has delivered each Consent specified on Schedule 3.01(e) to the Agreement to Purchaser. Seller acknowledges and agrees that upon written notice by any Indemnitee of the assertion of an Indemnified Liability, Seller shall assume full responsibility for the defense thereof. Any amount due under this Section 41 shall be payable by Seller promptly upon and in any event within thirty (30) days after receipt of written demand by any Indemnitee therefor. Each Indemnitee agrees to use its best efforts to promptly notify Seller of any actual or potential Indemnified Liability of which such Indemnitee has knowledge and to specify in reasonable detail the nature and period of existence of any such Indemnified Liability. Nothing contained in this Section 41 shall in any way affect, modify, restrict or diminish any other rights or obligations of Seller, Purchaser,

WCL, New WCG or Communications contained in the Agreement, the Purchase Money Notes or the Purchase Money Mortgage.

42. Each of WAI and New WCG (each a "New Transaction Party" and collectively the "New Transaction Parties") by executing and delivering this Amendment hereby expressly confirm that it has assumed, and agrees to perform and observe, each and every one of the covenants, rights, promises, agreements, terms, conditions, obligations, duties and liabilities applicable to it under the Agreement (as amended by this Amendment) (each reference in this Section 42 to the "Agreement" shall mean the Agreement (as amended by this Amendment)). Each New Transaction Party hereby represents and warrants that (a) such New Transaction Party has the corporate power and authority to enter into the Agreement by executing and delivering this Amendment; (b) the execution, delivery and performance by such New Transaction Party of this Amendment and such New Transaction Party's entering into the Agreement have been duly authorized by its respective Board of Directors and no other corporate proceedings on its part are necessary to authorize the execution, delivery and performance of this Amendment and entering into the Agreement; and (c) this Amendment has been duly executed and delivered by such New Transaction Party and the Agreement constitutes such New Transaction Party's legal, valid and enforceable obligation, enforceable against such New Transaction Party in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and by general principles of equity, whether such enforceability is considered in a proceeding at law or in equity.

43. This Amendment (and for each New Transaction Party, the Agreement (as amended by the Amendment)) shall be binding upon each party hereto and shall inure to the benefit of each party hereto and their respective successors and permitted assigns.

44. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The delivery of an executed counterpart to this Amendment by facsimile shall be effective as delivery of a manually executed copy of this Amendment.

45. Except as specifically amended hereby, the Agreement is in all respects confirmed, ratified and approved. All references in the Agreement to "this Agreement" shall mean and refer to the Agreement as amended hereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the date and year first above written.

WILLIAMS HEADQUARTERS BUILDING COMPANY

By: /s/ Jack D. McCarthy

Title: Vice President

WILLIAMS TECHNOLOGY CENTER, LLC

By: WILLIAMS COMMUNICATIONS, LLC,
its sole Member

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and Assistant Secretary

WILLIAMS COMMUNICATIONS, LLC

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and Assistant Secretary

WILLIAMS COMMUNICATIONS GROUP, INC.

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and Assistant Secretary

WILTEL COMMUNICATIONS GROUP, INC.

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive, Corporate Development and Finance and Assistant Secretary

WILLIAMS AIRCRAFT LEASING, LLC

By: WILLIAMS AIRCRAFT, INC., its sole member

By: /s/ Jack D. McCarthy

Title: Vice President

WILLIAMS AIRCRAFT, INC.

By: /s/ Jack D. McCarthy

Title: Vice President

SECOND AMENDMENT TO REAL PROPERTY PURCHASE AND SALE AGREEMENT

THIS SECOND AMENDMENT dated as of October 23, 2002 (this "Amendment") to Real Property Purchase and Sale Agreement dated as of July 26, 2002 (as amended by the First Amendment (hereinafter defined), the "Agreement"), is entered into by and among Williams Headquarters Building Company, a Delaware corporation ("Seller"), Williams Technology Center, LLC, a Delaware limited liability company ("Purchaser"), Williams Communications, LLC, a Delaware limited liability company ("WCL"), Williams Aircraft Leasing, LLC, a Delaware limited liability company ("WAL"), WilTel Communications Group, Inc., a Nevada corporation ("New WCG"), Williams Aircraft, Inc., a Delaware corporation ("WAI") and for purposes of Section 15 hereof, The Williams Companies, Inc., a Delaware corporation ("TWC"). All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement (as amended by the First Amendment (hereinafter defined)).

WHEREAS, Seller, Purchaser, WCL, Communications, New WCG, WAL and WAI previously entered into that certain First Amendment to Real Property Purchase and Sale Agreement dated as of October 15, 2002 (the "First Amendment") and pursuant to the terms thereof modified the provisions relating to the payment of the Purchase Price and certain other provisions of the Agreement;

WHEREAS, in furtherance of the transactions contemplated by the Plan and the Escrow Agreement, the parties hereto have determined to further amend the Agreement and the Escrow Agreement in respect of completing documentation in respect of and consummation of the transactions contemplated by the Pledge Agreement, the Equitable Mortgage and the Intercreditor Agreement (Pledge Agreement); and

WHEREAS, in furtherance of the transactions contemplated in the foregoing recitals and the Agreement (as amended by this Amendment), the parties hereto desire to enter into the First Amendment to Escrow Agreement (hereinafter defined), the First Amendment to Title Instruction Letter (hereinafter defined) and other specified agreements relating to the WCG Bank Facility and the Spectrum Shareholders Agreement dated June 19, 1998 by and among WilTel Communications Pty Limited (ACN 081 547 042) ("WCP"), Downtown Utilities Pty Limited (ACN 082 754 407), as "Trustee", South-East Queensland Electricity Corporation Limited trading as Energex (ACN 078 849 055), CitiPower Pty (ACN 064 651 056), Energy Australia, a statutory SOC under the Stated Owned Corporations Act 1989 (NSW) and Williams Holdings of Delaware, Inc., a Delaware corporation (as amended, restated, supplemented or otherwise modified from time to time, the "Shareholders Agreement").

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and obligations contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Section 1.01 of the Agreement is hereby amended by adding the following defined terms thereto:

> "Jones Day Legal Opinion (Pledged Shares)" shall mean an opinion of Jones, Day, Reavis & Pogue reasonably satisfactory to Seller addressed to Seller dated November 27, 2002, opining as to the organization and good standing of CG Austria in the State of Delaware, the authorization of the execution, delivery, and performance by CG Austria of the Pledge Agreement and the Equitable Mortgage and by the Loan Parties (as defined therein) of the Intercreditor Agreement (Consent) (as defined therein), the enforceability of the Pledge Agreement, the Intercreditor Agreement (Consent) and the Acknowledgment (Pledge Agreement) (as defined therein), the attachment and perfection of the security interest granted by CG Austria to Seller under the Pledge Agreement, and such other matters incident to the Transactions contemplated herein that may be reasonably requested by Seller, which shall be in form and substance reasonably satisfactory to Seller."

2. Section 1.01 of the Agreement is hereby amended by amending the defined term "Australian Legal Opinion" by deleting the phrase "dated as of the Closing Date" from the second line thereof and substituting in lieu thereof the phrase "dated November 28, 2002".

3. Section 1.01 of the Agreement is hereby amended by amending the defined term "Equitable Mortgage" by deleting the phrase "dated as of October 15, 2002" therefrom and substituting in lieu thereof the phrase "dated November 28, 2002".

4. Section 1.01 of the Agreement is hereby amended by amending and restating the defined term "Jones Day Legal Opinion" in full to read as follows:

> "Jones Day Legal Opinion" shall mean an opinion of Jones, Day, Reavis & Pogue reasonably satisfactory to Seller addressed to Seller dated as of the Closing Date, opining as to the organization and good standing of Purchaser, WCL and CG Austria in the State of Delaware, the authorization of the execution, delivery, and performance by Purchaser and WCL of the Purchase Money notes, the authorization of the execution, delivery and performance by Purchaser of the Purchase Money Mortgage, and the authorization of the execution, delivery and performance by CG Austria of the Pledge Agreement (as negotiated through and including October 15, 2002) and such other matters incident to the Transactions contemplated herein that may be reasonably requested by Seller, which shall be in form and substance reasonably satisfactory to Seller."

5. Section 1.01 of the Agreement is hereby amended by amending the defined term "Pledge Agreement" by deleting the phrase "dated as of October 15, 2002" therefrom and substituting in lieu thereof the phrase "dated as of November 27, 2002".

6. Section 1.01 of the Agreement is hereby amended by deleting the defined term "WCG Party" therefrom in its entirety.

7. Section 2.05(b) of the Agreement is hereby amended by deleting the phrase "Pledge Agreement," therefrom.

8. Section 2.07 of the Agreement is hereby amended by deleting the first sentence therein in its entirety and substituting in lieu thereof the following sentence: "The parties hereto hereby agree that (a) all of the Building Purchase Closing Documents and the Title Instruction Letter shall be delivered to the Escrow Agent pursuant to the terms of the Escrow Agreement, and (b) the Pledge Agreement, the Equitable Mortgage, the Australian Legal Opinion, the Jones Day Legal Opinion (Pledged Shares), the Intercreditor Agreement (Pledge Agreement) and the UCC-1 financing statement relating to the Pledge Agreement shall be executed and/or delivered by the parties thereto on or before November 28, 2002."

9. Section 4.11 of the Agreement is hereby amended by (a) deleting the phrase ""New Communications"" from the third line thereof and substituting in lieu thereof the phrase ""New WCG"" and (b) deleting the phrase "New Communications" in each instance where it appears in Section 4.11 and substituting in lieu thereof in each instance the phrase "New WCG".

10. The Agreement is hereby amended by deleting Exhibit 8 (Intercreditor Agreement (Pledge Agreement)) thereto in its entirety and substituting in lieu thereof Exhibit 1 attached hereto.

11. The Agreement is hereby amended by deleting Exhibit 9 (Pledge Agreement) thereto in its entirety and substituting in lieu thereof Exhibit 2 attached hereto.

12. Amendments to First Amendment. The First Amendment is hereby amended by (a) amending the preamble thereof by (i) adding the phrase " and " immediately prior to the phrase "Williams Aircraft, Inc., a Delaware corporation ("WAI")" in the seventh line thereof and (ii) deleting the phrase "CG Austria, Inc., a Delaware corporation ("CG Austria")" from the eighth line thereof; (b) amending Paragraph 40 thereof by deleting the phrase "Exhibit B" from the third line thereof and substituting in lieu thereof the phrase "Schedule B" and (ii) amending Exhibit 7 thereto by deleting therefrom each of the agreements and documents specified in Paragraph 1 of the First Amendment to Escrow Agreement (hereinafter defined); (c) amending Paragraph 36 thereof by deleting the phrase "Paragraph 34" in the second line thereof and substituting in lieu thereof the phrase "Paragraph 36"; and (d) adding a new Paragraph 46 thereto to read as follows:

> "46. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF OKLAHOMA (WITHOUT GIVING EFFECT TO THE PROVISIONS THEREOF RELATING TO CONFLICTS OF LAW)."

13. Amendments to Escrow Agreement and Title Instruction Letter. Pursuant to Section 7.20 of the Agreement, each of the parties hereto hereby consents to the execution, delivery and performance of each of (a) the First Amendment to Escrow Agreement dated as of October 23, 2002, among New WCG, TWC, Leucadia and the Escrow Agent, in the form of Exhibit 3 attached hereto (the "First Amendment to Escrow Agreement") and (b) the First Amendment to Title Instruction Letter dated as of October 23, 2002 among Purchaser, Seller, the Building Purchase Escrowee and the Bank Agent, in the form of Exhibit 4 attached hereto (the "First Amendment to Title Instruction Letter").

14. WCG Bank Facility. Seller, WCL and New WCG hereby agree that WCL and New WCG shall not enter into any amendment, restatement, supplement or other modification to the WCG Bank Facility or any other Loan Document which (a) increases the outstanding principal amount of the Loans (as such term is defined in the WCG Bank Facility) or (b) extends the Maturity Date (as such term is defined in the WCG Bank Facility) of the Loans, in either case without the express written consent of Seller (which consent may be given or withheld in Seller's sole discretion). Each of WCL and New WCG hereby acknowledge and agree that the foregoing obligations shall survive termination of the Agreement and shall remain in full force and effect until all of the outstanding Loans are paid in full in accordance with applicable provisions of the WCG Bank Facility.

15. Shareholders Agreement. Seller, WAL, WAI and TWC (collectively, the "TWC Parties") have requested that Purchaser, WCL and New WCG (the "WCG Parties") cause CG Austria and/or WCP to obtain, and the WCG Parties hereby agree to cause CG Austria and/or WCP to promptly endeavor to obtain, a waiver or waivers in form and substance reasonably satisfactory to the TWC Parties (individually or collectively, the "Waiver") of any actual or potential default or event of default arising under or in connection with any actual or alleged breach or violation of Section 7.09 of the Shareholders Agreement by WCP arising solely in connection with any transaction or series of transactions as a result of which WCP no longer remained a Subsidiary (as such term is defined in the Shareholders Agreement) of Williams International Company (the "Shareholders Agreement Default"), provided that any failure by CG Austria or WCP to obtain the Waiver at any time following the date hereof and/or the existence and continuance of the Shareholders Agreement Default shall not (x) constitute an Event of Default (as such term is defined in the Purchase Money Mortgage) or (y) constitute a default or event of default or other breach or violation of the Pledge Agreement, the Equitable Mortgage or any other Loan Document (as such term is defined in the Purchase Money Mortgage) and, provided further, that the rights and remedies of any TWC Party against any WCG Party or WCP in respect of any failure by WCP to obtain the Waiver or the Shareholders Agreement Default shall be limited solely to the indemnification rights specified in this Section 15 and, provided further, in connection with the foregoing each TWC Party hereby agrees to take all actions reasonably requested by any WCG Party (at the sole cost and expense of such WCG Party) in furtherance of CG Austria's and/or WCP's efforts to obtain the Waiver. Each WCG Party hereby jointly and severally agrees to indemnify, reimburse and hold harmless each TWC Party and each of their respective successors and assigns (hereinafter, an "Indemnitee" and collectively the "Indemnitees"), to the fullest extent permitted by applicable law, from any and all liabilities, obligations, damages, penalties, claims, demands, actions, suits, judgments and any and all costs, expenses or disbursements (including attorneys' fees and expenses reasonably incurred)

(collectively, the "Indemnified Liabilities") of whatsoever kind and nature imposed on or reasonably incurred by any of the Indemnitees as a result of, relating to or arising out of any actual or prospective claim, litigation or other proceeding relating to or arising out of CG Austria's or WCP's failure to obtain the Waiver or the Shareholders Agreement Default, provided that no such Indemnitee shall be indemnified pursuant to this Section 15 for Indemnified Liabilities to the extent any such Indemnified Liabilities are caused by the gross negligence or willful misconduct of such Indemnitee (as determined by a court of competent jurisdiction in a final non-appealable decision). Each WCG Party acknowledges and agrees that upon receipt of written notice by any WCG Party from any Indemnitee of the existence or assertion of an Indemnified Liability, such WCG Party shall assume full responsibility for the defense thereof. Any amount due under this Section 15 shall be payable by one or more of the WCG Parties promptly upon and in any event within thirty (30) days after receipt of written demand by any Indemnitee therefor. Each Indemnitee hereby agrees to use reasonable efforts to promptly notify Purchaser of any actual or potential Indemnified Liability of which such Indemnitee has notice or knowledge and to specify in reasonable detail the nature of any such Indemnified Liability. The obligations of each WCG Party and CG Austria under this Section 15 shall survive termination of the Agreement and shall remain in full force and effect until: (1) CG Austria and/or WCP has obtained the Waiver and delivered a copy thereof to each TWC Party, (2) the Shareholders Agreement is terminated by mutual agreement of the parties thereto, (3) WCP ceases to be a party to the Shareholders Agreement or (4) the occurrence of a Permitted Disposition (as such term is defined in the Pledge Agreement).

16. Foreign Investment Review Board ("FIRB") Approval. Pursuant to Section 2 of the Pledge Agreement, the Pledge Agreement and the granting of the pledge and security interests thereunder by CG Austria to Seller thereunder shall not be effective and enforceable against CG Austria until Seller obtains the FIRB Approval (as such term is defined in the Pledge Agreement). Each WCG Party and TWC Party hereby agrees that, in the event that Seller is unable to obtain the FIRB Approval, (a) such failure to obtain the FIRB Approval shall not constitute (i) an Event of Default (as such term is defined in the Purchase Money Mortgage) or (ii) a default or event of default or other breach or violation of the Pledge Agreement, the Equitable Mortgage or any other Loan Document (as such term is defined in the Purchase Money Mortgage); (b) each WCG Party shall jointly and severally pay or reimburse (or shall cause CG Austria to pay or reimburse) Seller for any and all costs and expenses reasonably incurred by Seller in connection with obtaining the FIRB Approval (including Costs incurred by Seller in meeting any conditions to such approval set forth in any notification or other document issued by the Treasurer of the Commonwealth of Australia to any TWC Party in connection with the FIRB Approval (collectively, "FIRB Approval Costs")); (c) the rights and remedies of any TWC Party against any WCG Party, CG Austria or WCP in respect of any failure by Seller to obtain the FIRB Approval as provided herein shall be limited solely to the payment and reimbursement rights specified in this Section 16; and (d) in connection with the foregoing, each TWC Party hereby agrees to take, and each WCG Party hereby agrees to take and/or to cause CG Austria and/or WCP to take, all actions (at the sole cost and expense of the WCG Parties and/or CG Austria) reasonably necessary or reasonably requested by Seller in connection with obtaining the FIRB Approval. Any payment or reimbursement of any FIRB Approval Cost required to be made by any WCG Party or CG Austria to Seller pursuant to this Section 16 shall be payable by one or more of the WCG Parties or CG Austria promptly upon and in any event within thirty (30)

days after receipt of written demand by Seller therefor. Seller hereby agrees to (x) promptly notify Purchaser of and provide copies of any notification or other documentation received by any TWC Party relating to the FIRB Approval and (y) promptly notify Purchaser in writing of any actual or potential FIRB Approval Costs of which any TWC Party has notice or knowledge and to specify in reasonable detail in such written notice the nature of any such FIRB Approval Costs. The obligations of each WCG Party under this Section 16 shall survive termination of the Agreement and shall remain in full force and effect until Seller has obtained the FIRB Approval and delivered a copy thereof to Purchaser or the occurrence of a Permitted Disposition (as such term is defined in the Pledge Agreement). The TWC Parties and the WCG Parties hereby further agree that if Seller, notwithstanding the actions taken by the TWC Parties, the WCG Parties and/or CG Austria or WCP pursuant to this Section 16 or otherwise in connection with the FIRB Approval, is unable to obtain the FIRB Approval within 60 days after November 27, 2002, and Seller determines in its reasonable discretion on such date that it shall be unable to obtain the FIRB Approval within a reasonable period of time thereafter, (1) the TWC Parties and the WCG Parties shall take all necessary actions to rescind the Pledge Agreement and the Equitable Mortgage and terminate the liens, security interests and encumbrances granted by CG Austria thereunder (if any); and (2) one or more of the WCG Parties shall within 60 days thereafter (A) grant (or cause CG Austria (or another subsidiary or affiliate of any such WCG Party) to grant) a security interest in and lien on other assets or property (subject in all respects to the WCG Bank Facility and the Loan Documents (as such term is defined in the WCG Bank Facility)) pursuant to documentation reasonably acceptable to Seller and CG Austria in lieu of the Collateral (as such term is defined in the Pledge Agreement) having a value mutually determined in good faith by the TWC Parties and the WCG Parties to be reasonably equivalent to the fair value of the Collateral on such date to Seller to secure the Obligations (as such term is defined in the Purchase Money Mortgage), subject only to Permitted Encumbrances (as such term is defined in the Pledge Agreement) (collectively, the "New Pledge") or (B) cause CG Austria and/or WCP to enter into and consummate a Permitted Disposition (in each case at the sole cost and expense of the WCG Parties, provided that any such costs and expenses of any TWC Party are reasonably incurred by such TWC Party and specified in reasonable detail in writing to the Purchaser), provided that the TWC Parties shall negotiate in good faith with and otherwise undertake reasonable efforts to review and/or complete any such negotiations with the WCP Parties and/or CG Austria in connection with any such New Pledge or Permitted Disposition.

17. The parties hereto hereby agree that, pursuant to Section 4.11 of the Agreement, New WCG shall constitute "New WCG" (as such term is defined in Section 4.11 of the Agreement (as amended by this Amendment)) without further action of the parties and that as such Communications (a) shall from and after October 15, 2002 no longer be a party to the Agreement or have any rights or obligations under the Agreement (provided that Communications (i) shall remain a party to the Agreement (as amended by the First Amendment) in all respects and for all purposes for the period of time prior to and including such date and shall have all of the rights and obligations specified therein for the period of time prior to such date) and (ii) notwithstanding the foregoing, Communications shall be and remain an "Indemnitee" (as such term is defined in Section 41 of the First Amendment) in all respects for the purposes specified therein for so long as the indemnification provisions set forth in Section 41 remain in full force and effect; and (b) shall not be required to execute and deliver this Amendment. The parties acknowledge and agree that, notwithstanding the foregoing, each of this Amendment and the

Agreement (as amended by the First Amendment and this Amendment) shall constitute valid, binding obligations of each of the parties hereto, enforceable against each such party in accordance with their respective terms.

18. This Amendment shall be binding upon each party hereto and shall inure to the benefit of each party hereto and their respective successors and permitted assigns.

19. This Amendment may be executed in one or more counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original, and all of which when taken together shall constitute one and the same agreement. The delivery of an executed counterpart to this Amendment by facsimile shall be as effective as delivery of a manually executed counterpart of this Amendment.

20. Each of the parties hereto hereby agree that, except as specifically amended hereby, the Agreement (as amended by the First Amendment) and the First Amendment are each confirmed, ratified and approved in all respects and for all purposes. All references in the Agreement to "this Agreement" shall mean and refer to the Agreement as amended by the First Amendment and by this Amendment. All references in the First Amendment to "this Amendment" shall mean and refer to the First Amendment as amended by this Amendment.

21. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF OKLAHOMA (WITHOUT GIVING EFFECT TO THE PROVISIONS THEREOF RELATING TO CONFLICTS OF LAW).

IN WITNESS WHEREOF, each of the parties hereto have executed this Amendment by their duly authorized officers on and as of the date and year first above written.

WILLIAMS HEADQUARTERS BUILDING COMPANY

By: /s/ Mark W. Husband

Title: Vice President

WILLIAMS TECHNOLOGY CENTER, LLC

By: WILLIAMS COMMUNICATIONS, LLC,
its sole Member

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive,
Corporate Development and Finance and
Assistant Secretary

WILLIAMS COMMUNICATIONS, LLC

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive,
Corporate Development and Finance and
Assistant Secretary

WILTEL COMMUNICATIONS GROUP, INC.

By: /s/ Howard S. Kalika

Title: Vice President and Group Executive,
Corporate Development and Finance and
Assistant Secretary

WILLIAMS AIRCRAFT LEASING, LLC

By: WILLIAMS AIRCRAFT, INC., its sole member

By: /s/ Mark W. Husband

Title: Vice President

WILLIAMS AIRCRAFT, INC.

By: /s/ Mark W. Husband

Title: Vice President

THE WILLIAMS COMPANIES, INC.

By: /s/ Mark W. Husband

Title: Vice President

EXHIBIT 10.75

SETTLEMENT AND RETENTION AGREEMENT

THIS SETTLEMENT AND RETENTION AGREEMENT ("Agreement") is entered into this 18th day of December, 2002, by and between THE WILLIAMS COMPANIES, INC., a Delaware Corporation ("Company"), and JACK D. McCARTHY ("Executive");

WHEREAS, Executive has expressed an interest in retiring immediately;

WHEREAS, the Company has determined that it is critical to retain the services of Executive as an employee until December 31, 2002, ("Separation Date") to provide an orderly transition of his responsibilities;

WHEREAS, the Company has also determined that the continued availability of Executive to the Company after his retirement is also needed in order to provide such orderly transition;

WHEREAS, Executive is willing to delay his retirement to the Separation Date and to provide consulting services after his retirement in accordance with the provisions of this Agreement and the Consulting Agreement between the Company and him, a copy of which is attached hereto as Exhibit "A"; and

WHEREAS, Executive has requested, effective on his Separation Date, a distribution of his entire interest in the Williams Companies Supplemental Retirement Plan ("SERP") and Executive understands that he will not receive any further consideration, benefits or payments under the SERP;

NOW, THEREFORE, in consideration of their mutual promises made herein and for other good and valuable consideration, and intending to be legally bound, the Company and Executive hereby agree as follows:

1. Executive Services. Executive agrees to continue to provide his services as an employee of the Company until December 31, 2002, or such earlier time as the Company may determine in its sole and absolute discretion. It is expressly recognized by the parties hereto that Executive will continue to be employed by the Company as an "at will" employee and that the Company may terminate his services at any time with or without any reason. During his employment, Executive shall receive his current salary and except as otherwise provided in this Agreement, he shall be entitled to continue to participate in those employee benefit programs currently made available to him, unless such employee benefit programs are amended or terminated in accordance with their respective terms. The termination of Executive's employment prior to December 31, 2002, shall not in any way relieve Executive of any of his obligations hereunder including, but not limited to, his duty to provide consulting services and to provide a written release to the Company in accordance with the terms hereof.

2. Company Payments. The Company shall, in consideration of Executive's covenants and obligations hereunder:

(a) Pay Executive, on December 31, 2002, the sum of Seven Hundred and Forty-Seven Thousand Dollars ($747,000), less all amounts withheld under applicable federal and state tax laws, as a severance payment in lieu of any and all severance payments that may be owed to Executive, provided the Company shall be entitled to apply the net amount due (after applicable tax withholdings) to any outstanding balance,

including accrued interest, of Executive under his stock option loans from the Company;

(b) Pay Executive on, or within ten (10) days of the date on which the Release Agreement set forth in Exhibit "B" becomes effective in accordance with its terms, the sum of One Hundred Thousand Dollars ($100,000), less all amounts withheld under applicable federal and state tax laws for executing the release set forth on Exhibit "B."

Unless Executive has repaid his stock option loans, the Company shall not be required to deliver any funds to Executive in order to satisfy its obligations under subparagraphs 2(a) and 2(b). The Company's obligation with respect to such payments shall be limited to: (i) withholding and remitting to the appropriate governmental agency the applicable withholding amounts under applicable federal and state laws and regulations and (ii) with respect to the obligations under subparagraph 2(a) and 2(b), applying the remaining amount of such payments as an offset to repay Executive's stock option loan until such loan is discharged in full with the balance of the payments, if any, being remitted to Executive.

3. SERP. Executive hereby acknowledges and agrees that his SERP benefit is being paid to him at his request and that he will not be entitled to any further payments under the SERP. Executive hereby releases and forever discharges the SERP, the Company, its subsidiaries and affiliates (the "Williams Group") from any and all liabilities in connection with the SERP, including, but not limited to, any liability to provide any further payments to Executive.

4. Severance. Due to the retention and severance payment being made subparagraph 2(a) and 2(b), Executive also hereby voluntarily waives any right which he may have to receive severance payments (other than the payments provided hereunder) of any nature whatsoever from the Company, including but not limited to, the severance payments that are provided under any severance plans, practices, programs or agreements maintained by or contributed to by the Williams Group, including, but not limited to, any change-in-control severance plan or agreement.

5. Deferred Stock Awards. Executive's existing deferred stock awards that are scheduled to vest on January 1, 2003, July 31, 2003, and August 1, 2004, will continue to vest on such dates, provided Executive continues to perform all of his obligations under the Consulting Agreement and this Agreement until the applicable vesting date. Unless Executive has repaid his stock option loan, upon the vesting of a deferred stock award the Company shall not be required to deliver any shares to Executive in order to satisfy its obligations under this paragraph 5. The Company's obligation with respect to such deferred stock shall be limited to: (i) withholding and remitting to the appropriate governmental agency the applicable withholding amounts under applicable federal and state laws and regulations and (ii) applying the remaining shares as collateral for Executive's stock option loan until such loan is discharged in full. With respect to subparagraph 5(ii), concurrent with the vesting of each deferred stock award, Executive agrees to execute and to provide to the

Company an assignment separate from transfer with respect to the shares to be pledged as collateral.

6. Consulting. Executive and Company agree that Executive, upon the termination of his employment, will provide consulting services to the Company in accordance with the terms of the Consulting Agreement attached hereto as Exhibit "A."

7. Execution of Release. Executive agrees to execute no earlier than December 31, 2002, the Release Agreement attached hereto as Exhibit "B," provided that the Release shall in no way impair Executive's rights to indemnity from the Williams Group, including, but not limited to, his rights to indemnification under any certificate of incorporation, any bylaws, any corporate resolutions, any employee benefit plans, any insurance policies or any other instrument or agreement to which a member of the Williams Group is bound. Executive further understands that the execution of such Release is a material part of the consideration for the Company payments under Paragraph 2 hereof.

8. EICP Bonus. Executive shall not be entitled to receive a bonus under the Executive Incentive Compensation Program for the 2002 calendar year.

9. Indemnification. To the extent permitted by law and as provided in its certificate of incorporation and bylaws, the Company shall indemnify and hold harmless Executive from all claims made against him to the extent they relate to, or arise out of, his employment at the Company as a director, officer, or employee.

10. Benefits. Except as otherwise provided in Paragraphs 2, 3, 4, 5, and 8 hereof, nothing contained herein shall be construed to abrogate Executive's rights under any employee benefit or incentive compensation plan. Executive's rights under any such employee benefit or incentive compensation plan shall be governed by the terms of such plan.

11. Confidentiality. Executive covenants and agrees that, during and for six (6) years after termination of Executive's employment with Company, Executive shall not, unless required by applicable law, divulge, furnish, disclose or make accessible to any person, entity or governmental authority any knowledge or information, techniques, processes, trade secrets, customer information or lists, plans, devices or material with respect to any secret, confidential or sensitive research or development work, promotions, ideas, opportunities, business plans, designs, products or production methods of the Williams Group or with respect to any other secret, confidential or sensitive aspect of the business of the Williams Group, except as may be necessary in the furtherance and conduct of the business of the Williams Group. It is acknowledged that the Williams Group would be irreparably harmed if Executive should breach the provisions of this Paragraph 11. Accordingly, the Company is granted the right of specific performance to enforce the provisions of this Paragraph 11. Executive also acknowledges that this Paragraph 11 is a material term of this Agreement and that its breach could result in damage to the Williams Group that may be difficult to ascertain and that upon any such breach or in

reasonable anticipation of any such breach, the Company will be entitled to an order of any court of competent jurisdiction to enjoin such breach.

12. Exclusive Service. Through the Separation Date, Executive shall devote his full business time and attention and his best efforts to the performance of his duties hereunder.

13. Derogatory Remarks. Executive will not make public derogatory comments regarding the Williams Group or any of its current or former directors, officers or employees at any time before or after his termination of employment.

14. Files and Records. Promptly upon termination of his employment, Executive will return to the Company all property and all files and other documentation belonging to or relating or in any way pertaining to the Williams Group or the business or operations of the Williams Group, except as may be required by Executive in the bona fide enforcement of this Agreement.

15. Cooperation in Litigation. To the extent reasonably necessary and upon reasonable notice, following his termination of employment, Executive will cooperate with the Williams Group in connection with the prosecution or defense of any claim asserted by or against any of them (excluding a claim in connection with the enforcement of this Agreement) with respect to which Executive may have any knowledge.

16. General Provisions.

(a) Binding Agreement: This Agreement will be binding upon, and inure to the benefit of, Executive and the Company and their respective permitted successors and permitted assigns.

(b) Amendment of Agreement: This Agreement may not be modified or amended except by an instrument in writing signed by both Executive and a duly authorized representative of Company.

(c) Waiver: No term or condition of this Agreement will be deemed to have been waived, nor will there by any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver will be deemed a continuing waiver unless specifically stated therein, and each such waiver will operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(d) Headings: The heading of paragraphs or subparagraphs herein are included solely for convenience or reference and will not control the meaning or interpretation of any of the provisions of this Agreement.

(e) Notices: Any and all notices required to be sent pursuant to the terms of this Agreement will be sent by registered or certified mail or be personally delivered to the parties hereto at the following addresses or

such other addresses as they may designate:

Executive:

Jack D. McCarthy
[ ]
[ ]

Company:

The Williams Companies, Inc.
Attn: Senior Vice President, Human Resources
One Williams Center
P. O. Box 2400
Tulsa, Oklahoma 74102

(f) Governing Law: All the terms and provisions of this Agreement and their validity, interpretation, performance and enforcement will be governed by the laws of the State of Oklahoma.

(g) Agreement Binding: Except as otherwise expressly provided herein, the obligations of Executive under this Agreement will continue after the termination of Executive's employment with the Company for any reason, and will be binding on Executive's heirs, executors, legal representatives and permitted assigns and will inure to the benefit of the Company and any successors and assigns of the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day first written above.

THE WILLIAMS COMPANIES, INC.

By: /s/ Michael P. Johnson

Title: Senior Vice President

Witness:
/s/ Shawna L. Gehres

/s/ Jack D. McCarthy

Jack D. McCarthy

EXHIBIT "A"
CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT is entered into this ____ day of December, 2002, by and between THE WILLIAMS COMPANIES, INC. a Delaware Corporation, ("Williams") and Jack D. McCarthy ("Consultant").

WHEREAS, Williams wishes to avail itself of Consultant's knowledge, expertise and experience by utilizing the services of Consultant;

WHEREAS, Consultant is willing to serve as a consultant to Williams upon the terms and conditions set forth below;

NOW, THEREFORE, in consideration of their mutual promises and for other good and valuable consideration, Williams and Consultant hereby agree as follows:

1. Consulting Services.

(a) During the period beginning on the date on which Consultant ceases to be employed by Williams and continuing until August 31, 2004, (the "Consulting Period"), Consultant shall provide to Williams, its subsidiaries and affiliates (the "Williams Group"), consulting services commensurate with his status and experience with respect to the matters enumerated below and such other matters as shall be reasonably requested from time to time by the Chief Executive Officer of Williams (the "Williams Representative"), provided that Consultant shall not be required to provide such services during any period when he is unable to perform due to his health:

(i) Consultant shall assist with the 2002 year-end financial closing for the Williams Group;

(ii) Consultant shall assist in the selection of a Chief Financial Officer for the Williams Group and the transition of his replacement;

(iii) Consultant shall assist with the debt restructuring of the Williams Group; and

(iv) Consultant shall assist with the placement of the property and casualty insurance of the Williams Group during the first quarter of 2003.

Consultant shall provide consulting services to the Williams Group only as needed and when reasonably requested by the Williams Representative,

provided that, without his prior consent, Consultant shall not be required to devote more than one hundred twenty (120) hours in any calendar month to the performance of any consulting services hereunder, and provided further that, until such time as Williams has paid Consultant for a minimum of one thousand (1000) hours of consulting services and subject to the terms of Paragraph 6 of this Agreement, so long as Consultant makes reasonable efforts to be available for consulting services during the term of this agreement, Williams shall pay Consultant for a minimum of fifty (50) hours of consulting services during each month of the Consulting Period. Upon such time as Williams has paid Consultant for a minimum of one thousand (1000) hours, there shall be no monthly minimums for consulting services. Consultant shall determine the time and location at which he shall perform such services, subject to the right of the Williams Representative to reasonably request by advance written notice that such services be performed at a specific time and at a specific location. Consultant shall honor any such request unless he is unable to perform due to his health, or he has a conflicting business commitment that would preclude him from performing such services at the time and/or place requested by the Williams Representative, and in such circumstances, shall make reasonable efforts to arrange a mutually satisfactory alternative. Williams shall use its reasonable best efforts not to require the performance of consulting services in any manner that unreasonably interferes with any other business activity of Consultant.

(b) Consultant shall not, solely by virtue of the consulting services provided hereunder, be considered to be an officer or employee of any member of the Williams Group during the Consulting Period, and shall not have the power or authority to contract in the name of or bind any member of the Williams Group. Consultant shall at all times be treated as an independent contractor and shall be responsible for the payment of all taxes with respect to all amounts paid to him hereunder. Consultant shall not, by reason of the services performed hereunder, be entitled to participate in any employee benefits plan, program or arrangement made available to any employee of the Williams Group.

(c) This Agreement is personal to Consultant and all of the services required of Consultant hereunder shall be performed personally by him.

2. Consulting Fees.

(a) Williams shall pay Consultant, upon execution of this Agreement, the sum of One Hundred Fifty Thousand Dollars ($150,000) as consideration for executing this Agreement and for agreeing not to compete and not to solicit employees as provided for herein; and

(b) In respect of the services to be performed hereunder, Williams shall pay Consultant Three Hundred Fifty Dollars ($350.00) for each hour of consulting service, within ten (10) business days following submission by Consultant of an itemized report indicating the hours of service performed during the reporting period and fully describing the services rendered. The first such itemized report shall indicate the hours of service performed up to the date of that first report. Each succeeding report shall indicate the hours of service performed since the most recent report. Until such time as Williams has paid Consultant for a minimum of one thousand (1000) hours of consulting services, each itemized report shall include the minimum billing for fifty (50) hours of consulting services each month described in Paragraph 1(a) above plus any additional hours of service rendered during the reporting period. Williams shall also reimburse Consultant for such reasonable travel, lodging and other appropriate expenses incurred by Consultant in the course or on account of rendering consulting services hereunder, subject to the submission by Consultant of evidence of such expenses in a form reasonably satisfactory to Williams. Consultant shall be eligible for a discretionary bonus in an amount determined by the Company at the end of the Consulting Period, provided the Company determines, in its sole discretion that he properly performed all of his obligations under this Agreement during the Consulting Period.

3. Confidential Information. Consultant shall not, at any time during the Consulting Period, make use of or disclose, directly or indirectly, any (i) trade secret or other confidential or secret information of the Williams Group or (ii) other technical,

business, proprietary or financial information of the Williams Group not available to the public generally or to the competitors of the Williams Group ("Confidential Information"), except to the extent that such Confidential Information (a) becomes a matter of public record or is published in a newspaper, magazine or other periodical available to the general public, other than as a result of any act or omission of Consultant, (b) is required to be disclosed by any law, regulation or order of any court or regulatory commission, department or agency, provided that Consultant gives prompt notice of such requirement to Williams to enable Williams to seek an appropriate protective order, or (c) is necessary to perform properly Consultant's duties under this Agreement. Promptly following the termination of the Consulting Period, Consultant shall surrender to Williams all records, memoranda, notes, plans, reports, computer tapes and software and other documents and data which constitute Confidential Information which he may then possess or have under his control (together with all copies thereof).

4. Noncompetition; Nonsolicitation.

(a) Consultant acknowledges that during the Consulting Period he will become familiar with trade secrets and other confidential information concerning the Williams Group and that his services will be of special, unique and extraordinary value to the Williams Group.

(b) Consultant agrees that during the Consulting Period he shall not in any manner, directly or indirectly, through any person, firm or corporation, alone or as a member of a partnership or as an officer, director, stockholder, investor or employee of or consultant to any other corporation or enterprise or otherwise, engage or be engaged, or assist any other person, firm corporation or enterprise

in engaging or being engaged, in any business, in which Consultant was involved or of which he has knowledge is being conducted by the Williams Group during the Consulting Period, in any geographic area in which the Williams Group is then conducting such business. Notwithstanding the provisions of this subparagraph 4(b) to the contrary, Consultant may act as a director, stockholder, investor or employee of or consultant to any corporation or enterprise with regard to the business or businesses referred to above with the prior written consent of Williams, such consent not to be unreasonably withheld.

(c) Consultant further agrees that during the Consulting Period he shall not in any manner, directly or indirectly, induce or attempt to induce any employee of Williams Group to terminate or abandon his or her employment for any purpose whatsoever.

(d) Nothing in this Paragraph 4 shall prohibit Consultant from being (i) a stockholder in a mutual fund or a diversified investment company or (ii) a passive owner of not more than two percent (2%) of the outstanding stock of any class of a corporation, or any securities of which are publicly traded, so long as Consultant has no active participation in the business of such corporation.

(e) If, at any time of enforcement of this Paragraph 4,a court or an arbitrator holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court or arbitrator shall be allowed to revise the restrictions contained herein to cover the maximum

period, scope and area permitted by law. This Agreement shall not authorize a court or arbitrator to increase or broaden any of the restrictions in this Paragraph.

5. Hold Harmless. Consultant shall hold harmless Williams, its subsidiaries and affiliates, and its and their respective shareholders, officers, directors, employees and attorneys against any damage, injury, death, claim, loss, charge or expense (including, without limitation, attorneys' fees and court costs and the costs of investigation) of any party, including Consultant, arising out of or relating to, or claimed to arise out of or relate to, Consultant's gross negligence or willful misconduct in performing under this Agreement.

6. Termination of the Consulting Services. Williams may terminate this Agreement solely for cause, which shall be limited to either (i) the conviction of Consultant of a felony which has a substantial effect on the business or reputation of the Williams Group or (ii) the continual and repeated failure of Consultant to perform the services required of him hereunder, after written notice of the alleged failures and an opportunity to cure has been given. Consultant may only terminate this Agreement due to a material breach hereof by Williams.

7. Termination of Benefits. Nothing in this Agreement shall be construed to limit, reduce, offset or otherwise impair Consultant's rights to any benefits or compensation vested or accrued under the terms of the employee benefit plans, programs or arrangements maintained by Williams, other than those benefits which were released or waived by Consultant pursuant to the Settlement and Retention Agreement dated December 18, 2002.

8. Enforcement. The parties hereto agree that the Williams Group would be damaged irreparably in the event that any provision of Paragraph 3 or 4 of this Agreement were not performed in accordance with its terms or were otherwise breached and that money damages would be an inadequate remedy for any such nonperformance or breach. Accordingly, Williams and its successors and permitted assigns shall be entitled, in addition to other rights and remedies existing in their favor, to an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security). Consultant agrees that he will submit himself to the personal jurisdiction of the courts of the State of Oklahoma in any action by Williams to enforce an arbitration award against him or to obtain interim injunctive or other relief pending an arbitration decision.

9. Disputes. Any controversy or claim arising out of or relating to this Agreement, or any breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration Association then in effect in the State of Oklahoma, and judgment upon such award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The arbitration shall be held in Tulsa, Oklahoma, each party to bear its own costs. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. However, either party may, without inconsistency with this arbitration provision, apply to any court having jurisdiction over such dispute or controversy and seek interim provisional, injunctive or other equitable relief until the arbitration award is rendered or the controversy is otherwise resolved.

Williams and Consultant acknowledge that this Agreement evidences a transaction involving interstate commerce.

10. Computer Support and Access. During the Consulting Period, Williams shall provide and maintain Consultant's computer and access to Williams' network and telephone systems via his home office as shall be reasonably necessary for Consultant to provide the consulting services requested by the Williams Group under the terms of this Agreement.

1) Miscellaneous. This Agreement may only be amended by a written instrument signed by Williams and Consultant. Except as otherwise expressly provided hereunder, this Agreement shall constitute the entire agreement between Williams and Consultant with respect to the subject matter hereof. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

12. Notices. Any and all notices required to be sent pursuant to the terms of this Agreement will be sent by registered or certified mail or be personally delivered to the parties hereto at the following addresses or such other addresses as they may designate:

Consultant:

Jack D. McCarthy
[ ]

Company:

The Williams Companies, Inc.
Attn: Senior Vice President, Human Resources
One William Center
P. O. Box 2400
Tulsa, Oklahoma 74102

13. Successor and Assigns. This Agreement shall be enforceable by Consultant and his heirs, executors, administrators and legal representatives, and by Williams and its successors and assigns.

14. Survival. Paragraphs 3, 4, and 9 of this Agreement shall survive and continue in full force and effect in accordance with their respective terms, notwithstanding any termination of the Consulting Period.

15. Governing Law. This Agreement shall be governed by the laws of the State of Oklahoma, without reference to the principles of conflicts of law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day first written above.

THE WILLIAMS COMPANIES, INC.

By:_____
Title:_____

Witness:

_____ _____
Jack D. McCarthy

EXHIBIT "B"

RELEASE

THIS RELEASE (this "Agreement") is entered into this _____ day of January, 2003, by and between The Williams Companies, Inc. ("Williams") and Jack D. McCarthy ("Mr. McCarthy") and is effective seven days after the execution hereof by Mr. McCarthy (hereinafter the "Effective Date").

WHEREAS, the parties entered into a Settlement and Retention Agreement dated December 18, 2002 ("Settlement and Retention Agreement"); and

WHEREAS, such Settlement and Retention Agreement provided for the execution of this Agreement on or after December 31, 2002.

NOW, THEREFORE, in consideration of the mutual promises made herein, and for other good and valuable consideration, the parties hereby agree as follows:

I. COVENANTS AND OBLIGATIONS OF WILLIAMS

Williams Payments and Obligations. Williams shall pay to Mr. McCarthy the payments required under Paragraph 2 of the Settlement and Retention Agreement and apply such payments in accordance with such agreement. The Company will also perform its obligations under the Settlement and Retention Agreement.

II. COVENANTS AND OBLIGATIONS OF MR. McCARTHY

1. Release. Except for the obligations specifically set forth in this Agreement and the Settlement and Retention Agreement, including Paragraphs 7 and 9 thereof, Mr. McCarthy for himself, his attorneys, and his heirs, executors, administrators, successors and assigns, does hereby fully, finally and forever release and discharge Williams and its subsidiaries, affiliates, predecessors, successors and assigns and their respective officers, directors, employees, representatives, agents and fiduciaries, de facto or de jure ("Released Parties") of and from any and all charges, claims, actions (in law or in equity), suits, demands, losses, expenses, damages, debts, liabilities, obligations, disputes, proceedings, or any other manner of liability (known or unknown) including without limitation those arising from, in whole or in part, the employment relationship between Williams and Mr. McCarthy or the termination thereof which exist, or have heretofore accrued, fixed or contingent, known or unknown, including without limitation any claims arising under 42 U.S.C. Section 1981, 42 U.S.C. Section 1983, 42 U.S.C. Section 1985, 42 U.S.C. Section 1986, the Equal Pay Act, 29 U.S.C. Section 206(d), the National Labor Relations Act, as amended, 29 U.S.C. Section 160, et seq., the Americans With Disabilities Act, 42 U.S.C. Section 12101, et seq., the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"), 29 U.S.C. Section 1001, et seq., the Age Discrimination in Employment Act, 29 U.S.C. Section 621, et seq., Title VII of the Civil Rights Act of 1964 as amended by the Civil Rights Act of 1991, 42 U.S.C. Section 2000e, et seq., the Family and Medical Leave Act, 29 U.S.C. Section 2601 et seq., and claims of wrongful discharge, defamation, infliction of emotional distress, termination in violation of public policy, retaliatory discharge,

including those based on workers' compensation retaliation under state statutes, discrimination on the basis of handicap, or claims related to employee benefits or arising under any federal or state statute or common law.

2. Mr. McCarthy's Covenants. By signing this Agreement, Mr. McCarthy covenants, agrees, represents and warrants that:

(a) He has not filed and will not in the future file any lawsuits, complaints, petitions or accusatory pleadings against any of the Released Parties in any court based upon, arising out of or in any way related to any event or events occurring prior to the signing of this Agreement, including, without limitation, his employment with any of the Released Parties or the termination thereof;

(b) This Agreement specifically includes, without limitation, all claims asserted by or on behalf of Mr. McCarthy against any of the Released Parties, together with all claims which might have been asserted by or on behalf of Mr. McCarthy in any suit, claim (known or unknown), charge or grievance against any of the Released Parties for or on account of any matter or things whatsoever up to and including the effective date of this Agreement; and

(c) Mr. McCarthy waives all rights to recovery for any damages or compensation awarded as a result of any suit or proceeding by any third party or governmental agency on Mr. McCarthy's behalf related to claims released in Section 1 herein.

3. No Admission of Liability. Notwithstanding the provisions of this Agreement and the payments to be made by Williams to Mr. McCarthy hereunder, Williams does not admit any manner of liability to Mr. McCarthy but has entered into this Agreement as a means of settling any and all disputes between Williams and Mr. McCarthy.

4. Independent Advice. Mr. McCarthy has been encouraged to seek independent legal and tax advice concerning the provisions of this Agreement in general and, after such advice and consultation, Mr. McCarthy has freely and knowingly entered into this Agreement. Mr. McCarthy acknowledges, understands and affirms that:

(a) This Agreement is a binding legal document;

(b) Mr. McCarthy voluntarily signs and enters into this Agreement without reservation after having given the matter full and careful consideration;

(c) Mr. McCarthy acknowledges that he has been provided with the opportunity of at least twenty-one (21) days in which to consider this Agreement and that he has been advised to consult with an attorney before signing this Agreement. If Mr. McCarthy elects to take less than twenty-one (21) days to consider this Agreement, he does so knowingly, willingly and on advice of counsel, with full understanding that he is waiving a statutory right to take the full twenty-one (21) days. Mr. McCarthy warrants

that after careful review and study of this Agreement, he understands that the terms set forth herein are those actually agreed upon. Further, Mr. McCarthy acknowledges and understands that he has seven (7) days from his execution of this Agreement to revoke or rescind it, in writing, and that after the expiration of such seven (7) day period this Agreement is effective and enforceable and may not be revoked.

5. No Release of Vested Benefit. Mr. McCarthy does not, by this Agreement, release or discharge any right to any vested, deferred benefit in any qualified employee benefit plan which provides for retirement, pension, savings, thrift and/or employee stock ownership, as such terms are used under ERISA, maintained by any of the Released Parties which employed Mr. McCarthy provided; however, Mr. McCarthy agrees that he is not entitled to any other severance payment except as set forth in the Settlement and Retention Agreement.

III. GENERAL PROVISIONS

1. Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties hereto and their respective successors, assigns, personal representatives, officers, directors, agents, attorneys, parents, subsidiaries and affiliates.

2. Waiver or Amendment. No waiver, alteration, or modification of any of the provisions of this Agreement shall be binding unless in writing and signed both by Mr. McCarthy and a duly authorized representative of Williams.

3. Entirety. This Agreement and the Settlement and Retention Agreement constitute the entire agreement between the parties with respect to the subject matter hereof. This Agreement and the Settlement and Retention Agreement supersede any and all other negotiations, understandings or agreements, whether oral or in writing between the parties with respect to the subject matter hereof including, without limitation, any and all compensation or benefits payable to Mr. McCarthy.

4. Miscellaneous. This Agreement and the rights and obligations hereunder shall be construed in all respects in accordance with the internal laws of the State of Oklahoma without reference to the conflict of laws provisions thereof. If any provision of this Agreement be found or declared or determined by a court of competent jurisdiction to be invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby and any such invalid part, term or provision shall be deemed not to be a part of this Agreement. Any litigation concerning this Agreement or the facts or matters described herein shall be brought only in a court of competent jurisdiction in Tulsa County, Tulsa, Oklahoma.

5. Authorization. Each person signing this Agreement as a party or on behalf of a party represents that he is duly authorized to sign this Agreement and such party's behalf and is executing this Agreement voluntarily, knowingly and without any duress or coercion.

MR. McCARTHY FURTHER STATES THAT HE HAS CAREFULLY READ THIS DOCUMENT AND KNOWS AND UNDERSTANDS THE CONTENTS HEREOF AND THAT HE SIGNS THIS AGREEMENT AS HIS OWN FREE ACT AND DEED. THE

PROVISIONS OF THIS AGREEMENT SHALL BE EFFECTIVE THE DATE ON WHICH MR. McCARTHY SIGNS THIS AGREEMENT.

WITNESS:

THE WILLIAMS COMPANIES, INC.

_____

By:_____

Title:_____

Date signed: _____

_____

JACK D. McCARTHY

Date signed:_____

A C K N O W L E D G M E N T

I HEREBY ACKNOWLEDGE that _____, in accordance with the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act of 1990, informed me in writing that:

(1) I should consult with an attorney before signing the Release Agreement ("Release");

(2) I may review the Release for a period of up to twenty-one (21) days following the Separation Date. If I choose to take less than twenty-one (21) days to review the Release, I do so knowingly, willingly and on advice of counsel;

(3) For a period of seven days following the signing of the Release, I may revoke the Release, and that the Release will not become effective or enforceable until the seven day revocation period has elapsed which is the "Effective Date" set forth in the Release; and

(4) The sums described in Paragraph 2 of the Settlement and Retention Agreement will not be paid to me until the seven-day revocation period has elapsed.

I HEREBY FURTHER ACKNOWLEDGE receipt of this Release Agreement on the _____ day of December, 2002.

WITNESS:

_____

_____
Jack D. McCarthy

EXHIBIT 10.76

CONTRIBUTION AGREEMENT

BETWEEN AND AMONG

WILLIAMS ENERGY SERVICES, LLC

WILLIAMS GP LLC

AND

WILLIAMS ENERGY PARTNERS L.P.

APRIL 11,2002

TABLE OF CONTENTS

DEFINED TERMS

ARTICLE 2
CONTRIBUTION AND CLOSING

2.1 Contribution and Closing

Subject to the satisfaction or waiver of the conditions to closing set forth in Article 6, the closing of the contributions of the WPL LLC Interest and the other transactions described in Section 2.2 (the "Closing") will be held at the offices of WES on or before the third business day following satisfaction or waiver of all such conditions, commencing at 9:00 a.m., Tulsa, Oklahoma time or such other place, date and time as may be mutually agreed upon by the parties hereto. The "Closing Date," as referred to herein, shall mean the date of the Closing.

2.2 Deliveries at the Closing.

(a) WES will contribute the WPL LLC Interest to Williams GP LLC;

(b) In exchange for WES' contribution of the WPL LLC Interest, Williams GP LLC will assign and transfer to WES an additional 20.72% membership interest in Williams GP LLC;

(c) Williams GP LLC will contribute the WPL LLC Interest to Energy Partners in exchange for the following:

(A) the right to receive $674,364,000 in cash (the "Net Cash Proceeds") pursuant to a borrowing of $700 million, reduced by transaction fees of $10,600,000 and the amount of $15,036,000 for the WPL trade notes and accounts receivable reflected in Part V of Exhibit 1.1 and assigned to WES before Closing; and

(B) a number of Class B units of limited partnership interest in Energy Partners (the "New Units") determined by dividing 98% of the WES Equity Amount (as that term is defined below in this section) by the average price per unit for Energy Partners' common units (determined by averaging the closing price for such common units as reported in the principal composite reporting system for the NYSE for each of the first twenty trading days of the twenty-one trading days immediately preceding the Closing. If there are no sales on any one of those days of that twenty-day period, the average of the closing bid and asked prices for that day, as reported in the principal composite reporting system for the NYSE, will be used). Such New Units would have the rights and obligations specified in the Amended and Restated Agreement of Limited Partnership of Energy Partners as further amended by the First Amendment thereto dated as of the Closing Date. The term "WES Equity Amount" means $1,000,000,000 minus the sum of (i) the Net Cash Proceeds and (ii)

the amount of $15,036,000 for the "NFL trade notes and accounts receivable reflected in Part V of Exhibit 1.1 and assigned to WES before Closing); and

(C) an additional General Partner Interest in Energy Partners equal to 2% of the WES Equity Amount in satisfaction of Williams GP LLC's obligation, in connection with the transaction contemplated by this Agreement, to contribute 2% of total contributions to Energy Partners in accordance with the terms of Energy Partners' Amended and Restated Agreement of Limited Partnership; and.

(d) In accordance with clause (c)(1) above, Energy Partners will borrow the necessary funds and distribute the Borrowing Proceeds to Williams GP LLC in satisfaction of GP LLC's right to receive such amount as set forth in clause (c)(1)(A) above.

2.3 Transfer Taxes and Recording Fees

(a) WES and Williams GP LLC, as contributors hereunder, will each be responsible for any and all taxes or fees imposed or incurred by reason of the contributions hereunder and/or the filing or recording of any instruments necessary to effect the contributions hereunder, regardless of when such taxes or fees are levied or imposed.

2.4 Working Capital

The term "WPL Working Capital" means the adjusted net working capital working capital of WPL which excludes the receivables, intercompany amounts and other items specified by, and calculated a~ set forth, in Schedule 2.4 hereto. "Historical WPL Working Capital" means the average of the adjusted net working capital WPL Working Capital amounts for the six months of September - December, 2001 and January and February, 2002, as shown on Schedule 2.4.

As soon after Closing as is practicable (but not later than June 30, 2002), the Historical WPL Working Capital will be compared to WPL's Working Capital amount as of March 31, 2002. If there is a change from the Historical WPL Working Capital to the WPL Working Capital as of March 31, 2002, the following shall occur: (a) If such difference reflects either an increase in positive WPL Working Capital or a decrease in negative WPL Working Capital, Energy Partners shall promptly pay (in New Units or cash or a combination thereof, as the Parties shall mutually agree) the amount of such difference to WES; (b) if such difference reflects either a decrease in positive WFL Working Capital or an increase in negative WPL Working Capital, WES shall promptly pay (in New Units or cash or a combination thereof, as the Parties shall mutually agree) the amount of such difference to Energy Partners.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF WES

WES hereby represents and warrants to Williams GP LLC and Energy Partners that as of the date hereof and as of the Closing Date:

3.1 Organization and Existence

(a) WES is duly formed, validly existing and in good standing under the laws of the State of Delaware. WES has full limited liability company power and authority to transfer its ownership interest in WPL and perform its obligations hereunder

(b) WPL is duly formed, validly existing and in good standing under the laws of the State of Delaware. WPL has full limited liability company power and authority to own and hold the properties and assets it now owns and holds and to carry on its business as and where such properties are now owned or held and such business is now conducted. WPL is duly licensed or qualified to do business and is in good standing in the states in which the character of the properties and assets now owned or held by it or the nature of the business now conducted by it requires it to be so licensed or qualified, except where the failure to be so qualified or in good standing would not reasonably be expected to have a material adverse effect on WPL's business, financial condition or results of operations. The Limited Liability Company Agreement of WPL is attached as Schedule 3.1 to the Disclosure Letter (as that term is defined in Section 3.5).

3.2 Capitalization of WPL

(a) The authorized ownership interest of WPL consists of the WPL LLC Interest. The WPL LLC Interest has been validly issued and is fully paid and non-assessable and has not been issued in violation of any pre-emptive rights.

(b) There are no outstanding subscriptions, options, convertible securities, warrants, calls or rights of any kind issued or granted by, or binding upon, WPL, WES or any of their Affiliates (other than Energy Partners, Williams GP LLC or their subsidiaries) to purchase or otherwise acquire or issue, sell or otherwise transfer any security of or equity interest in WPL. WES owns the legal and beneficial title to, and has full legal right to contribute, assign and transfer the WPL LLC Interest to Williams GP LLC and will, at the time of delivery thereof to Williams GP LLC pursuant to the terms hereof, transfer good and valid title thereto free and clear of all Liens.

3.3 Subsidiaries

As of the Closing, WPL will not own any equity interest in any Person.

3.4 Authority and Approval

WES has the full limited liability company power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform all of the terms and conditions hereof to be performed by it. The execution and delivery of this Agreement, the performance of all the terms and conditions hereof to be performed by WES and the consummation of the transactions contemplated hereby have been duly authorized and approved by all requisite limited liability company governance action of WES. The WES Board of Directors has approved this Agreement and the transactions contemplated hereby. This Agreement constitutes the valid and binding obligation of WES enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of creditors' rights generally and by general principles of equity (whether applied in a proceeding at law or in equity).

3.5 No Conflict

Except as set forth in Part 3.5 of the Disclosure Letter (as defined below in this section), this Agreement and the execution and delivery hereof by WES does not, and the fulfillment and compliance with the terms and conditions hereof and the consummation of the transactions contemplated hereby will not, (a) conflict with any of, or require the consent of any Person (as defined below in this section) under, the terms, conditions or provisions of the limited liability company agreements charter, by-laws or equivalent governing instruments of WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries); (b) violate any provision of any law or administrative regulation or any judicial, administrative or arbitration order, award, judgment, writ, injunction or decree applicable to WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries); (c) conflict with, result in a breach of, constitute a default under (whether with notice or the lapse of time or both), or accelerate or permit the acceleration of the performance required by, or require any consent, authorization or approval under, any indenture, mortgage, lien or Contract to which WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries) is a party or by which it is bound or to which any property of WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries) is subject; (d) result in the creation of any lien, charge or encumbrance on the assets of WPL under any such indenture, mortgage, lien, lease or Contract, except in the case of clauses (b), (c) and (d), for those which individually or in the aggregate would not reasonably be expected to have an Adverse Effect as defined below in this section); or

As used in this Agreement: "Adverse Effect" means an adverse effect on the business, financial condition or results of operations of WPL, provided that Adverse Effect shall not include an adverse effect arising from matters that generally affect the economy or the industry in which WPL is engaged; "Person" means an individual or entity, including without limitation any partnership, corporation,

association, trust, limited liability company, joint venture, unincorporated organization or Governmental Authority; and "Disclosure Letter" means the disclosure letter delivered by WES to Williams GP LLC and Energy Partners concurrently with the execution and delivery of this Agreement.

3.6 Consents

Except as set forth in Part 3.6 of the Disclosure Letter, no consent, approval, license, permit, order or authorization of any court or federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality (collectively, "Governmental Authorities") or other Person is required to be obtained or made by or with respect to WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries) in connection with:

(a) the execution, delivery, and performance of this Agreement or the consummation of the transactions contemplated hereby; and

(b) the conduct by WPL of its business following the Closing as conducted on the date hereof.

3.7 Laws and Regulations; Litigation

Part 3,7 of the Disclosure Letter sets forth a list, as of the date of this Agreement, of all pending lawsuits or claims, with respect to which either WES, WPL or any of their Affiliates (other than Energy Partners, Williams GP LLC and their subsidiaries) has been contacted in writing, against or affecting WPL or any of its properties, assets, operations or businesses. Except as set forth in the Disclosure Letter, none of such pending lawsuits or claims (a) would individually, or in the aggregate, reasonably be expected to have an Adverse Effect or (b) seek any injunctive relief.

Except for those violations which would not individually, or in the aggregate, have an Adverse Effect, WPL is not in violation of or in default under any law or regulation or under any order of any Governmental Authorities applicable to it. Part 3.7 of the Disclosure Letter lists all of the claims, fines, actions, suits, demands, investigations or proceedings pending or, to WES' Knowledge (as the term Knowledge is defined below in this section), threatened against or affecting WPL, at law or in equity, by any Governmental Authorities having jurisdiction over WPL. Except as set forth in the Disclosure Letter none of such listed claims, fines, actions, suits, demands, investigations or proceedings would, individually or in the aggregate, reasonably be expected to have an Adverse Effect. Except as set forth in Part 3.7 of the Disclosure Letter, as of the date of this Agreement there is no lawsuit or claim by WPL that is pending against any other Person.

"Knowledge," as used in this Agreement with respect to a party means the actual knowledge of that party's designated officer without the need by that officer to have

conducted any independent investigation or inquiry. The designated officers for WES and WPL are Mike Mears, Bob Cronk, Rick Olson, Ralph Hill, Melanie Little, Paul Nelson, Scott Welch, and Joe Willis. The designated officer for both Williams GP LLC and Energy Partners is Don Wellendorf.

3.8 Financial Statements

Set forth as Schedule 3.8 of the Disclosure Letter are true and correct copies of Ernst & Young-audited WPL balance sheets as of December 31, 1999, 2000 and 2001, statements of income, cash flows and changes in member's equity for the fiscal years ended December 31, 1999, 2000 and 2001, including the notes thereto (the "Financial Statements"). Such Financial Statements present fairly, in all material respects, the financial condition, the results of operations and the cash flows of WPL as of such dates for each of those three years in conformity with generally accepted accounting principles applied on a consistent basis.

3.9 No Adverse Changes

Except as set forth in Part 3.9 of the Disclosure Letter, since December 31, 2001 there have been no changes in (a) the assets, liabilities, operations or financial condition of WPL, from that set forth in the Financial Statements or (b) the business or results of operations of WPL, which changes have had, or could reasonably be expected to have, an Adverse Effect.

Except as set forth in Part 3.9 of the Disclosure Letter, since December 31, 2001, WES has caused the business of WPL to be conducted in the ordinary course and in substantially the same manner as previously conducted and has made all reasonable efforts consistent with past practices to preserve WPL's relationships with customers and suppliers.

3.10 Liabilities

Except as set forth in the Financial Statements, WPL has incurred no obligations or liabilities (whether accrued, absolute, contingent, unliquidated or otherwise, whether due or to become due) that would individually or in the aggregate reasonably be expected to have an Adverse Effect, other than contractual and other liabilities incurred in the ordinary course of business which are not required to be disclosed on the Financial Statements under generally-accepted accounting principles and which would not, individually or in the aggregate, have an Adverse Effect.

WES or its Affiliates (excluding Energy Partners, its general partner and their subsidiaries) will, at Closing, assume or retain all liabilities and obligations relating to the Excluded Assets.

3.11 Taxes

(a) Except as set forth in Part 3.11 of the Disclosure Letter, (1) all Tax Returns (as defined in Section 7.1) required to be tiled by or with respect to WPL or its income, business assets or activities and any affiliated, consolidated, combined, unitary or similar group of which WPL or a predecessor to WPL is or was a member have been or will be duly filed on a timely basis (taking into account all extensions of due dates); (2) all Taxes owed by WPL or a predecessor to WPL and any affiliated, consolidated, combined, unitary or similar group of which WPL or a predecessor to WPL is or was a member which are or have become due have been timely paid in full; (3) WPL and its predecessor have withheld and paid over all Taxes required to have been withheld and paid over, and complied with all information reporting and backup withholding requirements, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party; (4) there are no liens on any of the assets of WPL that arose in connection with any failure (or alleged failure) to pay any Tax on any of the assets of the WPL, with respect to Taxes, other than liens for Taxes not yet due and payable; (5) there is no pending action, proceeding or investigation for assessment or collection of Taxes and no Tax assessment, deficiency or adjustment has been asserted or proposed with respect to WPL or any predecessor to WPL.

(b) Except as set forth in Part 3.11 of the Disclosure Letter, there are no outstanding claims by an authority in a jurisdiction where WPL (or any predecessor to WPL or any affiliated, consolidated, combined, unitary or similar group of which WPL is or was a member) does not file Tax Returns that WPL or any predecessor to WPL is or may be subject to taxation in that jurisdiction.

(c) Except as set forth in Part 3.11 of the Disclosure Letter, the total amounts set up as liabilities for current Taxes in the Financial Statements (as adjusted for operations and transactions in the ordinary course of business since the date of the Financial Statements in accordance with past custom and practice) will be sufficient to cover the payment of all Taxes, whether or not assessed or disputed, which are, or are hereafter found to be, or to have been, due by or with respect to WPL up to and through the periods ending on the dates thereof.

(d) Appended to Part 3.11 of the Disclosure Letter are true and complete copies of each written Tax allocation or sharing agreement (if any) and a true and complete description of each unwritten Tax allocation or sharing arrangement affecting WPL (if any). All such Tax allocation or sharing arrangements will be terminated with respect to WPL effective as of the Closing Date, and no payments will become due by WPL thereafter.

(e) WPL owns no interest in any controlled foreign corporation (as defined in section 957 of the Internal Revenue Code of 1986, as amended), foreign

personal holding company (as defined in Section 552 of the Internal Revenue Code of 1986, as amended), passive foreign investment company (as defined in section 1297 of the Internal Revenue Code of 1986, as amended) or other entity the income of which is or could be required to be included in the income of WPL.

(f) WPL is a disregarded entity for Federal income tax purposes. WPL has never made any election to be treated as a corporation under the Internal Revenue Code of 1986, as amended.

(g) None of the assets of WPL are subject to a safe-harbor lease (pursuant to section 168(0(8) of the Internal Revenue Code of 1954 as in effect after the Economic Recovery Tax Act of 1981 and before the Tax Reform Act of 1986) or is "tax-exempt use property" (within the meaning of section 168(h) of the Internal Revenue Code of 1986, as amended) or "tax-exempt bond financed property" (within the meaning of section 168(g)(5) of the Internal Revenue Code of 1986, as amended). No Person other than WPL may be treated as the owner of the assets of WPL for income tax purposes.

(h) Except as set forth in Part 3.11 of the Disclosure Letter, neither WPL nor its predecessor (1) has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was The Williams Companies, Inc.) and (2) has any liability for the Taxes of any person or entity under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(i) Neither WPL nor Energy Partners will be required to include any material amount in taxable income for any taxable period ending after the Closing Date attributable to any item that was economically accrued by WPL prior to the Closing Date. Furthermore, there are no agreements or arrangements with any Taxing Authority (as defined in Section 7.1) that may affect Taxes related to WPL following the Closing Date.

3.12 Employees and Benefits

(a) All of the non-union individuals performing employment-related services to WPL are shared services employees provided by WES. As of the Closing Date, WPL will not have any employees.

(b) Prior to Closing, Williams Petroleum Services, LLC will become a party to, and WPL will cease to be a party to, an amended collective bargaining agreement with the Paper, Allied-Industrial, Chemical, and Energy Workers International Union ("PACE") and with PACE Local 5-348 with respect to certain individuals who perform services in connection with the operations of WPL (the "PACE Collective Bargaining Agreement," a copy of which will be appended to Part 3.12 of the Disclosure Letter). Except for the foregoing,

WPL is not a party to or bound by any collective bargaining agreement with respect to employees who perform services in connection with the business or operations of WPL and, to the Knowledge of WES, there are not any union organizing efforts underway with respect to any such employees.

(c) Except as set forth in the Disclosure Letter, WPL does not sponsor, contribute to or maintain or have an obligation to sponsor, contribute to or maintain, and at any time during the past six (6) years has not sponsored, contributed to or maintained any employee benefit plan as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or any other employee benefit or compensation arrangement, agreement or program under which any director, employee, service provider or consultant or former director, employee, service provider or consultant of WPL has any present or future right to benefits, sponsored, contributed to or maintained by The Williams Companies, Inc., WES or WPL, or under which WPL has had or has any present or future liability (collectively, the "WPL Benefit Plans").

(d) At the Closing, Williams Petroleum Services, LLC and WES will assume or retain all liabilities and obligations relating to employees of WPL, any individuals performing services for WPL, and any WPL Benefit Plans with respect to all periods prior to Closing.

3.13 Accurate and Complete Records

To the Knowledge of WES, the books, ledgers, financial records and other records of WPL, all of which have been made available to Williams GP LLC and Energy Partners, are, or will be as of the Closing Date, in the possession of or accessible by and available to WPL, and have, in all material respects, been maintained in accordance with all applicable laws, rules and regulations and generally accepted standards of practice.

3.14 Environmental

(a) For purposes of this Agreement:

"Environmental Laws" includes, without limitation, the following laws, as amended: (1) the Resource Conservation and Recovery Act; (2) the Clean Air Act; (3) the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"); (4) the Federal Water Pollution Control Act; (5) the Safe Drinking Water Act; (6) the Toxic Substances Control Act; (7) the Emergency Planning and Community Right-to Know Act; (8) the National Environmental Policy Act; (9) the Occupational Safety and Health Act; (10) the Pollution Prevention Act of 1990; (11) the Oil Pollution Act of 1990; and (12) the Hazardous Materials Transportation Act. The term "Environmental Laws" also includes all rules, regulations, orders, judgments, decrees promulgated or issued with respect to the foregoing Environmental Laws by Governmental Authorities with jurisdiction and any other federal,

state or local statutes, laws, ordinances, rules, regulations, orders, codes, decisions, injunctions or decrees that regulate or otherwise pertain to the protection of human health, natural resources or the protection of the environment, including the management, control, discharge, emission, treatment, containment, handling, removal, use, generation, permitting migration, storage, release, transportation, disposal, remediation, manufacture, processing or distribution of Hazardous Materials that are or may present a threat to public health, worker or public safety or the environment,

"Hazardous Materials" means any substance, whether solid, liquid, or gaseous: (1) which is listed, classified, defined, or regulated as a "hazardous material," "hazardous waste," "solid waste," "hazardous substance," "toxic substance," "pollutant," "contaminant" or words of similar import, or otherwise classified as hazardous or toxic, in or pursuant to any Environmental Law; or (2) which is or contains asbestos, polychlorinated biphenyls, radon, urea formaldehyde foam insulation, explosives, or radioactive materials; or (3) any petroleum, petroleum hydrocarbons, petroleum products, crude oil and any components, fractions, or derivatives thereof, any oil or gas exploration or production waste, and any natural gas, synthetic gas and any mixtures thereof; or (4) which causes or poses a threat to cause contamination or nuisance on any properties, or any adjacent property or a hazard to the environment or to the health or safety of persons on or about any properties.

(b) All current investigations, remediations and sites being monitored in connection with the assets, properties or operations of WPL are set forth in Part 3.14 of the Disclosure Letter. Except as disclosed in Part 3.14 of the Disclosure Letter or as would not reasonably be expected, individually or in the aggregate, to have an Adverse Effect: (1) the respective assets, properties and operations of WPL are in compliance with applicable Environmental Laws and with the terms and conditions of all permits, registrations, licenses, filings, notifications, exemptions, authorizations and other approvals required under applicable Environmental Laws; (2) no circumstances exist with respect to WPL's respective assets and operations that give rise to an obligation by WPL to investigate, remediate, monitor or otherwise address the presence, on-site or offsite, of Hazardous Materials under any applicable Environmental Laws; (3) except as set forth in Part 3.14 of the Disclosure Letter, WPL and its respective assets and operations are not subject to any pending or, to the Knowledge of WES or WPL, threatened, claim, action, suit, investigation, inquiry or proceeding under any Environmental Law (including, without limitation, designation as a potentially responsible party under CERCLA or any similar local or state law); (4) all notices, permits, permit exemptions, registrations, licenses, approvals or similar authorizations, if any, required to be obtained or filed by WPL under any Environmental Law in connection with its operations and businesses have been duly obtained or filed and are valid and currently in effect; (5) there has been no release of any Hazardous Material into the environment by WPL or in connection with its assets, properties and operations; (6) there has been no exposure of any person or property to any Hazardous Material in

connection with the properties, operations or activities of WPL; (7) there are no facts or circumstances that could reasonably be expected to form the basis for any claim, action, investigation, notice or demand by any Person alleging potential liability against WPL or its assets or operations arising out of the presence or release of any Hazardous Material or noncompliance with Environmental Laws; and (8) WPL has made available to Williams GP LLC and Energy Partners all internal and external environmental audits, studies, correspondence and related documents on environmental matters (in each case relevant to WPL) in the possession or control of WPL.

3.15 Bankruptcy

There are no bankruptcy, reorganization or arrangement proceedings pending against, being contemplated by, or to WES's Knowledge, threatened against WES or WPL.

3.16 Contracts and Commitments

(a) Part 3.16 of the Disclosure Letter contains a complete and accurate list of all contracts (written or oral), plans, undertakings, commitments or agreements (including all amendments or supplements thereto) of the following categories to which WPL is a party or by which it or its assets are bound as of the date of this Agreement (the "Contracts"):

(1) each Contract that obligates WPL to perform services or deliver goods or materials;

(2) each Contract that obligates WPL to purchase services or goods or materials that either has a term extending beyond December 31, 2002 or would cause WPL to exceed budgeted amounts in its existing plan for 2002;

(3) each Contract that was not entered into in the ordinary course of business and that involves expenditures or receipts of WPL in excess of $100,000 per year;

(4) each lease, rental, license, and installment and conditional sale agreement affecting the ownership of, leasing of, title to, use of, or any or other interest in, any material real or personal property of WPL;

(5) each licensing agreement or other Contract with respect to patents, trademarks, copyrights, or other intellectual property;

(6) each joint venture, partnership, investment and other Contract (however named) requiring the investment of funds or the making of any loan by WPL in another Person, the purchase of any securities of any Person, the making of any investment in any venture or other business enterprise or involving a sharing of profits, losses, costs, or liabilities by WPL with any other Person;

(7) each Contract containing covenants that in any way purport to restrict the business activity of WPL or limit the freedom of WPL to engage in any line of business or to compete with any person;

(8) each Contract providing for payments to or by any person based on sales, purchases, or profits, other than direct payments for goods;

(9) each Contract for capital expenditures in excess of $1,000,000 and all Contracts for capital expenditures which, in the aggregate, exceed a total of $7.5 million;

(10) each written indemnity or guaranty, and any other similar undertaking with respect to contractual performance extended by WPL;

(11) each Contract relating to indebtedness for borrowed money or the mortgaging, pledging or encumbering of any assets; and

(12) each Contract with any Affiliate of WPL other than Contracts for the use of WPL's pipeline facilities in the ordinary course of business, arrangements related to services provided to WPL at cost and agreements for the purchase and sale of commodities required to operate the WPL facilities in the ordinary course of business.

(b) True copies of the written Contracts, and accurate written summaries of the oral Contracts, have been made available to Energy Partners. Except as set forth on Exhibit 3.16, neither WPL nor, to WES's Knowledge, any other party is in default under, or in breach or violation of (and no event has occurred which, with notice or the lapse of time or both, would constitute a default under, or a breach or violation or lapse of) any term, condition or provision of any Contract except for defaults, breaches, violations or events which, individually or in the aggregate, would not reasonably be expected to have an Adverse Effect.

(c) Other than Contracts which have terminated or expired in accordance with their terms, each of the Contracts is in full force and effect and constitutes valid, binding and enforceable obligations of WPL and enforceable obligations of any other party thereto, in accordance with its terms (subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing), except where the failure of such Contracts to be in full

force and effect or to have enforceable obligations would not reasonably be expected to have an Adverse Effect.

(d) Except as set forth in Part 3.16 of the Disclosure Letter or as would not, individually, or in the aggregate, reasonably be expected to have an Adverse Effect, in connection with any Contract (1) WPL has not received any prepayment, advance payment, deposits or similar payments, and has no refund obligation, with respect to any products or capacity purchased, sold, leased, transported, stored or handled by or on behalf of WPL; (2) WPL has not received any compensation for transportation, capacity leasing, storage or handling services which would be subject to any refund or creates any repayment obligation either by or to WPL, and to WES's Knowledge, there is no basis for a claim that such a refund is due; and (3) with regard to capacity leasing, transportation, handling and storage Contracts in effect as of the Closing Date, WPL will be entitled to receive the full contract price in accordance with the terms of each such contract for all capacity leased and for all products transported, handled, stored and/or sold on and after the Closing Date.

3.17 Assets

All of the assets which are necessary for the continued conduct of the business of WPL, as such business is conducted on the date of this Agreement, are, owned or leased by WPL.

The pipeline and terminal facilities, structures and equipment of WPL necessary to conduct its business as it's now being conducted are in good operating condition and repair (ordinary wear and tear excepted)

3.18 Assets Other than Real Property Interests

WPL has good and valid title to all non-real property material assets reflected on the balance sheets of the Financial Statements or thereafter acquired, except those sold or otherwise disposed of since December 31, 2001 in the ordinary course of business consistent with past practice and/or in accordance with the terms of this Agreement, in each case free and clear of all Liens (as defined below in this section) except (a) such Liens as are set forth in Part 3.18 of the Disclosure Letter, (b) mechanics', carriers', workmen's, repairmen's or other like Liens arising or incurred in the ordinary course of business, (c) Liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business, (d) Liens for Taxes that are not due and payable or that may thereafter be paid without penalty, and (e) other imperfections of title or encumbrances, if any, that, individually or in the aggregate, would not reasonably be expected to have an Adverse Effect or to interfere with the

conduct of WPL's business (the Liens described in clauses (b), (c), (d) and (e) above are hereinafter referred to collectively as "Permitted Liens")

As used herein, the term "Liens" means liens, mortgages, security interests, pledges, charges, encumbrances or rights of others.

3.19 Title to Real Property

WPL has:

(a) Valid and indefeasible rights in and to all easements and rights-of-way as are necessary to enable WPL to continue to conduct its business as it is now being conducted;

(b) good and valid title in fee to all real property and interests in real property purported to be owned in fee by WPL; and

(c) good and valid title to the leasehold estates in all real property and interests in real property purported to be leased by WPL, and in the case of both clause (b) and (c), free and clear of all Liens, except:

(1) Liens set forth in Part 3.19 of the Disclosure Letter;

(2) Permitted Liens; and

(3) easements, covenants, rights-of-way and other similar restrictions of record.

3.20 Intellectual Property

Part 3.20 of the Disclosure Letter sets forth a true and complete list of all material patents, trademarks (registered or unregistered), trade names, service marks and copyrights and applications therefore (collectively, "Intellectual Property"), owned, used, filed by or licensed to WPL. With respect to registered trademarks, Part 3.20 of the Disclosure Letter sets forth a list of all jurisdictions in which such trademarks are registered or applied for and all registration and application numbers. Except as set forth in Part 3.20 of the Disclosure Letter, WPL owns, and WPL has the right to use, execute, reproduce, display, perform, modify, enhance, distribute, prepare derivative works of and sublicense, without payment to any other person, all of the Intellectual Property, as applicable, and the consummation of the transactions contemplated hereby will not conflict with, alter or impair any such rights, in each case, except as such, individually or in the aggregate, would not reasonably be expected to have an Adverse Effect.

3.21 Licenses; Permits

Except as set forth in Part 3.21 of the Disclosure Letter WPL has all material licenses, permits and authorizations issued or granted by Governmental Authorities that are necessary for the conduct of the business of WPL as now being conducted. Except as set forth in Part 3.21 of the Disclosure Letter, all such licenses, permits and authorizations are validly held by WPL, WPL has complied in all material respects with all terms and conditions thereof and the same will not be subject to suspension, modification, revocation or nonrenewal as a result of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except such as, individually or in the aggregate, would not reasonably be expected to have an Adverse Effect.

3.22 Insurance

WES' parent company currently maintains policies of fire and casualty, liability, and other forms of insurance covering WPL in such amounts, with such deductibles, and against such risks and losses as are listed in Part 3.22 of the Disclosure Letter. All such policies are in full force and effect, all premiums due and payable thereon have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending prior to the Closing Date under comprehensive general liability and workmen's compensation insurance policies), and no notice of cancellation or termination has been received with respect to any such policy that has not been replaced on substantially similar terms prior to the date of such cancellation. To the Knowledge of WES, the activities and operations of WPL have been conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

3.23 Utility Status

Neither WES nor WPL is a "Holding Company" or a "Public Utility Company" or a "Gas Utility Company" as those terms are defined in the Public Utility Holding Company Act of 1935.

3.24 Brokerage Arrangements

Neither WES nor WPL has entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Williams GP LLC, Energy Partners or WPL to pay any commission, brokerage or "finder's fee" or other fee in connection with this Agreement or the transactions contemplated herein.

3.25 Securities Laws

(1) WES is an accredited investor within the meaning of Rule 501(a) under the Securities Act.

(2) WES has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment herein and WES is capable of bearing the economic risks of such investment.

3.26 Transactions with Affiliates

Except as set forth in Part 3.26 of the Disclosure Letter, there are no agreements, contracts or arrangements between WPL and any of its Affiliates other than Contracts for the use of WPL's pipeline facilities in the ordinary course of business, arrangements related to services provided to WPL at cost and agreements for the purchase and sale of commodities required to operate the WPL facilities in the ordinary course of business.

3.27 Excluded Assets

With the exception of the Atlas software (for which a license has been granted to Energy Partners and its Affiliates), none of the assets that are Excluded Assets set forth in Exhibit 1.1 are used in the operation of WPL's business as currently conducted, or are reasonably expected to be necessary in the operation of WPL's business in the foreseeable future.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF WILLIAMS GP LLC AND ENERGY PARTNERS

4.1 Williams GP LLC, as the general partner of Energy Partners, hereby represents and warrants to WES and Energy Partners that as of the date hereof and as of the Closing Date:

4.1(a) Organization and Existence

Williams GP LLC is a limited liability company validly existing and in good standing under the laws of the State of Delaware. Williams GP LLC has full limited liability company power and authority to own and hold the properties and assets it now owns and holds and to carry on its business as and where such properties are now owned or held and such business is now conducted. Williams GP LLC is duly licensed or qualified to do business as a foreign limited liability company and is in good standing in the states in which the character of the properties and assets now owned or held by it or the nature of the business now conducted by it requires it to be so licensed or qualified, except where the failure to be so qualified or in good standing would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of Williams GP LLC.

4.1(b) Authority and Approval

Williams GP LLC has the limited liability company power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform all the terms and conditions hereof to be performed by it. Prior to Closing, the execution and delivery by Williams GP LLC of this Agreement, the performance by Williams GP LLC of all the terms and conditions hereof to be performed by it and the consummation of the transactions contemplated hereby shall have been duly authorized and approved by all requisite limited liability company action of Williams GP LLC. The Conflicts Committee of the Board of Directors of Williams GP LLC and the Board of Directors of Williams GP LLC have approved this Agreement and the transactions contemplated hereby on behalf of Energy Partners. This Agreement constitutes the valid and binding obligation of Williams GP LLC enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of creditors' rights generally and by general principles of equity (whether applied in a proceeding at law or in equity). Assuming receipt of good and valid title to the WPL LLC Interest by Williams GP LLC upon the contribution pursuant to this Agreement of the WPL LLC Interest to Williams GP LLC by WES, Williams GP LLC will have the full legal right to contribute, assign and transfer the WPL LLC Interest to Energy Partners and will, at the time of delivery thereof to Energy Partners pursuant to the terms hereof, transfer good and valid title thereto free and clear of all Liens.

4.1(c) Brokerage Arrangements

Williams GP LLC has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate WES or any of its Affiliates (other than Williams GP LLC and Energy Partners and its subsidiaries) to pay any commission, brokerage or "finder's fee" in connection with this Agreement or the transactions contemplated herein.

4.1(d) Utility Status

Williams GP LLC is not a "Holding Company" or a "Public Utility Company" or a "Gas Utility Company" as those terms are defined in the Public Utility Holding Company Act of 1935.

4.1(e) Securities Laws

(1) Williams GP LLC is an accredited investor within the meaning of Rule 50 1(a) under the Securities Act.

(2) Williams GP LLC has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the New Units and Williams GP LLC is capable of bearing the economic risks of such investment.

4.2 Energy Partners represents and warrants to WES and to Williams GP LLC that as of the date hereof and as of the Closing Date:

4.2(a) Organization and Existence

Energy Partners is a limited partnership validly existing and in good standing under the laws of the State of Delaware. Energy Partners has full limited partnership power and authority to own and hold the properties and assets it now owns and holds and to carry on its business as and where such properties are now owned or held and such business is now conducted. Energy Partners is duly licensed or qualified to do business as a foreign limited partnership and is in good standing in the states in which the character of the properties and assets now owned or held by it or the nature of the business now conducted by it requires it to be so licensed or qualified, except where the failure to be so qualified or in good standing would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of Energy Partners.

4.2(b) Authority and Approval

Energy Partners has the limited partnership power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to perform all the terms and conditions hereof to be performed by it. The execution and delivery by Energy Partners of this Agreement, the performance by Energy Partners of all the terms and conditions hereof to be performed by it and the consummation of the transactions contemplated hereby have been duly authorized and approved by all requisite action of the general partner of Energy Partners, This Agreement constitutes the valid and binding obligation of Energy Partners enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of creditors' rights generally and by general principles of equity (whether applied in a proceeding at law or in equity).

4.2(c) Brokerage Arrangements

Energy Partners has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate WES or any of its Affiliates (other than Williams GP LLC and Energy Partners and its subsidiaries) to pay any commission, brokerage or "finder's fee" in

connection with this Agreement or the transactions contemplated herein.

4.2(d) Utility Status

Energy Partners is not a "Holding Company" or a "Public Utility Company" or a "Gas Utility Company" as those terms are defined in the Public Utility Holding Company Act of 1935.

4.2(e) New Units

The New Units to be delivered at Closing shall be duly authorized and validly issued in accordance with, and subject to the terms of, the Amended and Restated Agreement of Limited Partnership of Energy Partners, as further amended by the First Amendment thereto dated as of the Closing Date, and free of all Liens and restrictions other than as expressly set forth in accordance with, and subject to the terms of, the Amended and Restated Agreement of Limited Partnership of Energy Partners, as further amended by the First Amendment thereto dated as of the Closing Date.

ARTICLE 5
ADDITIONAL AGREEMENTS, COVENANTS, RIGHTS AND OBLIGATIONS

5.1 Certain Changes

Except as set forth in Part 5.1 of the Disclosure Letter or with respect to the Excluded Assets, without first obtaining the written consent of Energy Partners, from the date hereof until the Closing Date, WIES covenants that it will cause WPL not to:

(a) make any material change in the conduct of its businesses and operations, or its financial reporting and accounting methods;

(b) other than in the ordinary course of business, enter into any contract or agreement that would be defined as a "Contract" hereunder or terminate or amend in any material respect any Contract;

(c) declare, set aside .or pay any dividends, or make any distributions, in respect of the WPL LLC Interest, or repurchase, redeem or otherwise acquire any such securities;

(d) merge into or with or consolidate with any other entity or acquire all or substantially all of the business or assets of any person or other entity;

(e) make any change in its charter documents, limited liability company documents, or equivalent governing instruments;

(f) purchase any securities of any person or entity, except short term debt securities of governmental entities and banks, or make any investment in any venture or other business enterprise other than as required pursuant to existing Contracts;

(g) increase the indebtedness of, or incur any obligation or liability, direct or indirect, for WPL, other than the incurrence of liabilities pursuant to existing Contracts or in the ordinary course of business consistent with past practices;

(h) sell, lease or otherwise dispose of any of its assets other than the sale of assets in the ordinary course of business or pursuant to existing Contracts;

(i) purchase, lease or otherwise acquire any property of any kind other than in the ordinary course of business;

(j) implement or adopt any material change in its tax methods, principles or elections;

(k) hire any employees, enter into any employment agreement or enter into or amend any collective bargaining or labor agreements (except as set forth in Section 3.12) or adopt, modify or terminate any benefit plan (except as contemplated by Section 3.12);

(1) permit any of its assets to become subjected to any material Lien, covenant, right-of-way or other similar restriction of any nature whatsoever;

(m) waive any claims or rights of substantial value;

(n) enter into or agree upon any settlement or compromise of pending litigation or other pending proceedings before any Governmental Authority other than any matter that is settled or compromised by the payment of damages or fines of less than $100,000;

(o) except as contemplated in Sections 5.2(d) and 5.2(e) or as may be required to perform WES's obligations under this Agreement, make any application, filing or other request for approval from any Governmental Authority with respect to any new rates, services, terms and conditions of service or construction of facilities; or

(p) enter into a binding commitment to do any of the foregoing.

5.2 Operations

Other than as provided in this Agreement, WES will cause WPL to:

(a) maintain its properties and facilities necessary to conduct its business as it is now being conducted in as good working order and condition as of the date hereof, ordinary wear and tear excepted;

(b) use its reasonable best efforts to maintain and preserve its business, retain present employees and maintain its relationship with suppliers, customers and others having business relations with it;

(c) advise Williams GP LLC and Energy Partners promptly in writing of any material change in any document, schedule or other information delivered pursuant to this Agreement;

(d) file on a timely basis all notices, reports or other filings necessary or required for the continuing operation of WPL's business to be filed with or reported to any federal, state, municipal or other governmental department, commission, board, bureau, agency or any instrumentality of any of the foregoing wherever located; and

(e) file on a timely basis all complete and correct applications or other documents necessary to maintain, renew or extend any permit, variance or any other approval required by any Governmental Authority necessary or required for the continuing operation of WPL's business whether or not such approval would expire before or after the Closing Date.

5.3 Access

WES will continue to afford Williams GIP LLC and Energy Partners and their authorized representatives reasonable access to WPL's financial, title, tax, corporate and legal materials and operating data and information available as of the date hereof and which becomes available to WES at any time prior to the Closing Date, and will furnish to Williams GP LLC and Energy Partners such other information as it may reasonably request, unless any such access and disclosure would violate the terms of any confidentiality agreement to which WES and/or WPL is bound or any applicable law or regulation.

WES will use its reasonable best efforts upon request to secure all requisite consents for the examination by Williams GP LLC and Energy Partners and its representatives of any information covered by confidentiality agreements which would restrict their access to information. WES will cause WPL to allow Williams GP LLC and Energy Partners and their representative's access to and consultation with the lawyers, accountants, and other professionals employed by or used by the WPL for all purposes under this Agreement. Any such consultation shall occur under circumstances appropriate to maintain intact the attorney-client privilege as to privileged communications and attorney work product.

Additionally, WES will afford to Williams GP LLC and Energy Partners and their representatives reasonable access to the books and records of WES insofar as they relate to property, accounting and tax matters of WPL. Until the Closing Date, the confidentiality of any data or information so acquired shall be maintained by Williams GP LLC and Energy Partners and their representatives. Further, WES will afford to Williams GP LLC and Energy Partners and their authorized representatives reasonable access from the date hereof until the Closing Date, during normal business hours, to the WPL assets and properties; provided that such access shall be at the sole cost, expense and risk of Williams GP LLC and Energy Partners.

5.4 Reporting Requirements

WES, Williams GP LLC and Energy Partners will duly and timely file all notices and reports required to be filed with all Governmental Authorities in contemplation of the consummation of the transactions described herein,

5.5 Reasonable Best Efforts; Further Assurances

WES and Williams GP LLC and Energy Partners shall use their reasonable best efforts (a) to obtain all approvals and consents required by or necessary for the transactions contemplated by this Agreement, and (b) to ensure that all of the conditions to the obligations of Williams GP LLC and Energy Partners and WES contained in Sections 6.1 and 6.2, respectively, are satisfied timely.

Each of the parties acknowledges that certain actions may be necessary with respect to the matters and actions contemplated by this Agreement such as making notifications and obtaining consents or approvals or other clearances that are material to the consummation of the transactions contemplated hereby, and each agrees to take all appropriate action and to do all things necessary, proper or advisable under applicable laws and regulations to make effective the transactions contemplated by this Agreement; provided, however, that nothing in this Agreement will require any party hereto to hold separate or make any divestiture not expressly contemplated herein of any asset or otherwise agree to any restriction on its operations or other materially burdensome condition which would in any such case be material to its assets, liabilities or business in order to obtain any consent or approval or other clearance required by this Agreement.

5.6 Casualty Loss

If all or any material portion of the WPL facilities is damaged or destroyed by fire or other casualty before the Closing, either party may, at its option, terminate this Agreement by verbal and written notice to the other party prior to Closing. If neither party elects to terminate this Agreement as aforesaid, the parties shall proceed to close the transactions contemplated hereby, in which event WES shall assign to the Williams GP LLC and Energy Partners all of WES' right, title and interest in any claim under any applicable insurance policies in respect of such casualty. If the total amount of any such insurance proceeds is not sufficient to

fully repair and/or replace the damaged facilities to return them to their pre-damage or destruction operating condition and repair, the amount of such shortfall shall, at the option of WES, either be paid by WES to Energy Partners or will reduce the number of New Units that Energy Partners is to deliver to WES under Section 2.2 by the number of such New Units as equal, in value, the shortfall.

If the casualty loss does not involve all or any material portion of the WPL facilities, then the parties shall be obligated to close the transaction contemplated herein according to the terms hereof, notwithstanding such casualty loss, and WES shall, at the election of Williams GP LLC and Energy Partners, either: (a) repair the damages caused by such casualty loss prior to Closing, at its expense; or (b) pay the deductible due under the insurance policy or policies insuring the same and deliver or assign to the other party, at Closing, any and all insurance proceeds or rights to proceeds attributable to such casualty loss. For the purposes of this Section, a "material portion" means any casualty loss which is equal to or greater than Twenty Million Dollars ($20,000,000.00).

ARTICLE 6
CONDITIONS TO CLOSING

6.1 Conditions to the Obligations of Williams GP LLC and Energy Partners

The obligations of Williams GP LLC and Energy Partners to proceed with the Closing contemplated hereby are subject to the satisfaction on or prior to the Closing Date of all of the following conditions, any one or more of which may be waived in whole or in part, by Williams GP LLC and Energy Partners:

(a) The representations and warranties of WES made in this Agreement and qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, as of the date hereof and as of the time of the Closing as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, on and as of such earlier date). WES shall have performed or complied in all material respects with all obligations and covenants required by this Agreement to be performed or complied with by WES by the time of the Closing. WES shall have delivered to Williams GP LLC and Energy Partners a certificate, dated as of the Closing Date and signed by an authorized officer of WES, confirming the foregoing matters set forth in this Section 6.1(a).

(b) No action or proceeding before a court or other Governmental Authority shall have been instituted or threatened challenging or seeking to restrain or prohibit the consummation of the transactions contemplated by this Agreement.

(c) All necessary consents of any third Person required for the consummation of the transactions contemplated in this Agreement shall have been made and obtained.

(d) No statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order enacted, entered, promulgated, enforced or issued by any Governmental Authority, or other legal restraint or prohibition preventing the consummation of the transactions contemplated hereby shall be in effect.

(e) Execution and delivery by all parties thereto of the Second Amendment to the Omnibus Agreement substantially in the form of Exhibit 6.1(e) hereto.

(f) Delivery of a First Amendment, dated as of the Closing Date, to the Amended and Restated Agreement of Limited Partnership of Energy Partners which provides for the issuance of the New Units.

(g) Williams GP LLC and Energy Partners shall have obtained (on terms satisfactory to them) the third-Person financing required to satisfy their obligations under Sections 2.2(c)(l)(A) and 2.2(d).

(h) Execution and delivery of a Blending and Storage Services Agreement between WPL and Williams Terminals Holdings, L.P., on the one hand, and WES, on the other.

6.2 Conditions to the Obligation of WES

The obligation of WES to proceed with the Closing contemplated hereby is subject to the satisfaction on or prior to the Closing Date of all of the following conditions, any one or more of which may be waived in writing, in whole or in part, by WES:

(a) The representations and warranties of both Williams GP LLC and Energy Partners made in this Agreement qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, as of the date hereof and as of the time of the Closing as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, on and as of such earlier date). Williams GP LLC and Energy Partners shall have performed or complied in all material respects with all obligations and covenants required by this Agreement to be performed or complied with by Williams GP LLC and Energy Partners by the time of the Closing. Williams GP LLC and Energy Partners shall have delivered to the WES a certificate, dated as of the Closing Date and signed by an authorized officer of Williams GP LLC and Energy Partners confirming the foregoing matters set forth in this Section 6.2(a).

(b) No action or proceeding before a court or any other Governmental Authority shall have been instituted or threatened challenging or seeking to restrain or prohibit the consummation of the transactions contemplated by this Agreement.

(c) All necessary consents of any Person not a party hereto required for the consummation of the transactions contemplated in this Agreement shall have been made and obtained.

(d) No statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order enacted, entered, promulgated, enforced or issued by any Governmental Authority, or other legal restraint or prohibition preventing the consummation of the transactions contemplated hereby shall be in effect.

(e) Execution and delivery by all parties thereto of the Second Amendment to the Omnibus Agreement substantially in the form of Exhibit 6.1(e) hereto.

(f) Delivery of a First Amendment, dated as of the Closing Date, to the Amended and Restated Agreement of Limited Partnership of Energy Partners Which provides for the issuance of the New Units.

ARTICLE 7
TAX MATTERS

7.1 Liability for Taxes

(a) For purposes of this Agreement:

(1) "Tax" or "Taxes" means all taxes, however denominated, including any interest, penalties or other additions to tax that may become payable in respect thereof, imposed by any federal, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and state income taxes), gross receipts taxes, net proceeds taxes, alternative or add-on minimum, sales taxes, use taxes, real property gains or transfer taxes, ad valorem taxes, property taxes, value-added taxes, franchise taxes, production taxes, severance taxes, windfall profit taxes, withholding taxes, payroll taxes, employment taxes, excise taxes and other obligations of the same or similar nature to any of the foregoing;

(2) "Tax Returns" means all reports, estimates, declarations of estimated Tax, information statements and returns relating to, or required to be filed in connection with, any Taxes, including information returns or reports with respect to backup withholding and other payments to third parties; and

(3) "Taxing Authority" means, with respect to any Tax, the governmental body, entity or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such entity or subdivision, including any governmental or quasi-governmental entity or agency that imposes, or is charged with collecting, social security or similar charges or premiums.

(b) WES shall be liable for, and shall indemnify and hold Energy Partners, WPL and their respective subsidiaries harmless from any Taxes, together with any costs, expenses, losses or damages, including reasonable expenses of investigation and attorneys' and accountants' fees and expenses, arising out of or incident to the determination, assessment or collection of such Taxes ("Tax Losses"), (1) imposed on or incurred by WPL by reason of Treasury Regulations Section 1.1502-6 or any analogous state, local or foreign law or regulation which is attributable to WPL or a predecessor to WPL having been a member of any consolidated, combined or unitary group on or prior to the Closing Date, (2) imposed on or incurred by WPL with respect to all periods prior to and including the Closing Date, or (3) attributable to a breach by WES of any representation, warranty or covenant with respect to Taxes in this Agreement.

(c) Energy Partners shall be liable for, and shall indemnify and hold WES and its affiliates harmless from, any Tax Losses (1) imposed on or incurred by WPL with respect to the period after the Closing Date or (2) attributable to a breach by Energy Partners of any covenant with respect to Taxes in this Agreement.

(d) Whenever it is necessary for purposes of this Article 7 to determine the amount of any Taxes imposed on or incurred by WPL or a predecessor to WPL for a taxable period beginning before and ending after the Closing Date which is allocable to the period prior to and including the Closing Date, the determination shall be made, in the case of property or ad valorem taxes or franchise taxes (which are measured by, or based solely upon capital, debt or a combination of capital and debt), on a per diem basis and, in the case of other Taxes, by assuming that such pre-Closing Date period constitutes a separate taxable period of WPL or a predecessor thereto and by taking into account the actual taxable events occurring during such period (except that exemptions, allowances and deductions for a taxable period beginning before and ending after the Closing Date that are calculated on an annual or periodic basis, such as the deduction for depreciation,. shall be apportioned to the period prior to and including the Closing Date ratably on a per diem basis). Notwithstanding anything to the contrary herein, any franchise Tax paid or

payable with respect to WPL or a predecessor to WPL shall be allocated to the taxable period during which the income, operations, assets or capital comprising the base of such Tax is measured, regardless of whether the right to do business for another taxable period is obtained by the payment of such franchise Tax.

(e) Energy Partners agrees to pay to WES any refund received after the Closing Date by it or its affiliates, including WPL, in respect of any Taxes for which WES is liable under clause (b) of this Section 7.1. WES agrees to pay to Energy Partners any refund received by WES or their affiliates in respect of any Taxes for which Williams GP LLC and Energy Partners is liable under clause (c) of this Section 7.1. The parties shall cooperate in order to take all steps reasonably necessary to claim any such refund. Any such refund received by a party or its affiliate for the account of the other party shall be paid to such other pasty within 90 days after such refund is received.

(f) Williams GP LLC and Energy Partners and WES agree not to make or cause any election (including an election to ratably allocate items under Treasury Regulations Section 1.1502-76(b)(2)(ii)) to allocate tax items in a manner inconsistent with Section 7.1(d) hereof.

7.2 Tax Returns

(a) WES shall cause to be included in the consolidated federal income Tax Returns (and the state income Tax Returns of any state that permits consolidated, combined or unitary income Tax Returns, if any) of the Williams Group (as defined herein) for all periods ending on or before the Closing Date, all Tax items of WPL which are required to be included therein, shall cause such Tax Returns to be timely filed with the appropriate Taxing Authorities, and shall be responsible for the timely payment (and entitled to any refund) of all Taxes due with respect to the periods covered by such Tax Returns. For purposes of this Agreement, "Williams Group" means the affiliated group of corporations within the meaning of section 1504 of the Internal Revenue Code of 1986, as amended, which files a consolidated federal income Tax Return and as to which The Williams Companies, Inc. is the common parent, and, in the case of any combined or unitary Tax Return, the group of corporations filing such Tax Return that includes WPL or its operations.

(b) With respect to any Tax Return covering a taxable period ending on or before the Closing Date that is required to be filed after the Closing Date with respect to WPL that is not described in paragraph (a) above, WES shall cause such Tax Return to be prepared, shall cause to be included in such Tax Return all Tax items required to be included therein, shall cause such Tax Return to be filed timely with the appropriate Taxing Authority, and shall be responsible for the timely payment (and entitled to any refund) of all Taxes due with respect to the period covered by such Tax Return.

(c) With respect to any Tax Return covering a taxable period beginning on or before the Closing Date and ending after the Closing Date that is required to be filed after the Closing Date with respect to WPL, Energy Partners shall cause such Tax Return to be prepared, shall cause to be included in such Tax Return all Tax items required to be included therein, shall furnish a copy of such Tax Return to WES, shall file timely such Tax Return with the appropriate Taxing Authority, and shall be responsible for the timely payment of all Taxes due with respect to the period covered by such Tax Return. Energy Partners shall determine, in accordance with the provisions of Section 7.1(d) of the Agreement, the amount of Tax due with respect to the period prior to and including the Closing Date (the "Contributor's Tax") and shall notify WES of its determination of the Contributor's Tax. WES shall pay to Energy Partners an amount equal to the Contributor's Tax not later than five days after the filing of such Tax Return. Any refund attributable to Tax Returns filed pursuant to this Section 7.2(c) shall be apportioned between Energy Partners and WES in a manner consistent with calculation of the Contributor's Tax.

(d) Energy Partners shall, with respect to any Tax Return for which Energy Partners is responsible under Section 7.2(c) for preparing and filing, make such Tax work papers available for review by WES if the Tax Return is with respect to Taxes for which WES may. be liable (in whole or in part) hereunder or under applicable law. Energy Partners shall make such work papers available for review sufficiently in advance of the due date for filing such Tax Returns to provide WES with a meaningful opportunity to analyze and comment on such Tax Returns and have such Tax Returns modified before filing, accepting the position of Energy Partners unless such position is contrary to the provisions of Section 7.2(e) hereof.

(e) Any Tax Return which includes or is based on the operations, ownership, assets or activities of WPL for any taxable period beginning before and ending after the Closing Date, and any Tax Return in respect of any Taxes for which WES may be liable (in whole or in part) hereunder shall be prepared in accordance with past Tax accounting practices used with respect to the Tax Returns in question (unless such past practices are no longer permissible under the applicable law), and to the extent any items are not covered by past practices (or in the event such past practices are no longer permissible under the applicable tax law), in accordance with reasonable tax accounting practices selected by the filing party with respect to such Tax Return under this Agreement with the consent (not to be unreasonably withheld or delayed) of the non-filing party.

Unless required by law, Energy Partners shall not file an amended Tax Return for any period ending on or prior to the Closing Date without the consent of WES.

7.3 Tax Proceedings

If Energy Partners receives notice (the 'Proceeding Notice") of any examination, claim, adjustment, or other proceeding with respect to the liability of WPL for Taxes for any period for which WES is or may be liable under Section 7.1, Energy Partners shall notify WES in writing thereof (the "Energy Partners Notice") no later than the earlier of (a) thirty (30) days after the receipt by Energy Partners of the Proceeding Notice or (b) ten (10) days prior to the deadline for responding to the Proceeding Notice. Such Energy Partners Notice shall contain factual information describing any asserted liability for Taxes in reasonable detail and shall be accompanied by copies of any notice or other documents received from any Taxing Authority with respect to such matter.

As to any such Taxes for which WES is or may be liable under Section 7.1, WES shall be entitled at its expense to control or settle the contest of such examination, claim, adjustment, or other proceeding, provided (a) WES notifies Energy Partners in writing that it desires to do so no later than the earlier of (1) thirty (30) days after receipt of the Energy Partners Notice or (2) five (5) days prior to the deadline for responding to the Proceeding Notice, and (b) WES may not, without the consent of Energy Partners, agree to any settlement which would result in an increase in the amount of Taxes for which any of Energy Partners or WPL or any of WPL's owners is or may be liable under Section 7.1. WES shall pay any Taxes required to be paid in connection with any examination, claim, adjustment or other proceeding, including, without limitation, any prepayment of Tax required to obtain the jurisdiction of a court.

The parties shall cooperate with each other and with their respective affiliates, and shall consult with each other, in the negotiation and settlement of any proceeding described in this Section 7.3. WES shall pay to Energy Partners the amount of any Tax Losses Energy Partners may become entitled to by reason of the provisions of this Article 7 within fifteen (15) days after the extent of any Tax liability has been determined by a final judgment or decree of a Court or a final and binding settlement with a governmental authority having jurisdiction thereof.

7.4 Cooperation and Exchange of Information

Williams GP LLC and Energy Partners and WES shall cooperate fully, and shall cause WPL to cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Article 7 and any proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. WES, Williams GP LIC and Energy Partners agree to retain all books and records in their possession or in the possession of their respective affiliates with respect to Tax matters pertinent to WPL relating to any taxable period beginning before the Closing Date until the earlier of six years after the Closing Date and the expiration of the applicable statute of limitations of the respective taxable periods, and to abide by all record retention agreements entered

into with any Taxing Authority, and thereafter, upon request, allow Williams GP LLC and Energy Partners to take possession of such books and records. Each party shall provide the cooperation and information required by this Section 7.4 at its own expense.

7.5 Survival.

Anything to the contrary in this Agreement notwithstanding, the representations, warranties, covenants, agreements, rights and obligations of the parties hereto with respect to any Tax matter covered by this Agreement shall survive the Closing and shall not terminate until thirty days after the expiration of the statute of limitations (including extensions) applicable to such Tax matter.

7.6 Conflict

In the event of a conflict between the provisions of this Article 7 and any other provisions of this Agreement, the provisions of this Article 7 shall control.

7.7 Miscellaneous

(a) Any payment required under this Article 7 and not made when due shall bear interest at the rate per annum determined, from time to time, under the provisions of Section 6621(a)(2) or 6621(c) of the Code, as applicable, for each day until paid.

(b) The indemnification provisions of this Article 7 are in addition to, and not in derogation of, any statutory, equitable, or common law remedy the parties may have with respect to the transactions contemplated by this Agreement.

ARTICLE 8
INVESTIGATION; LIMITATIONS

8.1 Independent Investigation; Limitations

The parties hereto acknowledge that in making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, they have relied solely on the basis of their own independent investigation and analysis, and upon the express written representations, warranties and covenants in this Agreement. Except for and without limitation of the scope and effect of the express representations, warranties, covenants and agreements contained herein, the parties HEREBY EXPRESSLY DISCLAIM AND NEGATE ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, RELATING TO WPL AND ITS ASSETS AND OPERATIONS OR TO THE TRANSACTIONS CONTEMPLATED HEREBY, AS APPLICABLE (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS).

ARTICLE 9
TERMINATION

9.1 Events of Termination

This Agreement may be terminated at any time prior to the Closing Date:

(a) by mutual written consent of the parties;

(b) by either Energy Partners or WES in writing after May 31, 2002, if the Closing has not occurred by such date;

(c) by either Energy Partners or WES in writing (provided the terminating party and its affiliates are not otherwise in material default or breach of this Agreement, or have not failed or refused to close without justification hereunder), if the other party (1) has materially failed to perform its covenants or agreements contained herein required to be performed on or prior to the Closing Date, or (2) has breached any of its representations or warranties contained herein; provided, however, that in the case of clause (1) or (2), the defaulting party shall have a period of ten (10) days following written notice from the nondefaulting party to cure any breach of this Agreement, if such breach is curable;

(d) by either Energy Partners or WES in writing if there shall be any order, writ, injunction or decree of any Governmental Authority binding on any of the parties, which prohibits or restrains them from consummating the transactions contemplated hereby, provided that the parties shall have used their reasonable best efforts to have any such order, writ, injunction or decree lifted and the same shall not have been lifted within 30 days after entry by any such Governmental Authority;

(e) by WES if any of the conditions set forth in Section 6.2 have become incapable of fulfillment, and, after 10 days following notice by WES, remain incapable of fulfillment and not waived by WES; or

(1) by Williams GP LLC and Energy Partners if any of the conditions set forth in Section 6.1 have become incapable of fulfillment, after 10 days following notice by Energy Partners, remain incapable of fulfillment and not waived by Williams GP LLC and Energy Partners.

9.2 Effect of Termination

If a party terminates this Agreement as provided in Section 9.1 above, termination shall be without liability and none of the provisions of this Agreement will remain effective or enforceable.

ARTICLE 10
INDEMNIFICATION UPON CLOSING

10.1 Indemnification of Williams GP LLC and Energy Partners upon Closing

Subject to the limitations set forth in this Agreement, WES, from and after the Closing, shall indemnify, defend and hold Williams GP LLC, in its capacity as general partner of Energy Partners, and Energy Partners and its subsidiaries, and their respective shareholders, members, partners, directors, officers, and employees (the "Energy Partners Parties") harmless from and against any and all liabilities and obligations, including without limitation, all losses, deficiencies, costs, expenses, fines, penalties, interest, expenditures, investigatory costs, cleanup and remediation costs, governmental response costs, claims, suits, proceedings, judgments, settlements, damages, and reasonable attorneys' fees and reasonable expenses of investigating, defending and prosecuting litigation (all of the foregoing of which are collectively referred to as the "Damages") suffered or incurred by the Energy Partners Parties as a result of or arising out of (a) any breach of a representation or warranty of WES in this Agreement, or any breach of any agreement or covenant on the part of WES made under this Agreement or in connection with the transaction contemplated hereby, (b) any breach of, failure to comply with or liability arising under any Environmental Laws with respect to the ownership, operation or conduct of the businesses or affairs of WPL before the Closing, or (c) the Excluded Assets or the ownership or operation thereof.

Nothing in this Section 10.1 or in Section 10.8 shall apply to, or limit, liability with respect to Taxes, for which liability shall be as set forth in Article 7.

10.2 Indemnification of WES

Subject to the limitations set forth in this Agreement, Energy Partners shall indemnify, defend and hold WES and its Affiliates (other than any of the Energy Partners Parties), and their respective shareholders, members, partners, directors, officers, and employees (together with WES, the "WES Parties") harmless from and against any and all Damages suffered or incurred by the WES Parties as a result of or arising out of (a) any breach of a representation or warranty of Energy Partners in this Agreement and any breach of any agreement or covenant on the part of Energy Partners made under. this Agreement or in connection with the transaction contemplated hereby, (b) any breach of, failure to comply with or liability arising under any Environmental Laws with respect to the ownership, operation or conduct of the businesses or affairs of WPL on or after the Closing, or (c) the ownership, operation or conduct of the business or affairs of WPL on or after the Closing.

Nothing in this Section 10.2 or in Section 10.8 shall apply to, or limit, liability with respect to Taxes, for which liability shall be as set forth in Article 7.

10.3 Demands

Each indemnified party hereunder agrees that promptly upon its discovery of facts giving rise to a claim for indemnity under the provisions of this Agreement, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial or otherwise, by any third party (such claims for indemnity involving third party claims being collectively referred to herein as the "Indemnity Claim"), with respect to any matter as to which it claims to be entitled to indemnity under the provisions of this Agreement, it will give notice thereof in writing to the indemnifying party, together with a statement of such information respecting any of the foregoing as it shall have. Such notice shall include a formal demand for indemnification under this Agreement.

If the indemnified party knowingly fails to notify the indemnifying party thereof in accordance with the provisions of this Agreement in sufficient time to permit the indemnifying party or its counsel to defend against an Indemnity Claim and to make a timely response thereto, the indemnifying party's indemnity obligation relating to such Indemnity Claim shall be limited to the extent that such failure has actually prejudiced or damaged the indemnifying party with respect to that Indemnity Claim.

10.4 Right to Contest and Defend

The indemnifying party shall be entitled, at its cost and expense, to contest and defend by all appropriate legal proceedings any Indemnity Claim for which it is called upon to indemnify the indemnified party under the provisions of this Agreement; provided, that notice of the intention to so contest shall be delivered by the indemnifying party to the indemnified party within 20 days from the date of receipt by the indemnifying party of notice by the indemnified party of the assertion of the Indemnity Claim. Any such contest may be conducted in the name and on behalf of the indemnifying party or the indemnified party as may be appropriate. Such contest shall be conducted by reputable counsel employed by the indemnifying party and not reasonably objected to by the indemnified party, but the indemnified party shall have the right but not the obligation to participate in such proceedings and to be represented by counsel of its own choosing at its sole cost and expense.

The indemnifying party shall have full authority to determine all action to be taken with respect to any Indemnity Claim; provided, however, that the indemnifying party will not have the authority to subject the indemnified party to any obligation whatsoever, other than the performance of purely ministerial tasks. If the indemnifying party does not elect to contest any such Indemnity Claim, the indemnifying party shall be bound by the result obtained with respect thereto by the indemnified party. If the indemnifying party assumes the defense of an Indemnity Claim, the indemnified party shall agree to any settlement, compromise or

discharge of an Indemnity Claim that the indemnifying party may recommend and that by its terms obligates the indemnifying party to pay the full amount of the liability in connection with such Indemnity Claim, which releases the indemnified party completely in connection with such Indemnity Claim and which would not otherwise adversely affect the indemnified party.

Notwithstanding the foregoing, the indemnifying party shall not be entitled to assume the defense of any Indemnity Claim (and shall be liable for the reasonable fees and expenses of counsel incurred by the indemnified party in defending such Indemnity Claim) if the Indemnity Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the indemnified party which the indemnified party reasonably determines, after conferring with its outside counsel, cannot be separated from any related claim for money damages. If such equitable relief or other relief portion of the Indemnity Claim can be so separated from that for money damages, the indemnifying party shall be entitled to assume the defense of the portion relating to money damages.

10.5 Cooperation

If requested by the indemnifying party, the indemnified party agrees to cooperate with the indemnifying party and its counsel in contesting any Indemnity Claim that the indemnifying party elects to contest or, if appropriate, in making any counterclaim against the person asserting the Indemnity Claim, or any cross-complaint against any such person, and the indemnifying party will reimburse the indemnified party for any expenses incurred by it in so cooperating. At no cost or expense to the indemnified party, the indemnifying party shall cooperate with the indemnified party and its counsel in contesting any Indemnity Claim.

10.6 Right to Participate

The indemnified party agrees to afford the indemnifying party and its counsel the opportunity to be present at, and to participate in, conferences with all persons, including Governmental Authorities, asserting any Indemnity Claim against the indemnified party or conferences with representatives of or counsel for such persons.

10.7 Payment of Damages

The indemnification required hereunder shall be made by payments of the amount thereof during the course of the investigation or defense, within thirty (30) days as and when reasonably specific bills are received or loss, liability, claim, damage or expense is incurred and reasonable evidence thereof is delivered. In calculating any amount to be paid by an indemnifying party by reason of the provisions of this Agreement, the amount shall be reduced by all tax benefits and other reimbursements (including, without limitation, insurance proceeds) credited to or received by the indemnified party related to the Damages.

10.8 Limitations on Indemnification

(a) WES' indemnity obligations under this Agreement will apply only to Damages which are sustained or incurred by the Energy Partners Parties for which notice in accordance with the provisions of this Agreement has been given within any applicable survival period for such indemnity obligations.

(1) WES' indemnity obligations under Section 10.1(a) (other than such indemnity obligations as arise under Section 3.12 (Employees and Benefits), Section 3.14 (Environmental), Section 3.19 (Title to Real Property) and Section 3.27 (Excluded Assets)) will survive the Closing for a period of one (1) year and are subject to the Deductible and the Cap as set forth in Sections 10.8(a)(5) and 10.8(a)(7).

(2) WES' indemnity obligations under Section 10.1(a) that may arise with respect to Section 3.12 (Employees and Benefits) will survive the Closing for a period of time equal to the applicable statute(s) of limitations and are not subject to any deductible or cap.

(3) WES' indemnity obligations under Section 10.1(a) that may arise with respect to Section 3.19 (Title to Real Property) will survive the Closing for a period of ten (10) years and are subject to the Deductible and the Cap as set forth in Sections 10.8(a)(5) and 10.8(a)(7).

(4) WES' indemnity obligations under Section 10.1(c) (the Excluded Assets or the ownership or operation of the Excluded Assets) will survive the Closing without expiration and are not subject to any deductible or cap.

(5) WES' indemnity obligations under Section 10.1(a) (other than such indemnity obligations as may arise under Section 3.12 (Employees and Benefits), and Section 3.14 (Environmental) and Section 3.27 (Excluded Assets)) will apply only to Damages which, in the aggregate, exceed $6,000,000 (the "Deductible").

(6) WES' indemnity obligations that may arise under Section 10.1(a) for breach of Section 3.14 (Environmental) and Section 10.1(b) will survive the Closing for a period of six (6) years and will apply only to such environmental Damages which exceed an aggregate amount of $2,000,000 (the "Environmental Deductible").

(7) Except as otherwise provided in this Section 10.8, in no event shall WES' liability or obligation for Damages which exceed, in the aggregate, the applicable Deductible or Environmental Deductible under Section 10.1 exceed an aggregate amount of $125 million (the "Cap") determined as follows: The first $110 million of Damages (if any) will be for WES' sole account; WES will be obligated for fifty percent

(50%) of the next $30 million of Damages (if any) on a dollar-for-dollar basis.

(b) Energy Partners indemnity obligations under this Agreement will apply only to Damages sustained or incurred by the WES Parties for which notice in accordance with the provisions of this Agreement has been given within any applicable survival period for such indemnity obligations.

(1) Energy Partner's indemnity obligations under Section 10.2(a) will survive the Closing for a period of one (1) year and shall apply only to Damages which exceed, in the aggregate, the Deductible. In no event shall Energy Partners' liability or obligation for Damages relating to its indemnity obligations under Section 10.2(a) which exceed, in the aggregate, the Deductible exceed an aggregate amount of $125 million determined as follows: The first $110 million of Damages (if any) will be for Energy Partners' sole account; Energy Partners will be obligated for fifty percent (50%) of the next $30 million of Damages (if any) on a dollar-for-dollar basis.

(2) The indemnity obligations of Energy Partners under Section 10,2(b) and Section 10.2(c) will survive the Closing without expiration.

(c) Additionally, neither Energy Partners nor WES will be liable, as an indemnitor under this Agreement for any consequential, incidental, special, indirect or exemplary damages suffered or incurred by the indemnified party or parties except to the extent recovered against an indemnified party in an Indemnity Claim.

10.9 Sole Remedy

Should the Closing occur, no party shall have liability under this Agreement, any of the Constituent Documents (as hereinafter defined) or the transactions contemplated hereby or thereby except as is provided in Article 7 or this Article 10.

10.10 Addition to or Substitution of WES as Indemnitor

If, during the term of WES' indemnification obligations under this Article 10, (a) the shareholder equity in WES falls below $750,000,000, (b) WES' ratio of Consolidated Total Debt (as defined below) to Consolidated EBITDA (as defined below) for the most recently completed 12 months shall exceed 4.0 to 1.0 or (c) 50% of the equity of WES is sold to or acquired by any other Person (other than an Affiliate) or WES otherwise effects or is subject to an Extraordinary Event (as defined below), WES shall immediately notify Energy Partners of the occurrence of such event and, at its sole election, provide one or more of the following (or combinations thereof) to Energy Partners as additional assurance for the performance of WES' indemnity obligations under this Agreement: (x) a

performance guarantee by The Williams Companies, Inc. or (y) a standby irrevocable bank letter of credit, in each case in an amount not to exceed the Maximum Amount and upon standard market terms and conditions reasonably satisfactory to Energy Partners.

For purposes of this Section 10.10:

"Capital Lease" means any capital lease or sublease which should be capitalized on a balance sheet in accordance with GAAP.

"Consolidated EBITDA" means, for any period, for WES and its subsidiaries on a consolidated basis, an amount equal to the sum of (a) Consolidated Net Income, (b) Consolidated Interest Charges, (c) the amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income, and (d) the amount of depreciation and amortization expense deducted in determining such Consolidated Net Income.

"Consolidated Interest Charges" means, for any period, for WES and its subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, fees, charges and related expenses of WES and its subsidiaries in connection with indebtedness (including capitalized interest), in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of WES and its subsidiaries with respect to such period under Capital Leases that is treated as interest in accordance with GAAP.

"Consolidated Net Income" means, for any period, for WES and its subsidiaries on a consolidated basis, the net income or net loss of WES and its subsidiaries from continuing operations, provided that there shall be excluded from such net income (to the extent otherwise included therein): (a) the income (or loss) of any entity other than a subsidiary in which WES or any subsidiary has an ownership interest, except to the extent that any such income has been actually received by WES or such subsidiary in the form of cash dividends or similar cash distributions, (b) net extraordinary gains and losses (other than, in the case of losses, losses resulting from charges against net income to establish or increase reserves for potential environmental liabilities and reserves for exposure under rate cases), (c) any gains or losses attributable to non-cash write-ups or write-downs of assets, and (d) proceeds of any insurance on property, plant or equipment other than business interruption insurance.

"Consolidated Total Debt" means, at any date, the aggregate principal amount of all indebtedness of WES and its subsidiaries at such date, determined on a consolidated basis in accordance with OAAP.

"Extraordinary Event" means a sale, exchange or dividend or other distribution or liquidation of all or substantially all WES' assets in one or a series of transactions.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant

segment of the accounting profession, that are applicable to the circumstances as of the date of determination, consistently applied.

"Maximum Amount" shall mean the lesser of (a) the remaining about of potential indemnification obligations of WES under the Contribution Agreement or (b) $125,000,000.

10.11 Express Negligence

THE INDEMNIFICATION PROVISIONS PROVIDED FOR IN THIS AGREEMENT HAVE BEEN EXPRESSLY NEGOTIATED IN EVERY DETAIL, ARE INTENDED TO BE GIVEN FULL AND LITERAL EFFECT, AND SHALL BE APPLICABLE WHETHER OR NOT THE LIABILITIES, OBLIGATIONS, CLAIMS, JUDGMENTS, LOSSES, COSTS, EXPENSES OR DAMAGES IN QUESTION ARISE OR AROSE SOLELY OR IN PART FROM THE ACTIVE, PASSIVE OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, OR OTHER FAULT OF ANY INDEMNIFIED PARTY (EXCLUDING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT). WILLIAMS GP LLC AND ENERGY PARTNERS AND WES ACKNOWLEDGE THAT THIS STATEMENT CONSTITUTES CONSPICUOUS NOTICE. NOTHING IN THIS CONSPICUOUS NOTICE IS INTENDED TO PROVIDE OR ALTER THE RIGHTS AND OBLIGATIONS OF THE PARTIES, ALL OF WHICH ARE SPECIFIED ELSEWHERE IN THIS AGREEMENT.

ARTICLE 11
MISCELLANEOUS

11.1 Expenses

Regardless of whether the transactions contemplated hereby are consummated, each party hereto shall pay its own expenses incident to this Agreement and all action taken in preparation for carrying this Agreement into effect.

11.2 Notices

Any notice, request, instruction, correspondence or other document to be given hereunder by either party to the other (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of receipt of delivery or by telecopier, as follows:

If to the WES, addressed to:

Williams Energy Services, LLC
One Williams Center, Suite 4500
Tulsa, Oklahoma 74172
Attention: President
Telecopy: (918) 573-4190

with a copy to:

Williams Energy Services, LLC
Legal Department
One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attention: General Counsel
Telecopy: (918) 573-4190

If to Williams GP LLC and Energy Partners, addressed to:

Williams Energy Partners L.P.
One Williams Center, MD 35-1
Tulsa, Oklahoma 74172
Attention: President
Telecopy: (918) 573-3864

with a copy to:

Williams Energy Partners L.P.
One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attention: General Counsel
Telecopy: (918) 573-8024

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by telecopier shall, subject to confirmation of uninterrupted transmission by a transmission report, be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

11.3 No Negotiations

Until the first to occur of the Closing or termination of this Agreement pursuant to the provisions of Article 9, WES will not initiate or participate in discussions with, or otherwise solicit from or provide information to, any Person not a party hereto with respect to any proposals or offers relating to the acquisition of WPL or substantially all of its assets.

11.4 Governing Law

This Agreement shall be governed and construed in accordance with the substantive laws of the State of Oklahoma without reference to principles of conflicts of law.

11.5 Public Statements

The parties hereto shall consult with each other and no party shall issue any public announcement or statement with respect to the transactions contemplated hereby without the consent of the other party, unless the party desiring to make such announcement or statement, after seeking such consent from the other parties, obtains advice from legal counsel that a public announcement or statement is required by applicable law or stock exchange regulations.

11.6 Form of Payment

All cash payments hereunder shall be made in United States dollars and, unless the parties making and receiving such payments shall agree otherwise or the provisions hereof provide otherwise, shall be made by wire or interbank transfer of immediately available funds by 12:00 Noon Tulsa, Oklahoma time on the date such payment is due to such account as the party receiving payment may designate at least three business days prior to the proposed date of payment.

11.7 Entire Agreement; Amendments and Waivers

This Agreement and the documents and instruments and other agreements specifically referred to herein or delivered pursuant hereto, including the exhibits and Disclosure Letter hereto but excluding the Second Amendment to Omnibus Agreement and the First Amendment, dated as of the Closing Date, to the Amended and Restated Agreement of Limited Partnership of Energy Partners (collectively, the "Constituent Documents") (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof; (b) do not confer upon any other Person or entity any rights or remedies hereunder; and (c) shall not be assigned by operation of law or otherwise. Each party to this Agreement agrees that (1) no other party to this Agreement (including its agents and representatives) has made any representation, warranty, covenant or agreement to or with such party relating to this Agreement or the transactions contemplated hereby, other than those expressly set forth in the Constituent Documents, and (2) such party has not relied upon any representation, warranty, covenant or agreement relating to the transactions contemplated by the Constituent Documents, other than those referred to in clause (1) above. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by each party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

11.8 Conflicting Provisions

This Agreement and the other Constituent Documents, read as a whole, set forth the parties' rights, responsibilities and liabilities with respect to the transactions contemplated by this Agreement. In the Agreement and the Constituent Documents, and as between them, specific provisions prevail over general provisions. In the event of a conflict between this Agreement and the Constituent Documents, this Agreement shall control.

11.9 Binding Effect and Assignment

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns; but neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned or transferred, by operation of law or otherwise, by any party hereto without the prior written consent of the other parties. Nothing in this Agreement, express or implied, is intended to confer upon any Person or entity other than the parties hereto and their respective permitted successors and assigns, any rights, benefits or obligations hereunder. The provisions of this Agreement are enforceable solely by the Parties, and no limited partner, assignee or other Person shall have the right, separate and apart from Energy Partners to enforce any provision of this Agreement or to compel any Party to comply with the terms of this Agreement.

11.10 WES Right of First Refusal

If, pursuant to a bona fide offer from a Person (other than a Person controlled by The Williams Companies, Inc.), Energy Partners desires to make a Transfer (as that term is defined in this section), on terms and conditions acceptable to Energy Partners, Energy Partners shall thereupon promptly give WES written notice of the proposed Transfer, which notice must provide: (a) a description of the assets, rights, ownership or other interests proposed to be Transferred (b) the consideration to be paid, and (c) the material terms and conditions upon which the proposed Transfer is to be made.

WES will have an option for a period of sixty (60) days from the date of its actual receipt of such notice to elect to purchase or acquire the assets, rights, ownership or other interests proposed to be Transferred for the same consideration and subject to the same material terms and conditions as described in Energy Partners' written notice of the proposed Transfer. Additionally, if the consideration identified in the notice is other than cash, WES will have the right to pay the purchase price in the form of cash equal in amount to the reasonable and justified value of such non-cash consideration. Any disputes regarding the cash value so assigned shall be referred to an independent investment banker or accounting firm, who shall take into consideration the strategic value, if any, of the non-cash consideration to Energy Partners.

Upon WES' election to make such purchase or acquisition, WES shall close such transaction within one hundred and twenty (120) days after its receipt of actual notice of the proposed Transfer, subject only to extensions beyond that time as are provided for in the material terms and conditions of the proposed Transfer being met by WES or are caused by any delay in obtaining required governmental approvals. WES' failure to respond to Energy Partners' notice within its allotted thirty-day period will be deemed its election not to purchase the proposed Transfer. If WES elects not to make such purchase, Energy Partners may effect such Transfer in accordance with all terms set forth in the written notice of the proposed Transfer previously given to WES. If Energy Partners fails to close such proposed Transfer within one hundred eighty (180) days of WES' election not to purchase (subject only to an extension for any delay in obtaining required governmental approvals) or if any material terms and conditions of the proposed Transfer are changed after WES' election to not make the purchase, Energy Partners shall be obligated to repeat the steps of this provision.

As used in this Section 11.10, a "Transfer" refers to any of the following events (in one transaction or in a series of related transactions): An assignment, sale, lease, conveyance, contribution, exchange, transfer or other disposition of WPL (including by application of law and/or by consolidation or merger of WPL wherein WPL is not the survivor) or of a material portion of its assets.

11.11 Severability

If any provision of the Agreement is rendered or declared illegal or unenforceable by reason of any existing or subsequently enacted legislation or by decree of a court of last resort, the WES and Williams GP LLC and Energy Partners shall promptly meet and negotiate substitute provisions for those rendered or declared illegal or unenforceable, but all of the remaining provisions of this Agreement shall remain in full force and effect.

11.12 Interpretation

The parties agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

11.13 Headings and Schedules

The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The schedules referred to herein are attached hereto and incorporated herein by this reference, and unless the context expressly requires otherwise, such schedules are incorporated in the definition of "Agreement."

11.14 Multiple Counterparts

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

EXECUTED as of the date first set forth above.

WILLIAMS ENERGY SERVICES, LLC

By: /s/ P.D. Wright
Name: P.D. Wright
Title: President

THE WILLIAMS COMPANIES, INC.

By: /s/ Mark D. Wilson
Name: Mark D. Wilson
Title: Vice President

WILLIAMS ENERGY PARTNERS L.P

By Williams GP LLC, its general partner

By: /s/ Don R. Wellendorf
Name: Don R. Wellendorf
Title: CFO

(Executed solely with respect to its agreement under Section 10.10 of this Agreement to provide a performance guaranty pursuant to the conditions of that section in support of WES' indemnity obligations hereunder. No other rights, obligations or relationships are created or shall be deemed to be created hereby)

WILLIAMS GP LLC

By: /s/ Don R. Wellendorf
Name: Don R. Wellendorf
Title: CFO

EXHIBIT 10.77

EXECUTION COPY

PURCHASE AGREEMENT

by and between

The Williams Companies, Inc., Williams Gas Pipeline Company, LLC,
Williams Western Pipeline Company LLC, and Kern River Acquisition, LLC,
as Sellers

and

MidAmerican Energy Holdings Company, KR Holding, LLC,
KR Acquisition I, LLC and KR Acquisition 2, LLC,
as Buyers,

for the purchase and sale of
all general partnership interests of

Kern River Gas Transmission Company,
a Texas general partnership

Dated as of
March 7, 2002

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PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this "Agreement") is made and entered into as of this 7th day of March, 2002, by and between The Williams Companies, Inc., a Delaware corporation ("Seller Parent"), Williams Gas Pipeline Company, LLC, a Delaware limited liability Company ("Holdco"), Williams Western Pipeline Company LLC, a Delaware limited liability company ("LLC1"), Kern River Acquisition, LLC, a Delaware limited liability company ("LLC2", and together with Seller Parent, Holdco and LLC1, the "Sellers"), MidAmerican Energy Holdings Company, an Iowa corporation ("Buyer Parent"), KR Holding, LLC, a Delaware limited liability company ("Buyer Holdco"), KR Acquisition 1, LLC, a Delaware limited liability company ("Buyer1") and KR Acquisition 2, LLC, a Delaware limited liability company ("Buyer2", and together with Buyer Parent, Buyer Holdco and Buyer1, the "Buyers").

WITNESSETH:

WHEREAS, Seller Parent owns 100% of the issued and outstanding limited liability company interests of Holdco; and

WHEREAS, Holdco owns 100% of the issued and outstanding limited liability company interests of LLC1 and 100% of the issued and outstanding limited liability company interests of LLC2; and

WHEREAS, LLC1 and LLC2 each own 50% of the partnership interests (collectively, the "Interests") of Kern River Gas Transmission Company, a Texas general partnership (the "Company"); and

WHEREAS, Buyer Parent owns 100% of the issued and outstanding limited liability company interests of Buyer Holdco; and

WHEREAS, Buyer Holdco owns 100% of the issued and outstanding limited liability company interests of Buyer1 and 100% of the issued and outstanding limited liability company interests of Buyer2; and

WHEREAS, Buyer1 desires to purchase all of the Interests held by LLC1, and LLC1 desires to sell its Interests to Buyer1, in each case upon the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, Buyer2 desires to purchase all of the Interests held by LLC2, and LLC2 desires to sell its Interests to Buyer2, in each case upon the terms and subject to the conditions set forth in this Agreement; and

NOW, THEREFORE, in consideration of the mutual terms, conditions and other agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I.
SALE AND PURCHASE

SECTION 1.1. Agreement to Sell and to Purchase. On the Closing Date (as hereinafter defined) and upon the terms and subject to the conditions set forth in this Agreement: (a) LLC1 shall sell, assign, transfer, convey and deliver all of its Interests, free and clear of any pledges, restrictions on transfer, proxies and voting or other agreements, liens, claims, charges, mortgages, security interests or other legal or equitable encumbrances, limitations or restrictions of any nature whatsoever ("Encumbrances"), to Buyer, and Buyer shall purchase and accept such Interests from LLC1; and (b) LLC2 shall sell, assign, transfer, convey and deliver all of its Interests, free and clear of any Encumbrances to Buyer2, and Buyer2 shall purchase and accept such Interests from LLC2.

SECTION 1.2. Closing. The closings of such sales and purchases of the Interests (together, the "Closing") shall take place at 10:00 A.M., one day after the satisfaction of the conditions contained in Article V and VI (other than those conditions that by their nature are to be fulfilled at Closing), or at such other time and date as the parties hereto shall agree in writing (the "Closing Dale"), at the offices of Willkie Farr & Gallagher, 787 Seventh Avenue, New York, New York 10019, or at such other place as the parties hereto shall agree in writing. At the Closing, the Sellers shall deliver to the Buyers or their designees a duly executed bill of sale, in form and substance reasonably satisfactory to the Buyers and the Sellers, transferring the Interests in the Company (the "Bill of Sale"). In full consideration and exchange for the Interests, (a) Buyer I shall thereupon pay to LLC I one-half of the Purchase Price as provided in Section 1.3 hereof; and (b) Buyer2 shall thereupon pay to LLC2 one-half of the Purchase Price as provided in Section 1.3 hereof. Neither Buyer1 nor Buyer2 shall have any obligation to purchase, nor LLC1 or LLC2 an obligation to sell, any Interests unless all of the Interests are to be sold on the Closing Date.

SECTION 1.3. Purchase Price. The aggregate purchase price for the Interests shall be $450,000,000 as adjusted by Section 1.4 (the "Purchase Price").

SECTION 1.4. Adjustment to Purchase Price. (a) Schedule 1.4(a) contains a statement prepared by the Sellers setting forth in reasonable detail the amount of Working Capital of the Company as of December 31, 2001 (the "Base Statement"). For purposes of this Agreement, "Working Capital" shall mean Current Assets less Current Liabilities; "Current Assets" shall mean current assets, excluding inventories, materials and supplies and prepaid amounts; and "Current Liabilities" shall mean current liabilities, excluding the current portion of long-term debt and any accounts payable to the Sellers or any of the Sellers' affiliates related to the 1Line System (as defined in Section 9.14). On the Closing Date, the Sellers shall pay to the Buyers $13,702,000, which is the aggregate excess of the Current Liabilities over the Current Assets on the Base Statement and is shown as a negative amount on the Base Statement ("Base Statement Working Capital"). At least three days prior to the Closing Date, the Sellers shall prepare and deliver to the Buyers a statement (the "Closing Statement"), which shall set forth in reasonable detail the amount of Working Capital of the Company as of December 31, 2001 based upon the Audited Financial Statements (as hereinafter defined). The Base Statement shall be

prepared in accordance with RAP (as hereinafter defined) and on a basis consistent with the 2001 Financial Statements (as defined in Section 2.7(a), using the same accounting methods, policies, practices. procedures and adjustments as were used in the preparation of the 2001 Financial Statements. The Closing Statement shall be prepared in accordance with RAP and on a basis consistent with the 2001 Financial Statements and the Audited Financial Statements, using the same accounting methods, policies, practices, procedures and adjustments as were used in the preparation of the 2001 Financial Statements and the Audited Financial Statements.

(b) The Buyers shall have 20 days to review the Closing Statement and to inform the Sellers in writing of any disagreement (the "Objection") which they may have with the Closing Statement. If the Sellers do not receive the Objection within such 20-day period, the amount of Working Capital set forth on the Closing Statement delivered pursuant to Section 1.4(a) shall be deemed to have been accepted by the Buyers and shall become the Final Closing Statement. If the Buyers do timely deliver an Objection to the Sellers, the Sellers shall then have 20 days from the date of receipt (the "Review Period") to review and respond to the Objection. The Buyers and the Sellers shall attempt in good faith to resolve any disagreements with respect to the determination of the Working Capital of the Company as of December 31, 2001. If they are unable to resolve all of their disagreements with respect to the determination of Working Capital of the Company as of December 31, 2001, within 10 days following the expiration of the Sellers' Review Period, they may refer, at the option of either the Buyers or the Sellers, their differences to Price Waterhouse Coopers, or if Price Waterhouse Coopers declines to accept such engagement, to an internationally recognized firm of independent public accountants selected jointly by the Buyers and the Sellers, who shall determine only with respect to the differences so submitted, whether and to what extent, if any, the amount of Working Capital of the Company as of December 31, 2001 set forth in the Closing Statement requires adjustment. If the Buyers and the Sellers are unable to so select the independent public accountants within five days of Price Waterhouse Coopers declining to accept such engagement, either the Buyers or the Sellers may thereafter request that the American Arbitration Association make such selection (as applicable, Price Waterhouse Coopers, the firm selected by the Buyers and the Sellers or the firm selected by the American Arbitration Association is referred to as the "CPA Firm"). The Buyers and the Sellers shall direct the CPA Firm to use its reasonable best efforts to render its determination within 30 days. The CPA Firm's determination shall be conclusive and binding upon the Buyers and the Sellers. The fees and disbursements of the CPA Firm shall be shared equally by the Buyers and the Sellers. The Buyers and the Sellers shall make readily available to the CPA Firm all relevant books and records relating to the determination of Working Capital and all other items reasonably requested by the CPA Firm. The Closing Statement as agreed to by the Buyers or the Sellers or as determined by the CPA firm shall be referred to as the "Final Closing Statement."

(c) Within three business days after the Closing Statement becomes the Final Closing Statement, if Working Capital on the Final Closing Statement exceeds Base Statement Working Capital, the Buyers shall pay such excess to the Sellers, or if Base Statement Working Capital exceeds Working Capital on the Final Closing Statement, the Sellers shall pay such excess to the Buyers. All amounts payable under this Section 1.4(c) shall be paid within three business days of determination of the Final Closing Statement by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by the recipient not less than one business day before such payment.

(d) At Closing, the Sellers shall pay to the Buyers an aggregate cash amount equal to any dividends or distributions made by the Company after December 31, 2001 and through the Closing.

(e) On the Holdback Payment Date (as defined in Section 1.4(i)), the Buyers or the Company shall pay to the Sellers an aggregate cash amount equal to any inter-company accounts payables and any inter-company notes payables in each case of the Company, outstanding on the Closing Date; provided, however, that any payables in accordance with The Williams Companies, Inc. Federal and State Tax Allocation Procedure as of May 1, 1995 or any other agreement or contractual arrangement attributable to Federal, state or local income Taxes related to taxable income of the Company for any period after December 31, 2001 shall be excluded from the payment required pursuant to this Section 1.4(e).

(t) On the Holdback Payment Date, the Sellers or the Sellers' affiliates shall pay to the Company an aggregate cash amount equal to any inter-company accounts receivables and any inter-company notes receivables, in each case of the Company, outstanding on the Closing Date.

(g) Prior to the Closing Date, the Sellers shall pay to the Company an amount equal to any amounts paid by the Company to the Sellers or any of the Sellers' affiliates after December 31, 2001 and prior to the Closing Date for the accounts payable to the Sellers or any of the Sellers' affiliates related to the 1Line System reflected in the Audited Financial Statements and any remaining payable to the Sellers or any of the Sellers' affiliates related to the 1Line System shall be cancelled. The Sellers shall separately pay to the Buyers any amounts paid by the Company prior to December 31, 2001 for the I Line System.

(h) The Sellers shall pay to the Buyers at Closing $11.5 million which represents $6 million for the portion of the January capital expenditures for the 2003 Expansion Project agreed to be reimbursed and $5.5 million for certain payments pursuant to the Workforce Agreement, as defined in Section 5.15.

(i) (A) If the Expansion Certificate (as defined below) has not been issued by FERC on or prior to the 30th day after the Closing Date, then on the next business day following such 30th day (the "Holdback Payment Date") (i) LLC1 shall pay to Buyer1 an amount of cash equal to one-half of the Holdback Amount, and (ii) LLC2 shall pay to Buyer2 an amount of cash equal to one-half of the Holdback Amount. All amounts payable under this Section 1 .4(i)(A) shall be paid by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by Buyers not less than one business day before such payment. For purposes of this Agreement "Holdback Amount" shall mean $32,500,000.

(B) If LLC 1 and LLC2 are required to make a payment pursuant to Section 1 .4(i)(A) then, within three business days of the issuance by FERC of the Expansion Certificate, (i) Buyer1 shall pay LLC1 an amount of cash equal to one-half of the Adjusted Holdback Amount (as defined below), plus interest accruing on such Adjusted Holdback Amount at

LIBOR from the Holdback Payment Date up and through the date Buyer1 makes such payment and (i) Buyer2 shall pay to LLC2 an amount of cash equal to one-half of the Adjusted Holdback Amount, plus interest accruing on such Adjusted Holdback Amount at LIBOR from the Holdback Payment Date up and through the date Buyer2 makes such payment. The interest referred to in this paragraph is a per annum interest rate and shall be computed on the basis of a 360-day year consisting of twelve 30-day months. All amounts payable under this Section 1.4(i)(5) shall be paid by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by the Sellers not less than one business day before such payment. For purposes of clarity, if the Expansion Certificate is issued by FERC on or after February 1, 2003 then Buyer1 and Buyer2 shall not be obligated to make any payment under this Section 1.4(i)(B).

(C) For purposes of this Section 1.4(i), the following terms shall have the following meanings:

"Adjusted Holdback Amount" shall mean (i) $32,500,000 if the Expansion Certificate is issued by FERC prior to August 1, 2002, (ii) $27,625,000 if the Expansion Certificate is issued by FERC on or after August 1, 2002 and prior to September 1, 2002, (iii) $22,750,000 if the Expansion Certificate is issued by FERC on or after September 1, 2002 and prior to October 1, 2002, (iv) $17,875,000 if the Expansion Certificate is issued by FERC on or after October 1, 2002 and prior to November 1, 2002, (v) $13,000,000 if the Expansion Certificate is issued by FERC on or after November 1, 2002 and prior to December 1, 2002, (vi) $8,125,000 if the Expansion Certificate is issued by FERC on or after December 1, 2002 and prior to January 1, 2003, (vii) $3,250,000 if the Expansion Certificate is issued by FERC on or after January 1,2003 arid prior to February 1, 2003, and (viii) $0 if the Expansion Certificate is issued by FERC on or after February 1, 2003.

"Expansion Certificate" shall mean a certificate of public necessity and convenience in the Matter of Kern River Gas Transmission Company, Docket No. CP0l-422, authorizing the Company to construct and operate the additional facilities needed to expand its transportation capacity as described in the Application for Certificate of Public Convenience and Necessity filed by the Company in such proceeding and provided that such certificate does not contain any terms or conditions that would materially adversely affect the ability of the Company to construct, own and operate the expansion facilities as contemplated by the parties as of the date of this Agreement.

"LIBOR" shall mean the average 30-day daily closing London Interbank Offered Rate in effect on the dates between the Holdback Payment Date and the date the Adjusted Holdback Amount is paid.

(j) The Buyers will have the right to dispute all amounts calculated by the Sellers in Sections 1.4(d), 1.4(e), 1.4(1) and 1.4(g) (other than such amounts which were outstanding on December 31, 2001) using similar dispute resolution provisions described in Section 1.4(b).

ARTICLE II.
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

The Sellers hereby jointly and severally represent and warrant as follows:

SECTION 2.1. Corporate Organization. The Company is a general partnership duly organized and validly existing under the laws of Texas. Each of the Sellers is duly formed, validly existing and in good standing under the laws of its jurisdiction of formation. The Company and each of its Subsidiaries (as defined below) have all requisite power and authority and all governmental licenses, authorizations, permits, consents and approvals to own their respective properties and assets and to conduct their businesses as now conducted, except for immaterial failures to have such licenses, authorizations, permits, consents and approvals. The Company and each of its Subsidiaries are duly qualified to do business as a foreign entity and are in good standing in every jurisdiction where the character of the properties owned or leased by them or the nature of the business conducted by them makes such qualification necessary, except where the failure to be so qualified or in good standing would not individually or in the aggregate have a Material Adverse Effect (as defined in Section 9.14). Schedule 2.1 sets forth all of the jurisdictions in which the Company and its Subsidiaries are qualified to do business. Copies of the Organizational Documents of the Company and each of its Subsidiaries with all amendments thereto to the date hereof, have been furnished by the Sellers to the Buyers or their representatives, and such copies are accurate and complete as of the date hereof. "Organizational Documents" shall mean certificates of incorporation, by-laws, certificates of formation, limited liability company operating agreements, partnership or limited partnership agreements or other formation or governing documents of a particular entity.

SECTION 2.2. Capitalization; Title. All of the outstanding partnership interests of the Company are owned of record and beneficially by LLC1 and LLC2. All of the outstanding limited liability company interests of each of LLC1 and LLC2 are owned of record and beneficially by a wholly-owned subsidiary of the Seller Parent. All of the Interests have been duly authorized and validly issued. Except for this Agreement and as set forth on Schedule 2.2, there are no outstanding options, warrants, agreements, conversion rights, preemptive rights or other rights to subscribe for, purchase or otherwise acquire the Interests. There are no voting trusts or other agreements or understandings to which any of the Sellers or the Company is a party with respect to the voting of the Interests. There is no indebtedness of the Company having general voting rights issued and outstanding. Except for this Agreement, there are no outstanding obligations of any person to repurchase, redeem or otherwise acquire outstanding Interests or any securities convertible into or exchangeable for any Interests. LLC 1 and LLC2 have valid and marketable title to the Interests and the sale and transfer of the Interests by LLC1 and LLC2 to Buyer1 and Buyer2 hereunder will transfer title to the Interests to such buyers free and clear of any Encumbrances.

SECTION 2.3. Subsidiaries and Equity Interests. The Company has no Subsidiaries except Kern River Funding Corp. and does not own, directly or indirectly, any shares of capital stock, voting rights or other equity interests or investments in any other person.

"Subsidiary" shall mean, with respect to the Company, any person of which (a) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by the Company or by any one or more of its other Subsidiaries or (b) the Company or any other Subsidiary is a general partner (excluding any such partnership where the Company or any Subsidiary of such party does not have a majority of the voting interest in such partnership). The Company or any Subsidiary does not have any rights to acquire by any means, directly or indirectly, any capital stock, voting rights, equity interests or investments in another person.

SECTION 2.4. Validity of Agreement; Authorization. The Sellers have the power to enter into this Agreement and to carry out their obligations hereunder. The execution and delivery of this Agreement and the performance of their obligations hereunder have been duly authorized by the Management Committees of LLC1, LLC2 and Holdco and the Board of Directors of Seller Parent, and no other proceedings on the part of the Sellers are necessary to authorize such execution, delivery and performance. This Agreement has been duly executed by the Sellers and constitutes the Sellers' valid and binding obligation enforceable against the Sellers in accordance with its terms (except to the extent that its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles).

SECTION 2.5. No Conflict or Violation. Except as set forth on Schedule 2.5, the execution, delivery and performance by the Sellers of this Agreement does not and will not: (a) violate or conflict with any provision of the Organizational Documents of the Sellers; (b) materially violate any applicable provision of a material law, statute, judgment, order, writ, injunction, decree, award, rule, or regulation of any foreign, federal, tribal, state or local government, court, arbitrator, agency or commission or other governmental or regulatory body or authority ("Governmental Authority"); (c) materially violate, result in a material breach of, constitute (with due notice or lapse of time or both) a material default or cause any material obligation, penalty or premium to arise or accrue under any material contract, lease, loan agreement, mortgage, security agreement trust indenture or other material agreement or instrument to which the Sellers, the Company, or any of its Subsidiaries are a party or by which any of them is bound or to which any of their respective properties or assets is subject; or (d) result in the creation or imposition of any Encumbrance except Permitted Encumbrances upon any of the properties or assets of the Company or any of its Subsidiaries.

SECTION 2.6. Consents and Approvals. Except as set forth on Schedule 2.6, no material consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority, or any other person (on the part of the Sellers or the Company), is required as a condition to the execution and delivery of this Agreement by the Sellers or the performance of the Sellers' obligations hereunder.

SECTION 2.7. Financial Statements. (a) The Sellers have heretofore furnished to the Buyers copies of the unaudited balance sheet of the Company as of December 31, 2001, together with the related statements of income, partners' equity and cash flow for the period then ended and the notes thereto ("2001 Financial Statements" or the "Financial Statements"). Except

as set forth on Schedule 2.7(a), the 2001 Financial Statements, including the notes thereto: (i) were prepared in accordance with the accounting principles (]RAF') prescribed or permitted by the Federal Energy Regulatory Commission ("FERC") applied on a consistent basis with the audited balance sheet of the Company as of December 31, 2000, together with the related statements of income, partners' equity and cash flow for the period then ended and the notes thereto ("2000 Audited Financial Statements"); (ii) present fairly in all material respects the consolidated financial position, results of operations and changes in cash flow of the Company as of such date and for the period then ended (subject to normal year-end audit adjustments consistent with prior periods); and (iii) are complete and correct in all material respects, and have been prepared based upon the books of account and records of the Company.

(b) The Audited Financial Statements, including the notes thereto: (i) will be prepared in accordance with RAP applied on a consistent basis with the 2000 Audited Financial Statements; (ii) will present fairly in all material respects the consolidated financial position, results of operations and changes in cash flow of the Company as of such date and for the period then ended; and (iii) will be complete and correct in all material respects, and will be prepared based upon the books of account and records of the Company.

SECTION 2.8. Absence of Certain Changes or Events. Except as set forth in Schedule 2.8. since December 31, 2001, the business of the Company and its Subsidiaries has been conducted in the ordinary course consistent with past practices and neither the Company nor any of its Subsidiaries has taken any of the actions described in Section 4.l(a)(i) through (xviii), except in connection with entering into this Agreement. Since December 31, 2001 there has not been:

(a) Destruction of, damage to, or loss of, any material asset of the Company or any Subsidiary (whether or not covered by insurance);

(b) Any material citation received, or to the Sellers' knowledge, any other citation received by the Company, the Sellers or any Subsidiary for any violations of any act, law, rule, regulation, or code of any Governmental Authority related to the activities or business of the Company or any of its Subsidiaries; or

(c) Other event or condition of any character that has had, or would reasonably be expected to have, a Material Adverse Effect.

SECTION 2.9. Tax Matters. (a) For purposes of this Agreement, "Tax Returns" shall mean returns, reports, exhibits, schedules, information statements and other documentation (including any additional or supporting material) filed or maintained, or required to be filed or maintained, in connection with the calculation, determination, assessment or collection of any Tax and shall include any amended returns required as a result of examination adjustments made by the Internal Revenue Service or other Tax authority. For purposes of this Agreement, "Tax" or "Taxes" shall mean any and all Federal, state, local, foreign and other taxes, levies, fees, imposts, duties and charges of whatever kind (including any interest, penalties or additions to the tax imposed in connection therewith or with respect thereto), including, without limitation, taxes imposed on, or measured by, income, franchise, profits or gross receipts, and also ad valorem,

value added, sales, use, service, real or personal property, capital stock, license, payroll, withholding, employment, social security, workers' compensation, unemployment compensation, utility, severance, production, excise, stamp, occupation, premium, windfall profits, transfer and gains taxes and customs duties.

(b) Except as disclosed on Schedule 2.9. (i) the Company has filed (or joined in the filing of) when due all Tax Returns required by applicable law to be filed with respect to the Company; (ii) all such Tax Returns were true, correct and complete in all material respects as of the time of such filing; (iii) all Taxes relating to periods ending on or before the Closing Date owed by the Company (whether or not shown on any Tax Return) at any time on or prior to the Closing Date, if required to have been paid, have been paid (except for Taxes which are being contested in good faith inappropriate proceedings), (iv) any liability of the Company for Taxes not yet due and payable, or which are being contested in good faith in appropriate proceedings, has been provided for on the financial statements of the Company in accordance with RAP; (v) there is no action, suit, proceeding, investigation, audit or claim now pending against, or with respect to, the Company in respect of any material Tax or material Tax assessment, nor is any claim for additional material Tax or material assessment asserted by any Tax authority; (vi) since January 1, 1998, no written claim has been made by any Tax authority in a jurisdiction where the Company (or the Sellers with respect to the Company) does not currently file a Tax Return that it is or may be subject to Tax by such jurisdiction, nor to the Sellers' knowledge is any such assertion threatened in writing; (vii) the Company has no outstanding request for any extension of time within which to pay its Taxes or file its Tax Returns; (viii) there has been no waiver or extension of any applicable statute of limitations for the assessment or collection of any Taxes of the Company; (ix) each of LLC1, LLC2 and the Company have been disregarded entities for Federal income tax purposes for all taxable periods beginning January 1, 2001 through and including the Closing Date; (x) Seller Parent is not a "foreign person" within the meaning of Section 1445 of the United States Internal Revenue Code of 1986, as amended (the "Code"); (xi) the Company is not a party to any agreement, whether written or unwritten, providing for the payment of Taxes, payment for Tax losses, entitlements to refunds or similar Tax matters; (xii) the Company has withheld and paid all material Taxes required to be withheld by the Company in connection with any amounts paid or owing to any employee, creditor, independent contractor or other third party.

SECTION 2.10. Absence of Undisclosed Liabilities. Except as disclosed on Schedule 2.10, the Company and its Subsidiaries have no material, individually or in the aggregate, indebtedness or liability, absolute or contingent, direct or indirect, which is not shown or provided for on the consolidated balance sheets of the Company included in the 2001 Financial Statements other than liabilities incurred or accrued in the ordinary course of business (including liens of current taxes and assessments not in default) since December 31, 2001.

SECTION 2.11. Real and Personal Property; Sufficiency of Assets of the Company. (a) (i) Except as Set forth on Schedule 2.11(a)., the Company or one of its Subsidiaries owns marketable fee title to, or holds a valid leasehold, interest in or right-of-way easement (collectively, the "Rights of Way") through, all real property ("Real Property") used or necessary for the conduct of the Company's and its Subsidiaries' business as it is presently conducted and as the Company's and its Subsidiaries' business is proposed to be conducted in

connection with the 2002 Expansion Project, including, without limitation, all real property required for the construction, operation and maintenance of the Pipeline and have good and valid title to all of the material tangible assets and properties which they own and which are reflected on the 2001 Financial Statements (except for assets and properties sold, consumed or otherwise disposed of in the ordinary course of business since the date of the 2001 Financial Statements), (ii) Schedule 2.11(a) sets forth a summary of types of the Rights of Way obtained or to be obtained for the High Desert Project and the 2003 Expansion Project, and (iii) all such Real Property, assets and properties (other than Rights of Way) are owned or leased free and clear of all Encumbrances, except for (A) Encumbrances set forth on Schedule 2.11 (p), (B) liens for current Taxes not yet due and payable or for Taxes the validity of which is being contested in good faith, (C) Encumbrances to secure indebtedness reflected on the 2001 Financial Statements, (D) Encumbrances which will be discharged on or prior to the Closing Date, (E) Rights of Way, written agreements, laws, ordinances and regulations affecting building use and occupancy or reservations of interest in title (collectively, "Property Restrictions") imposed or promulgated by law or any Governmental Authority with respect to Real Property, including zoning regulations, provided they do not materially adversely affect the current use of the applicable Real Property or the use proposed in connection with the Expansion Projects, (F) mechanics', carriers', workmen's and repairmen's liens and other Encumbrances, Property Restrictions and other limitations of any kind, if any, which do not materially detract from the value of or materially interfere with the present use or the use proposed in connection with the Expansion Projects of any Real Property subject thereto or affected thereby and which have arisen or been incurred in the ordinary course of business and (G) Encumbrances that do not materially detract from the value or materially interfere with the present use of the asset subject thereto or the proposed use of the asset in connection with the Expansion Projects (clauses (A) through (G) above referred to collectively as "Permitted Encumbrances"). Schedule 2.11(a) sets forth a list of all Real Property which the Company or one of its Subsidiaries owns in fee (such Real Property, "Fee Property") and all Rights of Way owned by the Company or one of its Subsidiaries. Except as set forth in Schedule 2.11(a), to the Company's knowledge its interests in (1) the Fee Property are exclusive, indefeasible and perpetual and (2) all Rights of Way are perpetual.

(b) There are no material structural defects relating to any of the improvements to the Real Property and all tangible assets and property owned or used by the Company or any of its Subsidiaries are in good operating condition, ordinary wear and tear excepted. To the Company's knowledge, all improvements to the real property owned or used by the Company or any of its Subsidiaries do not encroach in any respect on property of others (other than encroachments that would not materially impair the operations of the Company and its Subsidiaries).

(c) Except as set forth on Schedule 2.11(c), and except for Intellectual Property, the assets owned or licensed by the Company and its Subsidiaries constitute all of the assets, properties and rights customarily used by the Sellers, the Sellers' affiliates, the Company and the Subsidiaries to conduct the business of the Company and its Subsidiaries and the operation of its Pipeline as currently conducted.

(d) The Company has good and valid title to at least a 63.6% tenancy-in-common interest in the assets comprising a certain jointly owned segment of the Pipeline in California

(the "Common Facilities") extending from Daggett, California to Bakersfield, California and the real estate associated therewith. After completion of the 2003 Expansion Project and pursuant to the Construction Operation and Maintenance Agreement (the "COM") by and among the Company, Mojave Pipeline Company and Mojave Pipeline Operation Company, dated August 29, 1989, as amended November 30, 1990, November 1, 1993, May 30, 1995, March 27, 1996, November 27, 1996 and March 29, 1999, the Company will (i) have good and valid title to a greater percentage interest in such Common Facilities than its current percentage which percentage interest will be determined upon final determination of the 2003 Expansion capital costs, (ii) be entitled to the exclusive use of the incremental Theoretical Capacity (as defined in the COM) resulting from the construction of the 2003 Expansion Project and (iii) be entitled to all revenues arising from the provision of transportation services associated with its marketing of such expanded capacity.

(e) Except as set forth on Schedule 2.11(e), there is no pending or, to the Sellers' knowledge, threatened condemnation of any part of the Real Property by any Governmental Authority which would materially adversely affect the Company's (or its Subsidiaries') current use of the applicable Real Property.

(f) With respect to those assets assigned to the Company or the Buyers pursuant to Section 4.19, the Sellers and the Sellers' affiliates own all right, title and interest in and to, or have valid and enforceable right to use all equipment (including, without limitation, computer hardware, servers, routers and PBX equipment) set forth on Schedule 2.11(c), free and clear of all material Encumbrances (other than Permitted Encumbrances), and (ii) all such equipment is in good operating condition, ordinary wear and tear excepted.

SECTION 2.12. Regulatory Matters. The Company is a "Natural Gas Company" as that term is defined in Section 2 of the Natural Gas Act ("NGA"). The Company is not a "public utility company," "holding company" or "subsidiary" or "affiliate" of a holding company as such terms are defined in the Public Utility Holding Company Act of 1935 (the "1935 Act"). The Company is in material compliance with all provisions of the NGA and all rules and regulations promulgated by FERC pursuant thereto. The Company is in material compliance with all orders issued by FERC that pertain to all terms and conditions and rates charged for services. No approval of (i) the Securities and Exchange Commission under the 1935 Act or (ii) FERC under the NGA or the Federal Power Act is required in connection with the execution of this Agreement by the Sellers or the transaction contemplated hereby with respect to the Sellers.

SECTION 2.13. Intellectual Property. (a) Except as set forth on Schedule 2.13(a), the Company or its Subsidiaries own all right, title and interest in and to, or have a valid license (enforceable by the Company or its Subsidiaries in accordance with its terms (except to the extent that its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles)) or other rights to use (other than through the Sellers or their affiliates), all the material Intellectual Property used by the Company, its Subsidiaries, the Sellers or the Sellers' affiliates in connection with the Company's business, which Intellectual Property represents all material intellectual property rights (i) used by the Company, its Subsidiaries, the Sellers or the Sellers' affiliates to conduct the business of the Company and its Subsidiaries and

the operation of its Pipeline as currently conducted or (ii) owned or licensed by the Company, its Subsidiaries, the Sellers or the Sellers' affiliates and intended to be used in connection with the Expansion Projects. All Intellectual Property owned by the Company and its Subsidiaries is owned free and clear of material Encumbrances other than Permitted Encumbrances. The Company and its Subsidiaries are in compliance in all material respects with their contractual obligations relating to the protection of such of the Intellectual Property they use pursuant to material licenses or other material agreements. To the Sellers' knowledge, there are no material conflicts with or infringements of any material Intellectual Property owned by the Company or its Subsidiaries by any third party. To the Sellers' and the Sellers' affiliates' knowledge, the conduct of the business of the Company and its Subsidiaries as conducted does not conflict with or infringe any intellectual property or other proprietary right of any third party. Neither (a) the Intellectual Property owned by the Company nor (b) the Licensed Software, as of the date of delivery, infringes any intellectual property or other proprietary rights of any third party. There is no claim (in writing), suit, action or proceeding pending or, to the knowledge of the Sellers or the Sellers' affiliates or the Company or its Subsidiaries, threatened against the Company or its Subsidiaries: (i) alleging any conflict or infringement with any third party's intellectual property or other proprietary rights; or (ii) challenging the Company's or any Subsidiary's ownership or use of, or the validity or enforceability of, any material Intellectual Property. The consummation of the transactions contemplated hereby will not alter or impair any material Intellectual Property. As used herein, "Intellectual Property" shall mean all of the following, to the extent owned or used by the Company or its Subsidiaries in the business of the Company or its Subsidiaries as of the Closing Date: (i) trademarks and service marks, logos, trade dress, product configurations, trade names and other indications of origin, applications or registrations in any jurisdiction pertaining to the foregoing and all goodwill associated therewith; (ii) inventions (whether or not patentable), discoveries, improvements, ideas, know-how, formula, methodology, research and development, business methods, processes, technology, and patent applications or patents in any jurisdiction pertaining to the foregoing, including re-issues, continuations, divisions, continuations-in-part, renewals or extensions; (iii) trade secrets, including confidential information and the Company's and its Subsidiaries' right in any jurisdiction to limit the use or disclosure thereof; (iv) copyrights in writings, designs, software (including password unprotected interpretive code or source code, object code, development documentation, programming tools, drawings, specifications and data), mask works or other works and applications or registrations in any jurisdiction for the foregoing; (v) database rights; and (vi) Internet Web sites, Web pages, domain names and applications and registrations pertaining thereto and all items in clauses (i) - (v) above to the extent used in connection with or contained in all versions of the Company's or any Subsidiary's Web sites.

(b) Schedule 2.13(b) sets forth a complete and current list of all copyright and trademark applications and registrations and patent applications and issued patents and material unregistered trademarks and copyrights owned by the Company or its Subsidiaries ("Listed Intellectual Property"). All Listed Intellectual Property is valid, subsisting, unexpired and all renewal fees and other maintenance fees that have fallen due on or prior to the date of this Agreement have been paid. Except as listed in Schedule 2.13(b), no Listed Intellectual Property is the subject of any proceeding before any governmental, registration or other authority in any jurisdiction, including any office action or other form of preliminary or final refusal of registration.

(c) Schedule 2.13(c) sets forth a complete list of all material agreements relating to the Intellectual Property or to the right of the Company or any of its Subsidiaries to use the proprietary rights of any third party excluding "shrink-wrap" and "off-the-shelf" software and any agreement, in each case, with a replacement cost of less than $500. Each agreement set forth on Schedule 2.13(c) is valid, binding and enforceable by the Company or its Subsidiaries (except to the extent that its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles) in accordance with its terms on the date of this Agreement. The Company and each Subsidiary, as the case may be, have performed all material obligations required to be performed by them under, and are not in material default or breach of, any agreement set forth in Schedule 2.13(c), and no event has occurred, which with due notice or lapse of time or both, would constitute such a material default by the Company or its Subsidiaries. To the knowledge of the Sellers and the Company, (1) no other party to any agreement set forth in Schedule 2.13(c) is in material default thereof, and (2) no event has occurred which, with due notice or lapse of time or both, would constitute such a material default by such other party.

(d) To the extent a representation or warranty is set forth in this Section 2.13 and the same subject matter is covered in another representation or warranty in this Agreement (other than with respect to the representation regarding Licensed Software in Section 4.22), the provisions concerning such subject matter in this Section 2.13 shall govern.

(e) To the Sellers' knowledge, the Company and its Subsidiaries each take reasonable measures to protect the confidentiality of their trade secrets. To the Sellers' knowledge, (i) none of the material Intellectual Property has been used, disclosed or appropriated to the detriment of the Company or any of its Subsidiaries for the benefit of any third party; and (ii) no employee, independent contractor or agent of the Company or any Subsidiaries has misappropriated any material trade secrets or other material confidential information of any third party in the course of the performance of his or her duties as an employee, independent contractor or agent of the Company or any of its Subsidiaries.

(f) With respect to intellectual property assets to be assigned to the Company or the Buyers from the Sellers or Seller's affiliates pursuant to Section 4.19 (the "Assigned Assets"):

(i) The Sellers and the Sellers' affiliates are in compliance in all material respects with their material contractual obligations. To the Sellers' knowledge, there are no material conflicts with or infringements by any third party of any Assigned Assets owned by the Sellers or the Sellers' affiliates. The Assigned Assets owned by the Sellers and the Sellers' affiliates do not infringe any intellectual property or other proprietary rights of any third party;

(ii) There is no claim (in writing), suit, action or proceeding pending or, to the knowledge of the Sellers or the Sellers' affiliates, threatened against Sellers or the Sellers' affiliates challenging the Sellers' or the Sellers' affiliates' ownership or use of, or the validity or enforceability of, any Assigned Assets; and

(iii) Neither the Sellers nor any of their affiliates will be, as a result of the execution and delivery of this Agreement or the performance of their obligations under this Agreement, in breach of any agreement set forth in Schedule 2.13(a). Each Assigned Asset that is a license or other agreement is valid, binding and enforceable against the parties thereto in accordance with its terms (except to the extent its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles). The Sellers and the Sellers' affiliates, as the case may be, have performed all material obligations to be performed by them under, and are not in material default or breach of any Assigned Asset that is a license or an agreement and no event has occurred, which with due notice or lapse of time or both, would constitute such a material default by the Sellers or the Sellers' affiliates. To the knowledge of the Sellers and the Sellers' affiliates, no other party to any Assigned Asset is in material default thereof, and no event has occurred which, with due notice or lapse of time or both, would constitute such a material default by such other party.

SECTION 2.14. Licenses, Permits and Governmental Approvals. (a) Schedule 2.14(a) sets forth a true and complete list of all material licenses, permits, certificates, franchises, authorizations and approvals issued or granted to the Company and any Subsidiary by any Governmental Authority (including the date issued or applied for and the dates of any amendments thereto) (each a "License" and, collectively, the "Licenses") necessary for the conduct of its business presently and as proposed to be conducted in connection with the Expansion Projects. Schedule 2.14(a) also sets forth a true and complete list of all pending applications for Licenses necessary for the conduct of the Company's business as proposed to be conducted in connection with the Expansion Projects. Each License (other than Licenses proposed to be obtained in connection with the Expansion Projects) has been issued to, and duly obtained and fully paid for by, the holder thereof and is valid, in full force and effect, and not subject to any pending or known threatened administrative or judicial proceeding to suspend, revoke, cancel or declare such License invalid in any respect.

(b) In the case of Licenses that have been applied for but not yet granted, all necessary applications have been made in a timely fashion and the Company has no knowledge as to why any License that has been applied for but not yet granted (as indicated on Schedule 2.14(a)), will not be obtained without undue burden and in form and substance to permit the continued lawful conduct of the Company's business during construction of the Expansion Projects and in connection with the operation of the Expansion Projects. No License will in any way be cancelled or suspended or required to be modified (other than in a ministerial manner) as a result of, or terminate or lapse by reason of, the execution, delivery and performance of this Agreement by the Sellers.

SECTION 2.15. Compliance with Law. Except as relates to Tax matters (which are provided for in Section 2.9), regulatory matters (which are provided for in Section 2.12), or environmental, health and safety matters (which are provided for in Section 2.24) and except as set forth on Schedule 2.15, the operations of the Company and each Subsidiary have been conducted in material compliance since January 1, 2000 with all applicable material laws, licenses, regulations, orders and other material requirements of all Governmental Authorities

having jurisdiction over the Company and any Subsidiary arid their assets, properties and operations. Except as relates to Tax matters (which are provided for in Section 2.9), regulatory matters (which are provided for in Section 2.12) or environmental, health and safety matters (which are provided for in Section 2.24), neither the Sellers, nor the Company or any Subsidiary have received written notice of any material violation of any such law, license, regulation, order or other legal requirement, or are in material default with respect to any material order, writ, judgment, award, injunction or decree of any Governmental Authority, applicable to the Company, the Subsidiaries or any of their assets, properties or operations. Neither the Sellers, nor the Company or any Subsidiary have knowledge of any proposed change in any such laws, rules or regulations (other than laws of general applicability) or the terms of any such license that would materially adversely affect the transactions contemplated by this Agreement or materially adversely affect all or a substantial part of the assets or the businesses of the Company and the Subsidiaries, individually or in the aggregate, or the Expansion Projects.

SECTION 2.16. Litigation. Except as set forth on Schedule 2.16, as of the date hereof, there are no Legal Proceedings pending or, to the knowledge of the Sellers or the Company and its Subsidiaries, threatened against or involving any Seller, the Company or any Subsidiary that, individually or in the aggregate, are reasonably likely to (a) have a Material Adverse Effect or (b) materially impair or delay the ability of the Sellers to perform their obligations under this Agreement or consummate the transactions contemplated by this Agreement. Except as set forth on Schedule 2.16, as of the date hereof, there is no order, judgment, injunction or decree of any Governmental Authority outstanding against any Seller, the Company or any Subsidiary that, individually or in the aggregate, would have any effect referred to in the foregoing clauses (a) and (b). "Legal Proceeding" shall mean any judicial, administrative or arbitral actions, suits, proceedings (public or private), investigations or governmental proceedings before any Governmental Authority.

SECTION 2.17. Contracts. Except for Commitments (as defined below) listed on Schedule 2.13 or Schedule 2.20, Schedule 2.17 sets forth (subject to the dollar amount limitations of clauses (b) or (c) below) a true and complete list of the following contracts, agreements, instruments and commitments to which the Company or any Subsidiary is a party or otherwise relating to or affecting any of their assets, properties or operations whether written or oral: (a) other than those that are immaterial, any contracts, agreements and commitments not made in the ordinary course of business; (b) contracts calling for payments by the Company of amounts greater than $200,000; (c) contracts, loan agreements, letters of credit, repurchase agreements, mortgages, security agreements, guarantees, pledge agreements, trust indentures and promissory notes and similar documents relating to the borrowing of money or for lines of credit in any case for amounts in excess of $200,000; (d) agreements with respect to the sharing or allocation of taxes or tax costs; (e) agreements for the sale of any material assets, property or rights other than in the ordinary course of business or for the grant of any options or preferential rights to purchase any material assets, property or rights; (f) documents granting any power of attorney with respect to the material affairs of the Company or any Subsidiary; (g) suretyship contracts, performance bonds, working capital maintenance, support agreements, contingent obligation agreements or other forms of guaranty agreements; (h) other than those that are immaterial, any contracts or commitments limiting or restraining the Company or any Subsidiary from engaging or competing in any lines of business or with any person; (i) other than those that

are immaterial, partnership or joint venture agreements; (j) shareholder agreements or agreements relating to the issuance of any securities of the Company or any Subsidiary or the granting of any registrations rights with respect thereto; and (k) all amendments, modifications, extensions or renewals of any of the foregoing (the foregoing contracts, agreements and documents are hereinafter referred to collectively as the "Commitments" and individually as a "Commitment"). Each Commitment is valid, binding and enforceable against the parties thereto in accordance with its terms, and in full force and effect on the date hereof. The Company and each Subsidiary, as the case may be, have performed in all material respects all obligations required to be performed by them under, and are not in material default or breach of in respect of, any Commitment, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default. To the knowledge of the Sellers and the Company or any of its Subsidiaries, no other party to any Commitment is in default in any material respect thereof, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default. The Sellers have made available to the Buyers or their representatives true and complete originals or copies of all the Commitments and a copy of every material default notice received by the Sellers or the Company or any of its Subsidiaries during the past one year with respect to any of the Commitments.

SECTION 2.18. Books and Records of the Company. The books of account, minute books, record books, and other records of the Company and each Subsidiary, all of which have been made available to the Buyers or their representatives, are complete and correct in all material respects.

SECTION 2.19. Expansion Projects. (a) The capital expenditures set forth on Schedule 2.1 9(a) hereto are reasonably expected to be sufficient to maintain the Company's existing facilities in good working order through December 31, 2002.

(b) The Construction Budgets and Schedules of the respective Expansion Projects are attached hereto as Schedule 2.19(b) and have been prepared by the Company in good faith and based upon assumptions that are believed to be reasonable, and the Sellers have no knowledge of any fact or circumstance that will or is reasonably likely to cause the Expansion Projects not to be completed in accordance with such Construction Budgets and Schedules.

SECTION 2.20. Employee Plans. (a) The Company does not sponsor or maintain, and at any time during the past five years has not sponsored or maintained, any "employee benefit plan," as defined under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other bonus, pension, stock option, stock purchase, benefit, welfare, profit-sharing, retirement, disability, vacation, severance, hospitalization, insurance, incentive, deferred compensation and other similar fringe or employee benefit plans, funds, programs or arrangements, whether written or oral ("Employee Plans"), in each of the foregoing cases which cover, are maintained for the benefit of, or relate to any or all current or former employees of the Company. As of the Closing Date, the Company will have no obligation or liability under any Employee Plans. Schedule 2.20(a) sets forth a true and complete list of all Employee Plans which cover, are maintained for the benefit of, or relate to any or all employees of the Sellers who are assigned to the business of the Company (the "Business Employees," and such Employee Plans hereinafter referred to as the "Seller Plans").

(b) The Company has no current employees, and no present or contingent liability to any former employees. Schedule 2.20(b) sets forth a true and complete list showing the names of all Business Employees. There are no contracts, agreements, plans or arrangements covering any Business Employee with "change of control" or similar provisions that would be triggered as a result of the consummation of this Agreement or the Stock Purchase Agreement dated of even date herewith between Seller Parent and Buyer Parent or that could otherwise result in liability to the Company. To the Sellers' and the Company's knowledge, no Business Employee is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of such employee's efforts to promote the interests of the Company or the Buyers or that would conflict with the Company's business as conducted or proposed to be conducted. Except for those employees who are eligible for early retirement benefits, neither the Sellers nor the Company have received notice from any officer of the Company or its Subsidiaries or key Business Employee or group of Business Employees, that such person(s) intends to terminate their employment.

SECTION 2.21. Existing Firm Transportation Customers; Expansion Customers. (a) Schedule 2.21(a) sets forth a complete and correct list of existing firm transportation customers of the Pipeline during the last fiscal year ("Firm Transportation Customers") and the amount of business done with each Firm Transportation Customer in such year. As of the date of this Agreement, except as set forth on Schedule 2.21(a), (i) the Company is not engaged in any material dispute with any Firm Transportation Customer; (ii) there has been no material adverse change in the business relationship of the Company with any Firm Transportation Customer since January 1,2001; and (iii) no Firm Transportation Customer has proposed in writing any material adverse modification or change in the business relationship with the Company. Except as disclosed on Schedule 2.2 1(a), since January 1,2001, the Company has not at any time delivered to, or received from, any Firm Transportation Customer any formal written notice or written allegation of a default or breach with respect to any agreement, contract or other arrangement and none of such Firm Transportation Customers has, or, to the Sellers' knowledge, intends to terminate or not exercise any option to renew or otherwise change significantly its relationship with the Company.

(b) Schedule 2.21(b) sets forth a complete arid correct list of the expansion customers for the Expansion Projects ("Expansion Customers"). As of the date of this Agreement, the Expansion Customers set forth on Schedule 2.21(b) have signed, valid and enforceable firm transportation service agreements or precedent agreements.

SECTION 2.22. Insurance. (a) Schedule 2.22 sets forth a true and complete list of all policies of property and casualty insurance, including crime insurance, liability and casualty insurance, property insurance, business interruption insurance, workers' compensation, excess or umbrella liability insurance and any other type of property and casualty insurance insuring the properties, assets, employees and/or operations of the Company or any Subsidiary (collectively, the "Policies"). Upon request, the Sellers will make available to the Buyers certificates of insurance and insurance summaries from the insurance broker evidencing the existence of the Policies. All premiums payable under such Policies have been paid in a timely manner and the Company has complied fully with the terms and conditions of all such Policies.

(b) Except as set forth on Schedule 2.22, all such Policies are in full force and effect and except as provided in Section 4.15, coverage of the Company and its Subsidiaries under the Policies will terminate upon the Closing Date. The Sellers shall use their reasonable best efforts to cause the Company and its Subsidiaries to maintain the coverage under all Policies (or replacements thereof for Policies expiring prior to the Closing Date) in full force and effect through the Closing Date. Neither the Company nor any Subsidiary is in default under any provisions of the Policies, and there is no claim by the Company, any Subsidiary or any other person pending under any of the Policies as to which coverage has been questioned, denied or disputed by the underwriters or issuers of such Policies. Except as set forth on Schedule 2.22, neither the Company nor any Subsidiary has received written notice from an insurance carrier issuing any Policies that alteration of any equipment or any improvements located on Real Property, purchase of additional equipment, or modification of any of the methods of doing business of the Company or any Subsidiary, will be required or suggested after the date hereof. The Policies maintained by the Company and each Subsidiary are adequate in accordance with industry standards, the requirements of any applicable agreements and are in at least the minimum amounts required by, and are otherwise sufficient for purposes of, any currently applicable law, rule, or regulation of any Federal, state or local government, agency or authority, including, without limitation, environmental regulations. All Policies are of at least like character and amount as are customarily carried by like businesses similarly situated.

SECTION 2.23. Transactions with Directors, Officers and Affiliates. Except as set forth on Schedule 2.23 and for inter-company services in the ordinary course of business, since January 1, 2001, there have been no transactions between the Company or any Subsidiary and any director, officer, employee, stockholder or other "affiliate" (as such term is defined in Rule 405 under the Securities Act of 1933, as amended (the "Securities Act")) of the Company, or any Subsidiary or the Sellers, including, without limitation, loans, guarantees or pledges to, by or for the Company or Subsidiary from, to, by or for any of such persons. Except as set forth on Schedule 2.11(c), neither the Sellers nor any of their "affiliates" (as such term is defined in Rule 405 under the Securities Act) (other than the Company or any Subsidiary) owns or has any rights in or to any of the assets, properties or rights used by the Company or any Subsidiary in the ordinary course of their business.

SECTION 2.24. Environmental; Health and Safety Matters. (a) Except as set forth on Schedule 2.24:

(i) the Company and each Subsidiary and their respective operations are in material compliance with all applicable Environmental Laws and, in the case of pipeline safety, prudent industry practices, and have been in material compliance with Environmental Laws and, in the case of pipeline safety, prudent industry practices, except for historical noncompliance that would not reasonably be expected to result in the Company or any Subsidiary incurring material Environmental Costs and Liabilities;

(ii) none of the Sellers, the Company or any Subsidiary has received any written request for information, or has been notified that it is a potentially responsible party,

under CERCLA (as hereinafter defined) or any similar state law with respect to any on-site or off-site location for which liability is currently being asserted against them with respect to the activities or operations of the Company or its Subsidiaries;

(iii) there are no material writs, injunctions, decrees, orders or judgments outstanding, or any actions, suits, proceedings or investigations pending or to their knowledge threatened, involving the Company or any Subsidiary relating to (A) their compliance with any Environmental Law, or (B) the release, disposal, discharge, spill, treatment, storage or recycling of Hazardous Materials into the environment at any location which would reasonably be expected to result in the Company or any Subsidiary incurring any material liability under Environmental Laws;

(iv) the Company and each Subsidiary have obtained, currently maintain and are in material compliance with all Licenses which are required under Environmental Laws for the operation of their respective businesses (collectively, "Environmental Permits"), all such Environmental Permits are in effect and no appeal nor any other action is pending to revoke any such Environmental Permit;

(v) to the extent that the Company will require additional Environmental Permits for the operation of its business during construction of the Expansion Projects or in connection with the Expansion Projects, all necessary applications for such Environmental Permits due as of the Closing in accordance with the Construction Budgets and Schedules set forth on Schedule 2.19(b) have been or will be made in a timely fashion;

(vi) the Company has no knowledge of any reason why any such Environmental Permit that has been applied for, but not yet granted, will not be obtained without undue burden and in form and substance sufficient to permit (A) the continued lawful conduct of the Company's business during construction of the Expansion Projects, and (B) the lawful conduct of the Company's business with respect to the Expansion Projects as such business is expected to be conducted;

(vii) the Company has no knowledge of any reason why any Environmental Permit required for the operation of its business during construction of the Expansion Projects or in connection with the Expansion Projects that has not yet been applied for will not be obtained without undue burden and in form and substance sufficient to permit the (A) continued lawful conduct of the Company's business during construction of the Expansion Projects, and (B) the lawful conduct of the Company's business with respect to the Expansions Projects as such business is expected to be conducted;

(viii) all such Environmental Permits are transferable and the Sellers and the Company will cooperate with the Buyers to secure any required transfer of those Environmental Permits;

(ix) no cleanup, investigation or remedial action has occurred at the properties that are currently owned, leased, operated or otherwise used by the Company or any Subsidiary that could result in the assertion or creation of a lien on such property by any

Governmental Authority with respect thereto and for which the Company or any Subsidiary would be responsible, nor has any such assertion of a lien been made by any Governmental Authority with respect thereto which has not been removed;

(x) there are no material Environmental Costs and Liabilities which may arise against them based on their activities prior to the Closing Date at the properties that are currently, or previously were, owned, leased, operated or otherwise used by the Company or any Subsidiary;

(xi) there have been no Pipeline ruptures resulting in injury, loss of life, or material property damage; and

(xii) to the knowledge of the Company and its Subsidiaries, there are no defects, corrosion or other damage to the Pipeline that would create a material risk of pipeline integrity failure.

(b) The following terms shall have the following meanings:

"Environmental Claim" shall mean any notice of violation, action, claim, lien, demand, abatement or other order or directive (conditional or otherwise) by any Person or Governmental Authority for personal injury (including sickness, disease or death), tangible or intangible property damage, damage to the environment (including natural resources), nuisance, pollution, contamination, trespass or other adverse effects on the environment, or for fines, penalties or restrictions resulting from or based upon (i) the existence, or the continuation of the existence, of a Release (including, without limitation, sudden or non-sudden accidental or non-accidental Releases) of, or exposure to, any Hazardous Material, odor or audible noise; (ii) the transportation, storage, treatment or disposal of Hazardous Materials; or (iii) the violation, or alleged violation, of any Environmental Laws or Permits issued thereunder.

"Environmental Costs and Liabilities" shall mean any and all claims (including Environmental Claims), actions, suits, proceedings, liabilities (whether absolute or contingent), obligations, losses (including liquidated damages or losses arising out of lender liability claims), damages (including any penalty or punitive damages), judgments, offsets, equitable relief granted, amounts paid in settlement, awards, demands, counterclaims, clean-up obligations, interest, costs and expenses (including the reasonable fees of attorneys, consultants, engineers and other experts), and court costs (and other out-of-pocket expenses incurred in investigating, preparing, or defending the foregoing or with respect to any appeal) arising under or pursuant to any Environmental Law.

"Environmental Law" shall mean current local, county, state, federal, and/or foreign law (including common law), statute, code, ordinance, rule, regulation or other legal obligation relating to the protection of the environment or natural resources, including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. section 9601 et seq.), as amended ("CERCLA"), the Resource Conservation and Recovery Act (42 U.S.C. section 6901 et seq.), as amended ("RCRA"), the Federal Water Pollution Control Act (33 U.S.C. section 1251 et seq.), as amended, the Clean Air Act (42 U.S.C.

section 7401 et seq.), as amended, the Toxic Substances Control Act (15 U.S.C. section 2601 et seq.), as amended, the Occupational Safety and Health Act (29 U.S.C. section 651 et seq.), as amended, the Federal Natural Gas Pipeline Safety Act of 1968, as amended, the Hazardous Materials Transportation Act (49 U.S.C. section 1801 et seq.), as amended, the Oil Pollution Act (33 U.S.C. section 2701 et seq.), the Safe Drinking Water Act (42 U.S.C. section 300(f) et seq.), as amended, analogous state, tribal or local laws, and any similar, implementing or successor law, and any amendment, rule, regulation, or directive issued thereunder.

"Hazardous Material" shall mean any substance, material or waste which is regulated by any Environmental Law as hazardous, toxic, a pollutant, contaminant or words of similar meaning including, without limitation, petroleum, petroleum products, asbestos, urea formaldehyde and polychlorinated biphenyls.

"Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of a Hazardous Material.

(c) To the extent a representation or warranty is set forth in this Section 2.24 and the same subject matter is covered in another representation or warranty in this Agreement, the provisions covering such subject matter in this Section 2.24 shall govern.

SECTION 2.25. Brokers. Except as set forth on Schedule 2.25. the Sellers have not employed the services of a broker or finder in connection with this Agreement or any of the transactions contemplated hereby.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF THE BUYERS

The Buyers hereby jointly and severally represent and warrant as follows:

SECTION 3.1. Corporate Organization. Each of Buyer Holdco, Buyer1 and Buyer2 is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Delaware and has all requisite power and authority to own its properties and assets and to conduct its business as now conducted. Buyer Parent is a corporation duly organized, validly existing and in good standing under the laws of the state of Iowa and has all requisite power and authority to own its properties and assets and to conduct its business as now conducted. Each of Buyer1 and Buyer2 is duly qualified to do business as a foreign entity in every jurisdiction where the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualifications necessary.

SECTION 3.2. Validity of Agreement. Each of the Buyers has the power to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the performance of the Buyers' obligations hereunder have been duly authorized by the Boards of Directors of the Buyers, and no other proceedings on the part of the Buyers are necessary to authorize such execution, delivery and performance. This Agreement has been duly executed by the Buyers and constitutes the valid and binding obligation of the Buyers enforceable against the Buyers in accordance with its terms (except to the extent that its

enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles).

SECTION 3.3. No Conflict or Violation; No Defaults. The execution, delivery and performance by the Buyers of this Agreement does not and will not violate or conflict with any provision of their Organizational Documents and does not and will not violate any applicable provision of law, or any order, judgment or decree of any Governmental Authority, nor violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Buyers are a party or by which they are bound or to which any of their properties or assets is subject, nor result in the creation or imposition of any Encumbrance upon any of their properties or assets where such violations, breaches or defaults in the aggregate would have a material adverse effect on the transactions contemplated hereby or on the assets, properties, business, operations, net income or financial condition of the Buyers.

SECTION 3.4. Consents and Approvals. Except as disclosed on Schedule 3.4, no material consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any other person (on the part of the Buyers) is required as a condition to the execution and delivery of this Agreement by the Buyers or the performance of the Buyers' obligations hereunder.

SECTION 3.5. Brokers. Except as Set forth on Schedule 3.5, the Buyers have not employed the services of an investment broker, financial advisor, broker or finder in connection with the Agreement or any of the transactions contemplated hereby.

SECTION 3.6. Financial Ability. Buyer1 and Buyer2 will have sufficient immediately available funds, in cash, at the Closing to pay the Purchase Price, other amounts payable pursuant to this Agreement and to effect the transactions contemplated hereby.

ARTICLE IV.
COVENANTS

SECTION 4.1. Certain Changes and Conduct of Business. (a) Except as expressly provided by this Agreement or Schedule 4.1, from and after the date of this Agreement and until the Closing Date, (x) the Company shall, and shall cause each of its Subsidiaries to, conduct and maintain its business solely in the ordinary course consistent with past practices and, (y) without the prior written consent of the Buyers (not to be unreasonably withheld or delayed), the Sellers will not permit the Company or any of its Subsidiaries to:

(i) make any material change in the conduct of its businesses and operations;

(ii) make any change in its Organizational Documents or issue any additional equity securities or grant any option, warrant or right to acquire any equity securities or issue any security convertible into or exchangeable for its equity securities or alter any term of

any of its outstanding securities or make any change in its outstanding equity securities or other ownership interests or in its capitalization, whether by reason of a reclassification, recapitalization, stock split or combination, exchange or readjustment of shares, stock dividend or otherwise;

(iii) other than inter-company advances to fund the Expansion Projects or otherwise in the ordinary course of business, (A) incur, assume or guarantee any indebtedness for borrowed money, issue any notes, bonds, debentures or other corporate securities or grant any option, warrant or right to purchase any thereof, or (B) issue any securities convertible or exchangeable for debt securities of the Company or any Subsidiary;

(iv) make any sale, assignment, transfer, abandonment or other conveyance of any of its assets or any part thereof except for dispositions of inventory or of worn-out or obsolete equipment for fair or reasonable value in the ordinary course of business consistent with past practices;

(v) subject any of its assets, or any part thereof, to any Encumbrance other than a Permitted Encumbrance, or permit the imposition of any Encumbrance other than a Permitted Encumbrance;

(vi) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its equity interests or declare, set aside or pay any dividends or other distribution in respect of such equity interests;

(vii) acquire any assets or properties other than in the ordinary course of business consistent with past practices;

(viii) enter into any new employee benefit plan, program or arrangement or any new employment, severance or consulting agreement, grant any general increase in the compensation of officers or employees (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or grant any increase in the compensation payable or to become payable to any employee, except in accordance with pre-existing contractual provisions;

(ix) make or commit to make any capital expenditure or to invest, advance, loan, pledge or donate any monies to any clients or other persons or to make any similar commitments with respect to outstanding bids or proposals except as disclosed on Schedule 4.1

(x) pay, except in the ordinary course of business consistent with past practices, loan or advance any amount to, or sell, transfer or lease any properties or assets to, or enter into any agreement or arrangement with, any of its affiliates;

(xi) take any other action that would cause any of the representations and warranties made herein not to remain true and correct in all material respects;

(xii) make any loan, advance or capital contribution to or investment in any person except as disclosed on Schedule 2.7

(xiii) make any change in any method of accounting or accounting principle, method, estimate or practices except for any such change required by reason of a concurrent change in RAP or write-down the value of any inventory, revalue any asset or write-off as uncollectible any accounts receivable except in the ordinary course of business consistent with past practices;

(xiv) make, change or revoke, or permit to be made, changed or revoked, any election or method of accounting with respect to Taxes affecting or relating to the Company;

(xv) enter into, or permit to be entered into, any closing or other agreement or settlement with respect to Taxes affecting or relating to the Company;

(xvi) other than routine compliance filings, make any filings or submit any documents or information to FERC without prior consultation with the Buyers;

(xvii) Entry into any agreement or amendment, modification, or termination of any contract, lease, or license to which the Company or any Subsidiary is a party, or by which it or any of its assets or properties are bound, except those agreements, amendments, modifications or terminations affected in the ordinary course of business consistent with past practices; or

(xviii) commit itself to do any of the foregoing.

(b) From and after the date hereof and until the Closing Date, the Sellers shall cause the Company and each Subsidiary to:

(i) keep its books of account, records and files in the ordinary course and in accordance with existing practices;

(ii) use reasonable efforts to continue to maintain existing business~ relationships with affiliates, suppliers and customers to the extent that such relationships are, at the same time, reasonably judged by the Sellers to be economically beneficial to the Company acting reasonably;

(iii) use reasonable efforts to keep available the services of its present officers;

(iv) comply in all material respects with all Environmental Laws, and should any Seller or the Company receive notice that there exists a material violation of any Environmental Law or a material condition requiring removal or other remedial measures with respect to the real properties owned, operated or leased by the Company or any Subsidiary or their respective operations, the Sellers shall promptly notify the Buyers in writing and unless such notice is being contested in good faith, shall promptly (and in any event within the time permitted by the applicable Governmental Authority) (A) as to areas over which the Sellers

exercise control, remove or remedy such violation or condition in accordance with all Environmental Laws and (B) as to other areas, use their reasonable best efforts to have such violation or condition removed or remedied in accordance with all Environmental Laws; and

(v) comply in all material respects with its Licenses and terms and conditions of service provided by FERC.

(c) From and after the date hereof and until the Closing Date, the Sellers shall continue to provide services to the Company and its Subsidiaries in the ordinary course of business consistent with past practices.

SECTION 4.2. Access to Properties and Records. The Sellers shall afford, and shall cause the Company to afford, to the Buyers and the Buyers' accountants, counsel and representatives full reasonable access during normal business hours throughout the period prior to the Closing Date (or the earlier termination of this Agreement pursuant to Article VII hereof) to all the Company's and its Subsidiaries' properties, books, contracts, Commitments and records (including, but not limited to, all environmental studies, reports and other environmental records) and, during such period, shall furnish promptly to the Buyers all information concerning the Company's and its Subsidiaries' business, properties, liabilities and personnel as the Buyers may request, provided that no investigation or receipt of information pursuant to this Section 4.2 shall affect any representation or warranty of the Sellers or the conditions to the obligations of the Buyers. At the Closing, all of the books of accounts, minute books, record books and other records (including safety, health, environmental, maintenance and engineering records and drawings) of the Company and each Subsidiary will be delivered to the Buyers.

SECTION 4.3. Employee Matters. (a) The Buyers may offer to employ Business Employees under such terms and conditions as the Buyers may determine subject, however, to the terms and provisions of this Section 4.3 and the Workforce Agreement. All Business Employees that accept the Buyers' offer of employment shall become the Buyers' employees as of the Transfer Date and all such Business Employees are hereinafter referred to as the "Transferred Employees." The "Transfer Date" shall be the Closing Date for all Transferred Employees except those Transferred Employees identified as "Restricted GTC Employees" pursuant to the terms and provisions of the Workforce Agreement. The Transfer Date for the Restricted GTC Employees shall be 180 days after the Closing Date, or such other date as mutually agreed by the parties to this Agreement.

(b) Transferred Employees shall participate in employee benefit plans and programs of the Buyers on the same basis as other similarly situated employees of the Buyers.

(c) Each Transferred Employee shall, without duplication of benefits, be given credit for all service with the Sellers prior to the Transfer Date, using the same methodology used by the Sellers as of immediately prior to the Transfer Date for crediting service and determining levels of benefits (i) under all employee benefit plans, programs and arrangements maintained by or contributed to by the Buyers (including, without limitation, the Company) in which the Transferred Employees become participants for purposes of eligibility to participate, vesting and determination of level of benefits (excluding, however, benefit accrual under any

defined benefit plans), and (ii) for purposes of calculating the amount of each Transferred Employee's severance benefits, if any.

(d) The Buyers will, or will cause the Company to, (i) waive all limitations as to preexisting conditions exclusions and waiting periods with respect to participation and coverage requirements applicable to the Transferred Employees under any welfare benefit plans that such employees may be eligible to participate in after the Transfer Date, other than limitations or waiting periods that are already in effect with respect to such employees and that have not been satisfied as of the Transfer Date under any welfare plan maintained for the Transferred Employees immediately prior to the Transfer Date, and (ii) provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Transfer Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans that such employees are eligible to participate in after the Transfer Date.

(e) Effective as of the Transfer Date, Transferred Employees shall become fully vested in their account balances in any defined contribution or 401(k) Plan maintained by the Seller on behalf of such Transferred Employees (the "Seller Savings Plan") and distributions of such account balances shall be made available to such Transferred Employees as soon as practicable following the Transfer Date, in accordance with, the provisions of the Seller Savings Plan and applicable law. Except as provided in this Section 4.3(e), all such distributions shall be in cash. Thereafter, the Buyers shall accept rollover contributions from the Seller Savings Plan into a defined contribution or 40 1(k) Plan maintained by the Buyers (the "Buyers Savings Plan") of the account balances distributed to the Transferred Employees from the Seller Savings Plan. With respect to any Transferred Employee who elects to make a direct rollover to the Buyers Savings Plan and whose account is subject to an outstanding loan as of the Transfer Date, such employee's distribution shall include a promissory note for the outstanding balance of the Loan as of the date of distribution. With respect to any Transferred Employee whose account balance includes shares of Seller Parent stock, such employee may elect to have such shares of stock rolled over into the directed investments option under the Buyers Savings Plan.

(f) With respect to the transition of benefits coverage, any Transferred Employee who is unable to participate in the health plans of the Buyers as of the Transfer Date and elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, with respect to the health plans of the Sellers, shall be reimbursed by the Buyers for the period commencing on the Transfer Date and ending on the date health plan coverage is made available to such Transferred Employee under the Buyers' health plans, for the portion of the health care premium that would have been paid by the Sellers had such Transferred Employee continued in the employment of the Sellers during such period.

(g) The Buyers and the Sellers agree to cooperate as necessary to effectuate the provisions of this Section 4.3, including such steps as may reasonably be required to (i) service any outstanding Seller Savings Plan loans under account balances of Transferred Employees between the date of such employees commence employment with the Buyers and the date that such employees' account balances are distributed, and (ii) ensure an orderly transition of benefits coverage with respect to the Transferred Employees from the Employee Plans to the Buyers' plans.

(h) Each Transferred Employee shall, without duplication of benefits, be given credit for all accrued but unused paid-time-off under the Sellers' paid-time-off program as of the Transfer Date, using the same methodology used by the Sellers immediately prior to the Transfer Date for crediting service and determining the amount of such paid-time-off benefits.

SECTION 4.4. Consents and Approvals. The Sellers and the Buyers shall each use their reasonable best efforts to obtain, or, in the case of the Sellers, cause the Company to obtain, all necessary consents, waivers, authorizations and approvals of all Governmental Authorities, and of all other persons required in connection with the execution, delivery and performance by them of this Agreement.

SECTION 4.5. Further Assurances. Upon the request of the Buyers at any time after the Closing Date, the Sellers will promptly execute and deliver such further instruments of assignment, transfer, conveyance, endorsement, direction or authorization and other documents as the requesting party or parties or its or their counsel may reasonably request in order to perfect title of the Buyers and its successors and assigns to the Interests or otherwise to effectuate the purposes of this Agreement.

SECTION 4.6. Reasonable Best Efforts. Upon the terms and subject to the conditions of this Agreement, each of the parties hereto will use its reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable consistent with applicable law to consummate and make effective in the most expeditious manner practicable the transactions contemplated hereby. The Sellers and the Buyers shall seek early termination of the waiting period under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR Act").

SECTION 4.7. Notice of Breach. Through the Closing Date, each of the parties hereto shall promptly give to the other parties written notice with particularity upon having knowledge of any matter that may constitute a breach of any representation, warranty, agreement or covenant contained in this Agreement. The Sellers shall have the right to supplement the Disclosure Schedules with respect to any matter arising after the date hereof which would have been required to be set forth on or described in such Disclosure Schedule (a "Disclosure Schedule Update"). Any such supplemental disclosure will not be deemed to have been disclosed as of the date of this Agreement for purposes of determining whether the conditions set forth in Article V have been satisfied, but such update shall be deemed to have cured any breach of representation, warranty, covenant or agreement relating to the matters set forth in such update for purposes of indemnification pursuant to Article VIII.

SECTION 4.8. Confidential Information. During the period commencing on the date of this Agreement and ending on the second anniversary of the Closing Date hereunder, except as required by law or stock exchange rule or under its obligations pursuant to the Services Agreement (as defined in Section 5.9), the Sellers and their affiliates shall not, directly or indirectly, disclose to any person or entity or use any information not in the public domain or generally known in the industry, in any form, whether acquired prior to or after the Closing Date, relating to the business and operations of the Company or any Subsidiary, including but not

limited to information regarding customers, vendors, suppliers, trade secrets, training programs, manuals or materials, technical information, contracts, systems, procedures, mailing lists, know-how, trade names, improvements, price lists, financial or other data (including the revenues, costs or profits associated with any of the Company's services), business plans, code books, invoices and other financial statements, computer programs, software systems, databases, discs and printouts, plans (business, technical or otherwise), customer and industry lists, correspondence, internal reports, personnel files, sales and advertising material, telephone numbers, names, addresses or any other compilation of information, written or unwritten, which is or was used by the Company or any Subsidiary, regardless of whether such information was or is owned on the date hereof by the Company or any Subsidiary (collectively, "Protected Information"); provided, however, that if any of the Sellers or their affiliates are presently in possession of Protected Information that (x) is necessary to use in the ordinary course of business of Seller Parent or any controlled affiliate of Seller Parent other than the Company or any of its Subsidiaries (collectively, "Seller Parent and its Other Subsidiaries") and (y) cannot reasonably be redacted, segregated or otherwise separated from information about or owned by Seller Parent and its Other Subsidiaries which is necessary to use in the ordinary course of business of Seller Parent and its Other Subsidiaries (hereinafter, "Mixed Information"), then the Protected Information which is so imbedded in such Mixed Information may be used by Seller Parent and its Subsidiaries in the ordinary course of business; provided, that Seller Parent and its Subsidiaries may not use any such Protected Information to compete or seek to compete with the business or operations of the Company or any of its Subsidiaries. Upon the request of the Company, Seller Parent and its Other Subsidiaries shall reasonably cooperate with the Company in the development of procedures intended to further implement the intent of this Section 4.8.

SECTION 4.9. Non-Solicitation of Clients and Employees. (a) During the period commencing on the date of this Agreement and ending on the second anniversary of the Closing Date hereunder, neither the Sellers nor any affiliate thereof shall for themselves or on behalf of or in conjunction with any person, directly or indirectly, solicit, endeavor to entice away from the Company, or otherwise directly or indirectly interfere with the relationship of the Company with any person who, to the knowledge of the Sellers, is employed by the Company; provided, however neither the Sellers nor any affiliates thereof shall be precluded from soliciting or hiring any such employee (i) who initiates discussions regarding such employment without any direct or indirect solicitation by the Sellers; (ii) whose employment with the Company has been terminated prior to commencement of employment with the Sellers; or (iii) who responds to a general solicitation of employment not specifically addressed to such employees. Notwithstanding the foregoing, the Sellers may continue to employ each Business Employee until such time as such Business Employee becomes a Transferred Employee.

(b) During the period commencing on the date of this Agreement and ending on the second anniversary of the Closing Date hereunder, neither the Buyers nor any affiliate thereof shall for themselves or on behalf of or in conjunction with any person, directly or indirectly, solicit, endeavor to entice away from the Sellers, or otherwise directly or indirectly interfere with the relationship of the Sellers with any person who, to the knowledge of the Buyers, is employed by the Sellers; provided, however, neither the Buyers nor any affiliates thereof shall be precluded from soliciting or hiring any such employee (i) who initiates discussions regarding such employment without any direct or indirect solicitation by the Buyers;

(ii) whose employment with the Sellers has been terminated prior to commencement of employment with the Buyers; or (iii) who responds to a general solicitation of employment not specifically addressed to such employees. Notwithstanding the foregoing, the Buyers shall be permitted to solicit, make offers of employment to, engage in follow-up discussions with and hire Business Employees as permitted under Section 4.3 and the Workforce Agreement.

(c) During the period commencing on the date of this Agreement and ending on the second anniversary of the Closing Date hereunder, neither the gas transportation pipeline companies owned by the Sellers on the date hereof nor any controlled affiliate thereof shall for themselves or on behalf of or in conjunction with any person, directly or indirectly, for purposes of providing interstate transportation of natural gas and related services, solicit, endeavor to entice away from the Company, or otherwise interfere with the relationship of the Company with any person who, to the knowledge of the Sellers is, or was within the then most recent 12 month period, a customer of the Company (hereinafter, a "Company Customer"); provided, that, notwithstanding the foregoing, the Sellers and their affiliates may solicit additional business from any Company Customer who is then a customer of the Seller or any of its affiliates if such additional business relates primarily to gas transportation or related services to be provided by the Seller or such affiliate entirely within the geographic area in which the Seller or such affiliate then conducts business or if such solicitation would not otherwise compete with services which are provided by the Company on the Closing Date to such Company Customer or any proposed expansion or extension of such services to such Company Customer as contemplated on the Closing Date.

(d) During the period commencing on the date of this Agreement and ending on the second anniversary of the Closing Date hereunder, neither the Company nor any controlled affiliate thereof shall for themselves or on behalf of or in conjunction with any person, directly or indirectly, for purposes of providing interstate transportation of natural gas and related services, solicit, endeavor to entice away from the Sellers, or otherwise interfere with the relationship of the Sellers with any person who, to the knowledge of the Buyers is, or was within the then most recent 12 month period, a customer of the Sellers (hereinafter, a "Seller Customer"); provided, that, notwithstanding the foregoing. the Buyers and their affiliates may solicit additional business from any Seller Customer who is then a customer of the Buyer or any of its affiliates if such additional business relates primarily to gas transportation or related services to be provided by the Buyers or such affiliate entirely within the geographic area in which the Buyers or such affiliate then conducts business or if such solicitation would not otherwise compete with services which are provided by the Sellers on the Closing Date to such Seller Customer or any proposed expansion or extension of such services to such Seller Customer as contemplated on the Closing Date.

SECTION 4.10. Negotiations. From and after the date hereof, neither the Sellers nor the Company, nor their officers, directors, employees, affiliates, stockholders, representatives, agents, nor anyone acting on behalf of them shall, directly or indirectly, encourage, solicit, engage in discussions or negotiations with, or provide any information to, any person, firm, or other entity or group (other than the Buyers or their representatives) concerning any merger, sale of assets, purchase or sale of Interests or similar transaction involving the Company or any division or Subsidiary thereof unless this Agreement is terminated pursuant to

and in accordance with Article VII hereof. The Sellers shall promptly communicate to the Buyers any inquiries or communications concerning any such transaction which they may receive or of which they may become aware.

SECTION 4.11 Tax Covenants. (a) The Sellers shall prepare and file all Federal, state and local income Tax Returns with the appropriate Federal, state, local and foreign governmental agencies relating to the Company for periods ending on or prior to the Closing Date and shall pay all Taxes due with respect to such Tax Returns. The Sellers covenant that the Sellers shall be responsible for (i) to the extent not reflected in the Final Closing Statement, all liability for Federal, state or local income Taxes of the Company for all periods ending on or before the Closing Date; (ii) to the extent not reflected on the Final Closing Statement, all liability for other Taxes of the Company for Pre-Closing Tax Periods (as defined herein); and (iii) all liability imposed upon the Company or any Subsidiary for Taxes of any other person pursuant to Treasury Regulation Section 1.1502-6 or any similar provision of state or local law, but only to the extent such liability relates to periods ending on or prior to the Closing Date. The Sellers shall cause the Company to prepare and file all other Tax Returns related to the Company that are due on or prior to the Closing Date and shall cause the Company to pay all Taxes due with respect to such Tax Returns. For all other Tax Returns related to the Company for periods ending on or prior to the Closing Date, but for which such Tax Returns are not due until after the Closing Date, the Sellers shall (i) prepare such Tax Returns in accordance with the terms and conditions set forth in the Services Agreement (as defined herein), and (ii) submit such Tax Returns to the Buyers for signature, filing and payment of Tax, all in accordance with the terms and conditions set forth in the Services Agreement. The Sellers shall prepare and shall submit to the Buyers for signature, filing and payment of Tax, all Straddle Tax Returns required to be filed by the Company, provided, however, that the Sellers shall promptly reimburse the Buyers for the portion of such Tax that relates to a Pre-Closing Tax Period to the extent not reflected on the Final Closing Statement. The Buyers will furnish to the Sellers all information and records reasonably requested by the Sellers for use in preparation of any Tax Returns. The Sellers shall allow the Buyers to review, comment upon and reasonably approve without undue delay any Straddle Tax Return at any time during the 45-day period immediately preceding the filing of such Tax Return. The Buyers and the Sellers agree to cause the Company to file all Tax Returns for any Straddle Period on the basis that the relevant taxable period ended as of the close of business on the Closing Date, unless the relevant Tax authority will not accept a Tax Return filed on that basis. For purposes of this Agreement, "Pre-Closing Tax Period" shall mean any taxable period ending on or before December 31, 2001 and the portion ending on and including December 31, 2001 of any Straddle Period. For purposes of this Agreement, "Straddle Period" shall mean any taxable period that includes (but does not end on) December 31, 2001 and ends after the Closing Date. For purposes of this Agreement, "Straddle Tax Return" shall mean any Tax Return with respect to Taxes other than income taxes required to be filed by the Company covering a taxable period commencing prior to December 31, 2001 and ending after the Closing Date. The Sellers' covenants in respect of responsibility for Taxes as set forth above in this Section 4.11(a) are in no way intended to be duplicative of the adjustments reflected in the Purchase Price pursuant to Section 1.4.

(b) The Sellers will cause any tax sharing agreement or similar arrangement with respect to Taxes involving the Company or any Subsidiary to be terminated effective as of the

Closing Date, to the extent any such agreement or arrangement relates to the Company or any Subsidiary, and after the Closing Date neither the Company nor any Subsidiary shall have any obligation under any such agreement or arrangement for any past, present or future period.

(c) All excise, sales, use, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the transactions contemplated by this Agreement (the "Transfer Taxes"), shall be borne by the party on which such Transfer Taxes are imposed by applicable law. Notwithstanding anything to the contrary in this Section 4.11, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by the party primarily or customarily responsible under the applicable local law for filing such Tax Returns, and such party will use reasonable commercial efforts to provide such Tax Returns to the other party at least 10 days prior to the due date for such Tax Returns.

(d) The Sellers and the Buyers will use their reasonable best efforts to agree on an allocation of the Purchase Price within 90 days of the Closing Date and such agreed upon allocation of the Purchase Price shall be binding on both the Buyers and the Sellers for Tax purposes.

SECTION 4.12. Development of Migration Plan. The parties agree to negotiate in good faith to develop, document and implement a mutually agreed upon migration plan that shall set forth the details and process for the creation of the Company's computer technology systems (the "Migration Plan"). The Migration Plan shall include without limitation, the terms set forth in, and be prepared consistent with the guidelines set forth on Schedule 4.12 and be implemented by the Sellers on or before the expiration of the Service Period (as defined in the Services Agreement). The costs for implementation of the Migration Plan shall be as set forth in Section 3 of the Services Agreement.

SECTION 4.13. Guarantees. Buyer Parent guarantees performance by Buyer Holdco, Buyer1 and Buyer2 of their obligations under this Agreement. Seller Parent guarantees performance by Holdco, LLC1 and LLC2 of their obligations under this Agreement.

SECTION 4.14. Bonds. The Sellers shall use their reasonable best efforts to maintain the Bonds until they are released and replaced by the Buyers. "Bonds" shall mean all surety bonds, letters of credit, guarantees, cash collateral, performance bonds and bid bonds issued by the Seller and their affiliates (other than the Company and its Subsidiaries) on behalf of the Company or any Subsidiary. The Buyers shall use their reasonable best efforts to replace and release the Bonds as promptly as reasonably practicable after the Closing Date but in no event Later than 60 days from the Closing Date. The Buyers shall indemnify, defend and hold harmless the Sellers and their affiliates for any and all liability, loss, damage, cost and expense incurred on account of such Bonds after the Closing Date.

SECTION 4.15. Insurance. The Sellers shall maintain coverage of the Company and its Subsidiaries under the Property/Time Element Policy listed on Schedule 2.22 until its scheduled expiration date at no cost to the Buyers or the Company. The Sellers shall use their

reasonable best efforts to maintain the coverage of the Company and its Subsidiaries under each of the other Policies set forth on Schedule 2.22 (except the Directors and Officers Liability Policy) until their scheduled expiration dates, for the proportionate premium cost of such Policies as set forth on Schedule 2.22 for the period such Policies remain in effect. To the extent after the Closing such Policies still cover the Company and its Subsidiaries, the Company shall promptly notify the Sellers of any potential claim or loss under such Policies and it shall be the Sellers' responsibility to notify the insurance company of any claims or losses and to submit and diligently pursue any claims or losses under such Policies with respect to the Company and its Subsidiaries. The Buyers, the Company and its Subsidiaries agree that they shall not notify the insurance company or submit any claim or loss to the insurance company under such Policies. After the Closing, the Buyers, the Company and its Subsidiaries shall be responsible for any deductible or retention amounts with respect to claims or losses relating to the Company or its Subsidiaries under such Policies.

SECTION 4.16. Audited Financial Statements. The Sellers shall use their reasonable best efforts to provide the Audited Financial Statements (as defined in Section 5.13) to the Buyers no later than March 15, 2002.

SECTION 4.17. Master Alliance Agreement. Prior to the Closing, the Sellers and the Company shall use their reasonable best efforts to seek amendments to each Master Alliance Agreement and each request for service, contract, agreement or commitment relating thereto set forth on Schedule 4.17 to provide that upon the Closing, the Buyers and the Company will have the right to request and receive, and the other party thereto the obligation to perform, the services provided therein in accordance with the terms of each request for service and the Master Alliance Agreement; provided, however that the foregoing shall not obligate the Sellers to incur any costs (other than nominal costs) to amend the terms of their agreements with such parties unrelated to the Company or otherwise agree to any non-ministerial concession or other arrangement with such parties or any other person.

SECTION 4.18. Expansion Projects. Between the date of the execution of this Agreement and the Closing Date, the Sellers shall cause the Company to:

(a) develop the Expansion Projects diligently in accordance with the applicable material contracts and permits and Budgets and Schedules for the Expansion Projects, not make any material changes to the Budgets and Schedules, and consult with the Buyers on a regular basis regarding same(including cooperating with reasonable requests by the Buyers);

(b) promptly notify the Buyers of, and reasonably consult with the Buyers on, any material event or circumstance that arises affecting any of the Expansion Projects;

(c) promptly deliver to the Buyers copies of any notices or correspondence received from, or provided to, any Governmental Authority or from any party to any contract which is material to the Expansion Projects; and

(d) without the prior consent of the Buyers (not to be unreasonably withheld or delayed), not enter into any material contract relating to the Expansion Projects except those

contracts set forth on Schedule 4.18, and not grant any consent or waiver under, terminate, or amend any contract material to the Expansion Projects.

SECTION 4.19. Covenant to Assign. (a) Prior to or concurrent with Closing the Sellers shall, and shall cause the Sellers' affiliates to, at the Sellers' sole option, either (i) assign to the Company all of their respective right, title and interest in the Operational Assets (as defined below), and secure any consents necessary for such assignment and for the use of such Operational Assets by the Sellers and the Sellers' affiliates on behalf of the Company or the Buyers as part of the Transition Services and the Migration Plan (as applicable), or (i) obtain for the Buyers, on terms acceptable to the Buyers (such acceptance not to be unreasonably withheld or delayed), comparable replacements for any Operational Assets not assigned pursuant to (ii) above. All such assignments shall be effectuated pursuant to instruments in form and substance reasonably satisfactory to the Buyers, executed copies of which shall be delivered to the Buyers at Closing. The "Operational Assets" shall mean each item contained in Schedule 2.11(c) (other than the Headquarters Building located in Salt Lake City identified on Schedule 2.11(c) and the lease related thereto), and any other property, rights, and equipment (including without limitation, furniture, computer hardware, servers, routers and PBX equipment) owned by, leased or licensed to the Sellers or the Sellers' affiliates which can be assigned prior to or concurrent with the Closing and which is (1) used by the Sellers, the Sellers' affiliates, the Company or its Subsidiaries, to conduct the business of the Company or the Subsidiaries, as currently conducted, or (2) intended to be used in connection with the Expansion Projects, as well as any Sellers or Sellers' affiliate agreements for the maintenance, support or service of any of the foregoing listed in (1) or (2).

(b) On or before the expiration of the Services Period (as defined in the Services Agreement), the Sellers shall, and shall cause the Sellers' affiliates to, at the Sellers' sole option, either (i) assign to the Company all of their respective right, title and interest in the Operational IT Assets (as defined below), including license and contract rights, and secure any consents necessary for such assignment and for the use by the Sellers and the Sellers' affiliates on behalf of the Company or the Buyers as part of the Transition Services and the Migration Plan (as applicable), or (ii) obtain for the Buyers, on terms acceptable to the Buyers (such acceptance not to be unreasonably withheld or delayed), comparable replacements for any Operational IT Assets not assigned pursuant to (i) above. All such assignments shall be effectuated pursuant to instruments in form and substance reasonably satisfactory to the Buyers, executed copies of which shall be delivered to the buyers on or before the expiration of the Services Period. The "Operational IT Assets" shall mean each item contained in Schedule 2.13(a), other property, rights and equipment that could not be assigned as of Closing, and all intellectual property that, in each case, is owned by, leased or licensed to the Sellers and the Sellers' affiliates (including through application service providers) and (1) used by the Sellers, the Sellers' affiliates, the Company or its Subsidiaries to conduct the business of the Company or the Subsidiaries, as currently conducted, or (2) intended to be used in connection with the Expansion Projects, as well as any Sellers or Sellers' affiliate agreements for the maintenance, support or service of any of the foregoing listed in (1) or (2).

(c) All of the Operational Assets and Operational IT Assets shall be assigned or replaced, as the case may be, at no cost to the Buyers or the Company except for replacement

costs of hardware and software acquired pursuant to the Migration Plan, the costs for which shall be borne by the parties as set forth in Section 3 of the Services Agreement.

SECTION 4.20. Manuals. The Sellers shall deliver (and shall cause the Sellers' affiliates to deliver) to the Company, and the Buyers copies of, and hereby grant to the Company, its Subsidiaries, the Buyers and their affiliates a nonexclusive, nontransferable (except in connection with the sale or transfer of all or substantially all of the assets of the Company), royalty free license, without right to sublicense, in perpetuity to use, copy, and modify solely for their internal business purposes in connection with the business of the Company, all manuals, user guides, standards and operating procedures and similar documents used by the Company, the Subsidiaries, the Sellers and/or the Sellers' affiliates in connection with the business of the Company. All copies of the foregoing must reproduce and include all copyright and other intellectual property rights notices provided by Sellers.

SECTION 4.21. Trademark License. Effective upon the Closing, the Sellers and the Sellers' affiliates hereby grant to the Company, its Subsidiaries and the Buyers a nonexclusive, nontransferable, royalty free license to use, solely in the Company's and its Subsidiaries' businesses as presently conducted or as contemplated to be conducted in connection with the Expansion Projects, any and all trademarks, service marks, and trade names owned by the Sellers and the Sellers' affiliates solely to the extent appearing on existing inventory of the Company and its Subsidiaries (such as on marketing and other materials), advertisements, or property (such as on vehicles, equipment, pipelines and signs) (collectively "Sellers' Marks"), without right to sublicense, for a period of one year from the Closing Date (the "License Period"). The Buyers and the Company may use such existing inventory, advertising and property during the License Period. The Buyers and the Company shall not create new inventory, advertising and property using the Sellers' Marks, and shall otherwise use commercially reasonable efforts to replace or remove the Sellers' Marks on inventory, advertising and property, provided that, all such use shall cease no later than the end of the License Period. The nature and quality of all uses of the Sellers' Marks made by the Buyer, the Company and its Subsidiaries shall conform to the Sellers' existing quality standards; provided, that, the way in which the Sellers' Marks are currently used is hereby deemed to meet such quality standards. Immediately upon termination of the License Period, the Buyers, the Company and its Subsidiaries shall cease and desist from all further use of the Sellers' Marks and will adopt new trademarks, service marks, and trade names related thereto which are not confusingly similar to Sellers' Marks. All rights not expressly granted in this Section 4.21 with respect to the Sellers' Marks are hereby reserved. Any inadvertent failure of the Buyers to comply with their obligations under this provision shall not be a breach of this Agreement unless the Buyers fail to use commercially reasonable efforts to promptly remedy such failure after receipt of written notice from the Sellers or to remedy such failure within 30 days of such notice, in which case the Sellers may terminate this trademark license upon Written notice to the Buyers and the Company.

SECTION 4.22. Software License. Effective upon the Closing, the Sellers, for themselves and on behalf of the Sellers' affiliates, hereby grant to the Company, the Buyers and their affiliates, a nonexclusive, royalty free, perpetual license, without right to sublicense, to use, copy, modify, enhance, and upgrade all computer software (object code and source code) owned

by the Sellers and/or the Sellers' affiliates and used in connection with the business of the Company as presently conducted or as contemplated to be conducted in connection with the Expansion Projects (the "Licensed Software") solely for their internal business purposes. The modifications, enhancements and upgrades made to the Licensed Software by the Buyers or the Company after the date of delivery pursuant to the Migration Plan shall not infringe any intellectual property or other proprietary rights of any third party. All copies of the Licensed Software and related documentation must reproduce all copyright and other intellectual property rights notices included thereon. As specified in the Migration Plan (and if not specified therein, at the Closing) the Sellers shall deliver (or shall cause the Sellers' affiliates to deliver) copies of the Licensed Software and alt manuals and documentation related thereto including (at no charge to the Company or the Buyers) all modifications, enhancements and upgrades made to or for the Licensed Software to the date of delivery. Notwithstanding the foregoing, neither the Buyers nor the Company have the right to transfer to a third party (other than an affiliate of the Buyers or the Company for use in accordance with the restrictions of this Section) any rights in the Licensed Software except in connection with the sale or transfer of all or substantially all of the Company's assets. The Company and the Buyers shall not be entitled to receive, and Sellers and the Sellers' affiliates shall have no obligation to provide, any modifications, enhancements, or upgrades made to the Licensed Software which they develop subsequent to the delivery date; provided that, any such modifications, enhancement or upgrades made by the Sellers or the Sellers' affiliates during the Service Period, as defined in the Services Agreement, shall be delivered to the Buyers at the Buyers' request and shall be paid for by the Buyers as Transition Services (as defined in the Services Agreement). The parties hereby acknowledge and agree that, as between Sellers and the Sellers' affiliates on the one hand, and the Company and the Buyers on the other: (a) except as set forth in this section, all right, title and interest, including all intellectual property rights, in the Licensed Software are the exclusive property of the Sellers and the Sellers' affiliates; (b) Sellers and the Sellers' affiliates shall at all times retain ownership of the intellectual property rights in the Licensed Software; (c) the Company and the Buyer have no rights in the Licensed Software except as expressly granted herein; and (d) the Company and the Buyer will not take any action or permit any action to be taken with respect to such intellectual property rights inconsistent with the foregoing acknowledgment. The Sellers represent and warrant that the Sellers or the Sellers' affiliates own all right, title and interest in and to the Licensed Software or otherwise have the right to grant the license granted herein and the Licensed Software does not infringe any third party rights. Except as expressly provided in this Section 4.22, the Licensed Software and associated materials are provided on an "as is" basis. The Sellers and the Sellers' affiliates shall not be deemed to have made, and the Sellers and the Sellers' affiliates hereby expressly disclaim, any implied guarantee or implied warranty (whether arising under statute or otherwise in law or from a course of dealing or usage of trade) as to the: (i) condition; (ii) design; (iii) operation; (iv) performance; (v) reliability of the results generated or output; (vi) non-infringement; (vii) merchantability; and (viii) fitness for a particular purpose or intended use, of the Licensed Software and associated materials. The Sellers and the Sellers' affiliates do not warrant that the Licensed Software or associated materials provided are error-free or that the Company's and the Buyer's use thereof will be uninterrupted.

ARTICLE V.
CONDITIONS TO OBLIGATIONS OF The BUYERS

The obligations of the Buyers to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Buyers in their sole discretion:

SECTION 5.1. Receipt of Documents. The Sellers shall have delivered to the Buyers, a duly executed Bill of Sale and any other documents the Buyers may reasonably require relating to the existence of the Sellers, the Company, any Subsidiary and the authority of the Sellers and the Company for this Agreement, all in form and substance reasonably satisfactory to the Buyers.

SECTION 5.2. Representations and Warranties of the Sellers. All representations and warranties made by the Sellers in this Agreement shall be true and correct in all material respects on and as of the Closing Date as if again made by the Sellers on and as of such date, and, the Buyers shall have received a certificate dated the Closing Date and signed by the President or any Vice President of each of the Sellers to that effect.

SECTION 5.3. Performance of the Sellers' Obligations. Each of the Sellers shall have performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing Date, and the Buyers shall have received a certificate dated the Closing Dale and signed by the President or any Vice President of each of the Sellers to that effect.

SECTION 5.4. Consents and Approvals. The consents, waivers, authorizations and approvals set forth on Schedule 5.4 shall have been duly obtained and shall be in full force and effect on the Closing Date. All applicable waiting periods under the HSR Act shall have expired or been terminated.

SECTION 5.5. No Violation of Orders. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, which declares this Agreement invalid or unenforceable in any respect or prevents the consummation of the transactions contemplated hereby, shall be in effect; and no action or proceeding before any Governmental Authority, shall have been instituted by a Governmental Authority or other person or threatened by any Government Authority, which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement.

SECTION 5.6. No Material Adverse Change. During the period from December 31, 2001 to the Closing Date, there shall not have been any change, or any event which has had, or would reasonably be expected to have a Material Adverse Effect, nor shall there have been (a) the loss of Firm Transportation Customers that have generated in the aggregate more than 4% of the Company's revenues in the last 12 months; (b) a general rate proceeding initiated by the

Company under Section 4 or by FERC under Section 5 of the NGA; (c) physical damage to the Company's Pipeline which significantly impairs the operation of the Pipeline or causes a substantial decrease in the output of the Pipeline for a period of more than two weeks; (d) aggregate losses to the Company in excess of $25 million or bona fide claims for damages against the Company in aggregate in excess of $50 million, in each case net of reasonably expected insurance recoveries; and/or (e) a material adverse development in the Company's application pending before the FERC for a certificate of public convenience and necessity related to the 2003 Expansion Project that is reasonably expected to delay commencement of project construction beyond December 31, 2002.

SECTION 5.7. Intentionally deleted.

SECTION 5.8. Opinion of Counsel. The Buyers shall have received a favorable opinion, dated as of the Closing Date, from counsel to the Sellers, in form and substance reasonably satisfactory to the Buyers and its counsel, substantially in the form of Schedule 5.8 hereto.

SECTION 5.9. Transition Services and Construction Management Agreement. Seller Parent shall have executed a Transition Services and Construction Management Agreement (the "Services Agreement"), the form of which is attached as Schedule 5.9 hereto.

SECTION 5.10. Resignations. The officers and directors of the Company and its Subsidiaries set forth on Schedule 5.10 shall have delivered letters of resignation from their respective positions to the Buyers in a form reasonably acceptable to the Buyers.

SECTION 5.11. Seller Parent Stock Purchase. All conditions to the obligations of the parties to the Stock Purchase Agreement dated of even date herewith between Seller Parent and Buyer Parent to consummate the transactions contemplated by such agreement shall have been satisfied or waived (other than conditions set forth in Sections 6(g) and 7(e) of such agreement) and Seller Parent shall be ready, willing and able to close such transaction.

SECTION 5.12. Tax Certificate. (a) The Sellers shall have delivered to the Buyers a FIRPTA Certificate in the form of Schedule 5.12.

(b) The Sellers shall have delivered to the, Buyers any clearance certificates or similar documents that may be required by any state Tax authority in order to relieve the Buyers of any obligation to withhold any portion of the Purchase Price.

SECTION 5.13. Financial Statements. (a) The Sellers shall have delivered to the Buyers, at least three (3) business days prior to the Closing Date, a true and correct copy of the audited balance sheet of the Company as of December 31, 2001, together with the related statements of income, partners' equity and cash flow for the period then ended and the notes thereto (the "Audited Financial Statements").

(b) The Audited Financial Statements shall not reflect a negative variance of more than 5% from any of the amounts shown as Total Assets, Total Liabilities, Partner's Capital, Operating Revenue, Operating Expenses or Net Income in the unaudited 2001 Financial Statements and shall not reflect any other material change in any disclosures contained in any of the Notes thereto or Contain any material Notes not contained in the unaudited 2001 Financial Statements, from the unaudited 2001 Financial Statements.

SECTION 5.14. Ratings. After giving effect to the transactions contemplated by this Agreement, there shall be No Ratings Downgrade (as such term is defined in that certain Indenture, dated as of August 13, 2001, by and among Kern River Funding Corporation, the Company and The Chase Manhattan Bank (the "Notes Indenture").

SECTION 5.15. Workforce Agreement. The Sellers shall have entered into a Workforce Agreement (the "Workforce Agreement"), the form of which is attached as Schedule 5.15 hereto.

ARTICLE VI
CONDITIONS TO OBLIGATIONS OF THE SELLERS

The obligations of the Sellers to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Sellers in their sole discretion:

SECTION 6.1. Representations and Warranties of the Buyers. All representations and warranties made by the Buyers in this Agreement shall be true and correct in all material respects on and as of the Closing Date as if again made by the Buyers on and as of such date, and, the Sellers shall have received a certificate dated the Closing Date and signed by the President or any Vice President of each of Buyer Holdco, Buyer 1 and Buyer 2 and Buyer Parent to that effect.

SECTION 6.2. Performance of the Buyers' Obligations. Each of the Buyers shall have performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing Date, and the Sellers shall have received a certificate dated the Closing Date and signed by the President or any Vice President of each of Buyer Holdco, Buyer 1 and Buyer 2 and Buyer Parent to that effect.

SECTION 6.3. Consents and Approvals. All consents, waivers, authorizations and approvals as set forth on Schedule 6.3 shall have been duly obtained and shall be in full force and effect on the Closing Date. All applicable waiting periods under the HSR Act shall have expired or been terminated.

SECTION 6.4. No Violation of Orders. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, that declares this Agreement invalid or unenforceable in any respect or prevents the consummation of the transactions contemplated hereby shall be in effect; and no action or proceeding before any Governmental Authority, shall have been instituted by a Governmental Authority or other person

or threatened by any Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement.

SECTION 6.5. Seller Parent Stock Purchase. All conditions to the obligations of the Parties to the Stock Purchase Agreement dated of even date herewith between Seller Parent and Buyer Parent to consummate the transactions contemplated by such agreement shall have been satisfied or waived (other than conditions set forth in Sections 6(g) and 7(e) of such agreement) and Buyer Parent shall be ready, willing and able to close such transaction.

SECTION 6.6. Opinion of Counsel. The Sellers shall have received a favorable opinion, dated as of the Closing Date, from counsel to the Buyers, in form and substance reasonably satisfactory to the Sellers and its counsel, substantially in the form of Schedule 6.6 hereto.

SECTION 6.7. Services Agreement. Buyer Parent shall have executed the Services Agreement, the form of which is attached as Schedule 5.9 hereto.

SECTION 6.8. Ratings. After giving effect to the transactions contemplated by this Agreement, there shall be No Ratings Downgrade (as such term is defined in the Notes Indenture).

SECTION 6.9. Workforce Agreement. The Buyers shall have entered into a Workforce Agreement, the form of which is attached as Schedule 5.15 hereto.

SECTION 6.10. Receipt of Documents. The Buyers shall have delivered to the Sellers such duly executed documents as the Sellers may reasonably require relating to the existence of the Buyers and the authority of the Buyers, all in form and substance reasonably satisfactory to the Sellers.

ARTICLE VII.
TERMINATION AND ABANDONMENT

SECTION 7.1. Methods of Termination; Upset Date. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time before the Closing:

(a) by the mutual written consent of the Sellers and the Buyers;

(b) by the Sellers, in the event that the Buyers fail to comply with any of their covenants or agreements contained herein, or breach their representations and warranties contained herein, and such failure to comply or breach, if curable, is not cured within 10 days after receipt by the Buyers of notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in a failure to satisfy the conditions set forth in Section 6.1 and/or 6.2;

(c) by the Buyers, in the event that the Sellers fail to comply with any of their covenants or agreements contained herein, or breach their representations and warranties contained herein, and such failure to comply or breach, if curable, is not cured within 10 days after receipt by the Sellers of notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in the failure to satisfy the conditions set forth in Sections 5.2 and/or 5.3;

(d) by the Sellers or the Buyers, in the event that a Governmental Authority shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their reasonable best efforts to lift), which permanently restrains, enjoins or otherwise prohibits the transactions contemplated by this Agreement and which order, decree, ruling or other action is not subject to appeal;

(e) by the Sellers or the Buyers at any time after June 15, 2002; or

(f) by the Sellers or the Buyers, in the event that the Stock Purchase Agreement dated even date herewith between Seller Parent and Buyer Parent has been terminated.

SECTION 7.2. Procedure Upon Termination. In the event of termination and abandonment of this Agreement pursuant to Section 7.1, written notice thereof shall forthwith be given to the other party hereto and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by the Sellers or the Buyers. If this Agreement is terminated as provided herein, no party to this Agreement shall have any liability or further obligation to any other party to this Agreement except as provided in Sections 9.4 and 9.5 hereof; provided, however, that no termination of this Agreement pursuant to this Article VII shall relieve any party of liability for a grossly negligent or willful, and in either case, material breach of any provision of this Agreement occurring before such termination; and, provided, further, that (x) if this Agreement is terminated by the Sellers or the Buyers pursuant to Section 7.1(e) and (y) at such time, assuming that the specified consents under the Revolvers and the "progeny" agreements described on Schedule 6.3 (the "Specified Consents") had been obtained (i) all of the conditions to the obligations of the Sellers to consummate the transactions contemplated by this Agreement set forth in Article VI shall have been fulfilled or shall have been waived by the Sellers and (ii) all of the conditions of the Buyers to consummate the transactions contemplated by this Agreement set forth in Article V shall have been fulfilled or shall have been waived by the Buyers or could reasonably have been expected to be waived by the Buyers, then the Sellers shall pay to the Buyers the sum of $25,000,000.00 in immediately available funds on or prior to the second business day after the date of delivery of notice of such termination. Notwithstanding the foregoing, if all of the conditions to the obligations of both the Sellers and the Buyers to consummate the transactions contemplated by this Agreement shall have been fulfilled or shall have been waived and pursuant to Section 1.2 the Closing would occur on June 16, 2002, then the date referred to in Section 7.1(e) shall be deemed to be June 16, 2002.

ARTICLE VIII.
INDEMNIFICATION

SECTION 8.1. Survival. The respective representations and warranties of the parties hereto contained herein or in any certificates or other documents delivered pursuant to this Agreement on the Closing shall survive the Closing until July 31, 2003; provided however, that the representations and warranties set forth in Section 2.2 (Capitalization; Title) shall survive indefinitely, the representations and warranties set forth in Section 2.24 (Environmental; Health and Safety Matters) shall survive until the fifth anniversary of the Closing Date and the representations and warranties in Section 2.9 (Taxes) shall survive for a period equal to the applicable statute of limitations.

SECTION 8.2. Indemnification Coverage.

(a) Notwithstanding the Closing or the delivery of the Interests and regardless of any investigation at any time made by or on behalf of the Buyers or of any knowledge or information that the Buyers may have the Sellers shall indemnify and agree to defend, save and hold the Buyers, the Company and each of their officers, directors, employees, agents and affiliates (other than the Sellers) (collectively, the "Buyer Indemnified Parties") harmless if any such Buyer Indemnified Party shall at any time or from time to lime suffer any damage, judgment, fine, penalty, demand, settlement, liability, loss, cost, Tax, expense (including reasonable attorneys', consultants' and experts' fees), claim or cause of action (each, a "Loss") arising out of, relating to or resulting from:

(i) any breach or inaccuracy in any representation by the Sellers or the breach of any warranty by the Sellers contained in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing;

(ii) any failure by the Sellers to perform or observe any term, provision, covenant, or agreement on the part of the Sellers to be performed or observed under this Agreement; and

(iii) Legal Proceedings set forth on Schedule 8.2.

(b) Notwithstanding the Closing or the delivery of the Interests and regardless of any investigation at any time made by or on behalf of the Sellers or of any knowledge or information that the Sellers may have, the Buyers shall indemnify and agree to defend, save and hold the Sellers and their officers, directors, employees, agents and affiliates (collectively, the "Seller Indemnified Parties") harmless if any such Seller Indemnified Party shall at any time or from time to time suffer any Loss arising out of, relating to, or resulting from:

(i) any breach or inaccuracy in any representation by the Buyers or the breach of any warranty by the Buyers contained in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing; and

(ii) any failure by the Buyers to perform or observe any term, provision, covenant, or agreement on the part of the Buyers to be performed or observed under this Agreement.

(c) The foregoing indemnification obligations shall be subject to the following limitations:

(i) the Sellers' aggregate liability under Section 8.2(a) and the Buyers' aggregate liability under Section 8.2(b) shall not, in either case, exceed 75% of the Purchase Price (the "Cap"); provided, however, that the Cap shall not be applicable to breaches under Section 2.2, 2.9 or 4.11 or Losses asserted against the Sellers under Section 8.2(a)(iii);

(ii) no indemnification for any Losses asserted against the Buyers or the Sellers, as the case may be, under Section 8.2(a) or Section 8.2(b) shall be required unless and until the cumulative aggregate amount of such Losses exceeds $8,000,000 (the "Threshold"), at which point the Sellers or the Buyers, as the case may be, shall be obligated to indemnify the indemnified Party (as hereinafter defined) only as to the amount of such Losses in excess of $1,000,000 (the "Deductible"), subject to the limitation in Section 8.2(c)(i); provided, however, that the Threshold and the Deductible shall not be applicable to breaches under Sections 1.4, 2.2, 2.9 or 4.11 or Losses asserted against the Sellers under Section 8.2(a)(iii);

(iii) no indemnification for any Losses asserted against the Sellers under Section 8.2(a) for a breach or inaccuracy of any representation under Section 2.9 or failure by The Sellers to perform any covenant under Section 4.11 shall be required unless and until the cumulative aggregate amount of such Losses exceeds $50,000, at which point the Sellers shall be obligated to indemnify the Indemnified Party the full amount of such Losses;

(iv) the amount of any Losses suffered by a Seller Indemnified Party or a Buyer Indemnified Party, as the case may be, shall be reduced by any third-party insurance which such party receives in respect of or as a result of such Losses. If any Losses for which indemnification is provided hereunder is subsequently reduced by any third-party insurance or other indemnification benefit or recovery, the amount of the reduction shall be remitted to the Indemnifying Party (as hereinafter defined);

(v) no claim may be asserted nor may any action be commenced (A) against the Sellers for breach or inaccuracy of any representation or breach of a warranty, unless written notice of such claim or action is received by the Sellers describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or action on or prior to the date on which the representation or warranty on which such claim or action is based ceases to survive as set forth in Section 8.1 (it being agreed and understood that if a claim for a breach of a representation or warranty is timely made, the representation or warranty shall survive until the date on which such claim is finally liquidated or otherwise resolved), or (B) against the Buyers for breach or inaccuracy of any representation or breach of a warranty, unless written notice of such claim or action is received by the Buyers describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or action on or prior to the date on which the representation or warranty on which such claim or action is based ceases to

survive as set forth in Section 8.1 (it being agreed and understood that if a claim for a breach of a representation or warranty is timely made, the representation or warranty shall survive until the date on which such claim is finally liquidated or otherwise resolved); and

(vi) an Indemnified Party shall not be entitled under this Agreement to multiple recovery for the same Losses.

SECTION 8.3. Procedures. Any Indemnified Party shall notify the Indemnifying Party (with reasonable specificity) promptly after it becomes aware of facts supporting a claim or action for indemnification under this Article VIII, and shall provide to the Indemnifying Party as soon as practicable thereafter all information and documentation reasonably necessary to support and verify any Losses associated with such claim or action. Subject to Section 8.2(v), the failure to so notify or provide information to the Indemnifying Party shall not relieve the Indemnifying Party of any liability that it may have to any indemnified Party, except to the extent that the Indemnifying Party demonstrates that it has been materially prejudiced by the Indemnified Party's failure to give such notice, in which case the Indemnifying Party shall be relieved from its obligations hereunder to the extent of such material prejudice. The Indemnifying Party shall defend, contest or otherwise protect the Indemnified Party against any such claim or action by counsel of the Indemnifying Party's choice at its sole cost and expense; provided, however, that the Indemnifying Party shall not make any settlement or compromise without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed) unless the sole relief provided is monetary damages that are paid in full by the Indemnifying Party. The Indemnified Party shall have the right, but not the obligation, to participate at its own expense in the defense thereof by counsel of the indemnified Party's choice and shall in any event use its reasonable best efforts to cooperate with and assist the Indemnifying Party. If the Indemnifying Party fails timely to defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding, the Indemnified Party shall have the right to do so, including, without limitation, the right to make any compromise or settlement thereof, and the Indemnified Party shall be entitled to recover the entire cost thereof from the Indemnifying Party, including, without limitation, reasonable attorneys' fees, disbursements and amounts paid as the result of such suit, action, investigation, claim or proceeding.

SECTION 8.4. Remedy. Absent fraud, and except for seeking equitable relief, from and after the Closing the sole remedy of a party in connection with (i) a breach or inaccuracy of the representations, or breach of warranties, in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing, or (ii) any failure by a party to perform or observe any term, provision, covenant, or agreement on the part of such party to be performed or observed under this Agreement, shall, in each case, be as set forth in this Article VIII.

ARTICLE IX.
MISCELLANEOUS PROVISIONS

SECTION 9.1. Common Facilities. For purposes of this Agreement, it is assumed that the Company's tenant-in-common interest in the Common Facilities is an asset of the Company. It is also understood that any representations (except in Section 2.11(d)) regarding such asset are limited to the Sellers' knowledge.

SECTION 9.2. Publicity. On or prior to the Closing Date, neither party shall, nor shall it permit its affiliates to, issue or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby without the consent of the other party hereto. Notwithstanding the foregoing, in the event any such press release or announcement is required by law or stock exchange rule to be made by the party proposing to issue the same, such party shall use its reasonable best efforts to consult in good faith with the other party prior to the issuance of any such press release or announcement.

SECTION 9.3. Successors and Assigns; No Third-Party Beneficiaries. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns; provided, however, that neither party shall assign or delegate any of the obligations created under this Agreement without the prior written consent of the other party. Except as contemplated by Article VIII, nothing in this Agreement shall confer upon any person or entity not a party to this Agreement, or the legal representatives of such person or entity, any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

SECTION 9.4. Investment Bankers, Financial Advisors, Brokers and Finders. (a) The Sellers shall indemnify and agree to defend and hold the Buyers and the Company harmless against and in respect of all claims, losses, liabilities and expenses which may be asserted against the Buyers (or any affiliate of the Buyers) by any broker or other person who claims to be entitled to an investment banker's, financial advisor's, broker's, finder's or similar fee or commission in respect of the execution of this Agreement or the consummation of the transactions contemplated hereby, by reason of his acting at the request of the Sellers or the Company.

(b) The Buyers shall indemnify and agree to save and hold the Sellers harmless against and in respect of all claims, losses, liabilities, fees, costs and expenses which may be asserted against them by any broker or other person who claims to be entitled to an investment banker's, financial advisor's, broker's, finder's or similar fee or commission in respect of the execution of this Agreement or the consummation of the transactions contemplated hereby, by reason of his acting at the request of the Buyers.

SECTION 9.5. Fees and Expenses. Except as otherwise expressly provided in this Agreement, all legal, accounting and other fees, costs and expenses of a party hereto incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees, costs or expenses; provided, however that the Sellers shall be solely responsible for all legal, accounting and other fees, costs and expenses incurred by the Sellers and the Company. The Sellers, as a group, and the Buyers, as a group, shall each bear one-half of the costs of HSR Act filing fees.

Section 9.6. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if delivered personally or sent by overnight courier or sent by facsimile (with evidence of confirmation of receipt) to the parties at the following addresses:

(a) If to the Buyers, to:

MidAmerican Energy Holdings Company,
KR Holding, LLC, KR Acquisition 1, LLC and KR Acquisition 2, LLC
c/o MidAmerican Energy Holdings Company 320 South 36th St.
Suite 400
Omaha, NE 68131
Facsimile: (402) 231-1658
Attention: Douglas L. Anderson, Esq.

with a copy to:

Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019
Facsimile: (212)728-8111
Attention: Peter J. Hanlon, Esq.

LeBoeuf, Lamb, Greene & MacRae, L.L.P.
125 West 55th St.
New York, New York 10019
Facsimile: (212) 424-8500
Attention: William S. Lamb, Esq.

(b) If to the Sellers, to:

The Williams Companies, Inc., Williams Gas Pipeline Company, LLC, Williams Western Pipeline Company LLC and Kern River Acquisition, LLC
One Williams Center
Tulsa, Oklahoma 74172
Facsimile: (918) 573-5942
Attention: William von Glen, Esq.

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, NY 10036
Facsimile: (212) 735-2000
Attention: Nancy A. Lieberman, Esq.

or to such other persons or at such other addresses as shall be furnished by either party by like notice to the other, and such notice or communication shall be deemed to have been given or made as of the date so delivered or mailed. No change in any of such addresses shall be effective insofar as notices under this Section 9.6 are concerned unless such changed address is located in the United States of America and notice of such change shall have been given to such other party hereto as provided in this Section 9.6.

SECTION 9.7. Entire Agreement. This Agreement, together with the Disclosure Schedules and the exhibits hereto, represent the entire agreement and understanding of the parties with reference to the transactions set forth herein and no representations or warranties have been made in connection with this Agreement other than those expressly set forth herein or in the Disclosure Schedules, exhibits, certificates and other documents delivered in accordance herewith. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings and agreements between the parties relating to the subject matter of this Agreement and all prior drafts of this Agreement, all of which are merged into this Agreement. No prior drafts of this Agreement and no words or phrases from any such prior drafts shall be admissible into evidence in any action or suit involving this Agreement.

SECTION 9.8. Waivers and Amendments. The Sellers, as a group, or the Buyers, as a group, may by written notice to the other: (a) extend the time for the performance of any of the obligations or other actions of the other; (b) waive any inaccuracies in the representations or warranties of the other contained in this Agreement or in any document delivered pursuant to this Agreement by the other party; (c) waive compliance with any of the covenants of the other contained in this Agreement; (d) waive performance of any of the obligations of the other created under this Agreement; or (e) waive fulfillment of any of the conditions to its own obligations under this Agreement or in any documents delivered pursuant to this Agreement by the other party. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach, whether or riot similar, unless such waiver specifically states that it is to be construed as a continuing waiver. This Agreement may be amended, modified or supplemented only by a written instrument executed by the parties hereto,

SECTION 9.9. Severability. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

SECTION 9.10. Titles and Headings. The Article and Section headings and any table of contents contained in this Agreement are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or of any term or provision hereof.

SECTION 9.11. Signatures and Counterparts. Facsimile transmission of any signed original document and/or retransmission of any signed facsimile transmission shall be the same as delivery of an original. At the request of the Buyers or the Sellers, the parties will confirm facsimile transmission by signing a duplicate original document. This Agreement may

be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

SECTION 9.12. Enforcement of the Agreement. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereto, this being in addition to any other remedy to which they are entitled at law or in equity. In no event shall any party hereto be entitled to any punitive, incidental, indirect, special or consequential damages resulting from or arising out of this Agreement or the transactions contemplated hereby.

SECTION 9.13. Governing Law. This Agreement shall be governed by and construed in accordance with the internal and substantive laws of Delaware and without regard to any conflicts of laws concepts which would apply the substantive law of some other jurisdiction.

SECTION 9.14. Certain Definitions. For purposes of this Agreement, the term:

(a) "affiliate" of a person means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person;

(b) "Expansion Projects" means the 2002 Expansion Project, the 2003 Expansion Project and the High Desert Project.

(c) "High Desert Project" means the design, construction and placing in service of the additional lateral facilities to the Pipeline described in the Application for Public Convenience and Necessity filed by the Company with the FERC on July 18, 2001 for authority to construct, own and operate the High Desert Lateral, Docket CP 01-405-000.

(d) "Material Adverse Effect" means a material adverse effect on the assets, properties, business, operations, net income or financial condition of the Company and its Subsidiaries taken as a whole, or the prospects of the Company and its Subsidiaries taken as a whole as such prospects relate to the Expansion Projects, it being understood that none of the following shall be deemed to constitute a Material Adverse Effect: (i) any effect resulting from entering into this Agreement or the announcement of the transactions contemplated by this Agreement; and (ii) any effect resulting from changes in the United States or global economy as a whole, except for such effects which disproportionately impact the Company and its Subsidiaries.

(e) "1 Line System" means the nomination and scheduling system software developed internally by the Sellers to replace the Rapids II system.

(f) "person" means an individual, corporation, association, trust, limited liability company, limited partnership, limited liability partnership, partnership, incorporated organization, other entity or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934).

(g) "Pipeline" means the natural gas pipelines, lateral lines, Rights of Way, easements, compressors, compressor stations and other related machinery and equipment owned by the Company and used by the Company in the conduct of its business.

(h) "2002 expansion Project" means the design, construction and placing in service of the facilities to expand the transportation capacity of the Pipeline as described in the Application for Certificate of Public Convenience and Necessity filed by the Company with the FERC on November 24, 2000 and now pending in Docket CP 01-31-000 for authority to construct, own and operate the 2002 Expansion Project facilities.

(i) "2003 Expansion Project" means the design, construction and placing in service of the facilities to expand the transportation capacity of the Pipeline as described in the Application for Certificate of Public Convenience and Necessity filed by the Company with the FERC on August 1, 2001, and now pending in Docket No. CPOI-422-000, for authority to construct, own and operate the 2003 Expansion Project facilities.

SECTION 9.15. Consent to Jurisdiction; Exclusive Forum. With respect to any suit, action or proceeding initiated by a party to this Agreement arising out of, under or in connection with this Agreement or the transactions contemplated hereby, each of the Sellers and the Buyers hereby submit to the exclusive jurisdiction of any state or federal court sitting in the State of Delaware and irrevocably waive, to the fullest extent permitted by law, any objection that they may now have or hereafter obtain to the laying of venue in any such court in any such suit, action or proceeding.

MIDAMERICAN ENERGY HOLDINGS COMPANY

By: Signature Illegible
Title:

KR HOLDINGS, LLC

By: Signature Illegible
Title:

KR ACQUISITION 1, LLC

By: Signature Illegible
Title:

KR ACQUISITION 2, LLC

By: Signature Illegible
Title:

EXHIBIT 10.78

EXECUTION COPY

PURCHASE AGREEMENT

BY AND BETWEEN

WILLIAMS GAS PIPELINE COMPANY, LLC
AS SELLER

AND

SOUTHERN STAR CENTRAL CORP.
AS BUYER,

FOR THE PURCHASE AND SALE OF
ALL THE CAPITAL STOCK

OF

WILLIAMS GAS PIPELINES CENTRAL, INC.
A DELAWARE CORPORATION

AND ALL LIMITED LIABILITY COMPANY MEMBERSHIP UNITS

OF

WESTERN FRONTIER PIPELINE COMPANY, L.L.C.
A DELAWARE LIMITED LIABILITY COMPANY

DATED AS OF

SEPTEMBER 13, 2002

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PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this "AGREEMENT") is made and entered into as of this 13th day of September, 2002, by and between WILLIAMS GAS PIPELINE COMPANY, LLC, a Delaware limited liability company ("SELLER"), and SOUTHERN STAR CENTRAL CORP., a Delaware corporation ("BUYER").

W I T N E S S E T H:

WHEREAS, Seller owns 100% of the issued and outstanding capital stock (the "SHARES") of Williams Gas Pipelines Central, Inc. (the "COMPANY"); and

WHEREAS, Seller owns 100% of the issued and outstanding limited liability company interests (the "MEMBERSHIP UNITS") of Western Frontier Pipeline Company, L.L.C., a Delaware limited liability company (the "LLC"); and

WHEREAS, Buyer desires to purchase the Shares and the Membership Units from Seller, and Seller desires to sell the Shares and the Membership Units to Buyer, in each case upon the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, on the date hereof, The Williams Companies, Inc. ("PARENT") entered into a Guaranty Agreement in favor of Buyer and the other Buyer Indemnified Parties, pursuant to which Parent guaranteed the performance of all of Seller's obligations under this Agreement and the Transaction Documents (as defined herein); and

WHEREAS, on the date hereof, the ultimate parent of Buyer ("BUYER PARENT") entered into a Guaranty Agreement in favor of Seller and the other Seller Indemnified Parties, pursuant to which Buyer Parent guaranteed the performance of all of Buyer's obligations under this Agreement and the Transaction Documents;

NOW, THEREFORE, in consideration of the mutual terms, conditions and other agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I
SALE AND PURCHASE

SECTION 1.1 AGREEMENT TO SELL AND TO PURCHASE; CLOSING

(a) On the Closing Date (as hereinafter defined) and upon the terms and subject to the conditions set forth in this Agreement, Seller shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase and accept from Seller, all of the Shares and the Membership Units, free and clear of any pledges, restrictions on transfer, proxies and voting or other agreements, liens, claims, charges, mortgages, security interests or other legal or equitable encumbrances, limitations or restrictions of any nature whatsoever other than as may be set forth in the Organizational Documents (as defined in Section 2.2) of the Company or the LLC ("ENCUMBRANCES").

(b) The closing of such sale and purchase (the "CLOSING") shall take place at 10:00 a.m. (New York time), at the offices of Seller's counsel, Andrews and Kurth L.L.P., 805 Third Avenue, New York, NY 10022, or at such other place as the parties hereto shall agree in writing no later than the later of (i) one business day following the expiration of the Hart-Scott-Rodino waiting period or (ii) satisfaction of the conditions to the obligations of Buyer and Seller

set forth in Article V and VI (other than those conditions that by their nature are to be fulfilled at Closing) (the "CLOSING DATE"). At Seller's option, the Closing Date may be delayed up to ten (10) days by written notice to Buyer. At the Closing, Seller shall deliver to Buyer (i) the stock certificates representing the Shares duly endorsed in blank, or accompanied by stock powers duly executed in blank in form and substance reasonably acceptable to Buyer and Seller (the "STOCK TRANSFER") and (ii) a duly executed bill of sale, in form and substance reasonably satisfactory to Buyer and Seller, transferring the Membership Units (the "BILL OF SALE"). In full consideration and exchange for the Shares and the Membership Units, Buyer shall thereupon pay to Seller the Purchase Price as provided in Section 1.2 hereof.

SECTION 1.2. PURCHASE PRICE

The purchase price for the Shares and the Membership Units (the "PURCHASE PRICE") shall be Three Hundred and Eighty Million Dollars ($380,000,000.00) as adjusted in accordance with Section 1.3. In addition, Buyer acknowledges that the Company has outstanding debt in the principal amount of One Hundred Seventy-Five Million Dollars ($175,000,000.00) plus accrued and unpaid interest thereon. This results in an enterprise value for the transaction of Five Hundred and Fifty-Five Million Dollars ($555,000,000). On the Closing Date, Buyer shall deliver to Seller the Purchase Price, which shall be paid by wire transfer to Seller of immediately available funds made to a bank account in the United States of America designated in writing by Seller not less than three business days before the Closing Date. The Purchase Price shall be allocated among the Shares and the Membership Units in accordance with Schedule 1.2.

SECTION 1.3. ADJUSTMENT TO PURCHASE PRICE

(a) Schedule 1.3 sets forth the Working Capital of the Company as of June 30, 2002 (the "BASE STATEMENT") based on the Financial Statements. "WORKING CAPITAL" shall mean Current Assets less Current Liabilities. "CURRENT ASSETS" shall mean current assets of the Company as reflected in the financial statements of the Company as of the relevant date of determination, but excluding intercompany receivables (that is, receivables from the Seller and its Affiliates), prepaid insurance and deferred taxes. "CURRENT LIABILITIES" shall mean the current liabilities of the Company as reflected in the financial statements of the Company as of the relevant date of determination, but excluding intercompany payables (that is, payables to the Seller or any of its Affiliates), the current portion of long-term debt, deferred taxes and accrued liability for Taxes for which Seller is liable pursuant to Section 4.10. Within 60 days following the Closing Date, Seller shall prepare and deliver to Buyer a statement (the "CLOSING STATEMENT"), which shall set forth in reasonable detail the amount of Working Capital of the Company as of the Closing Date based upon a balance sheet prepared as of the Closing Date on a basis consistent with the balance sheet included in the Financial Statements and a calculation of the adjustment to the Purchase Price that is payable based upon the difference between the Working Capital in the Base Statement and the Working Capital in the Closing Statement. Buyer agrees, at no cost to Seller, to give Seller and its authorized representatives reasonable access to such employees, officers and other facilities and such books and records of the Company and the LLC as are reasonably necessary to allow Seller and its authorized representatives to prepare the Closing Statement. The Base Statement shall be prepared in accordance with RAP (as defined in Section 2.7) and on a basis consistent with the Financial

Statements using the same accounting methods, policies, practices, procedures and adjustments as were used in the preparation of the Financial Statements. The Closing Statement shall be prepared in accordance with RAP and on a basis consistent with the Financial Statements, using the same accounting methods, policies, practices, procedures and adjustments as were used in the preparation of the Financial Statements and the Base Statement.

(b) Following its receipt from Seller of the Closing Statement, Buyer shall have 10 days to review the Closing Statement and to inform Seller in writing of any disagreement (the "OBJECTION") which it may have with the Closing Statement, which objection shall specify in reasonable detail Buyer's disagreement with the Closing Statement. If Seller does not receive the Objection within such 10-day period, the amount of Working Capital set forth on the Closing Statement delivered pursuant to Section 1.3(a) shall be deemed to have been accepted by Buyer and shall become binding upon Buyer. If Buyer does timely deliver an Objection to Seller, Seller shall then have 10 days from the date of receipt of such Objection (the "REVIEW PERIOD") to review and respond to the Objection. Buyer and Seller shall attempt in good faith to resolve any disagreements with respect to the determination of Working Capital of the Company as of the Closing Date or the amount of the adjustment to the Purchase Price. If they are unable to resolve all of their disagreements with respect to the determination of Working Capital of the Company as of the Closing Date or the amount of the adjustment to the Purchase Price within 10 days following the expiration of Seller's Review Period, they may refer, at the option of either Buyer or Seller, their differences to KPMG LLP, or if KPMG LLP decline to accept such engagement, an internationally recognized firm of independent public accountants selected jointly by Buyer and Seller, who shall determine only with respect to the differences so submitted, whether and to what extent, if any, the amount of Working Capital of the Company as of the Closing Date set forth in the Closing Statement requires adjustment. If Buyer and Seller are unable to so select the independent public accountants within five days of KPMG LLP declining to accept such engagement, either Buyer or Seller may thereafter request that the American Arbitration Association make such selection (as applicable, KPMG LLP, the firm selected by Buyer and Seller or the firm selected by the American Arbitration Association is referred to as the "CPA FIRM"). Buyer and Seller shall direct the CPA Firm to use its reasonable best efforts to render its determination within 30 days after the issue is first submitted to the CPA Firm. The CPA Firm's determination shall be conclusive and binding upon Buyer and Seller. The fees and disbursements of the CPA Firm shall be shared equally by Buyer and Seller. Buyer and Seller shall make readily available to the CPA Firm all relevant books and records relating to the Closing Statement and all other items reasonably requested by the CPA Firm. The Closing Statement as agreed to by Buyer and Seller or as determined by the CPA Firm shall be referred to as the "FINAL CLOSING STATEMENT".

(c) In the event that Working Capital on the Final Closing Statement exceeds Working Capital on the Base Statement, then Buyer shall pay to Seller in cash the amount of such excess. In the event that Working Capital on the Base Statement exceeds Working Capital on the Final Closing Statement, then Seller shall pay to Buyer in cash the amount of such excess. All amounts payable under this Section 1.3(c) shall be paid within three business days of the determination of the Final Closing Statement by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by the recipient not less than one business day before such payment.

(d) The Seller and Buyer hereby agree that, on or before the Closing Date, all intercompany accounts between the Company and the Seller and the Seller's Affiliates shall be paid in full or offset, dividended or distributed to the Seller or its Affiliates or otherwise cancelled without payment. On or before the Closing Date, Seller also shall take, or shall cause the Company to take, all actions necessary to exclude as an asset of the Company the Company's investment in the 1Line System.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer as follows:

SECTION 2.1. CORPORATE ORGANIZATION.

The Company is a corporation duly organized, validly existing and in good standing under the laws of Delaware. The LLC is a limited liability company, duly formed, validly existing and in good standing under the laws of Delaware. Seller is duly formed, validly existing and in good standing under the laws of Delaware. Each of the Company and the LLC has all requisite power and authority and all governmental licenses, authorizations, permits, consents and approvals to own its respective properties and assets and to conduct its business as now conducted, except where the failure to have such licenses, authorizations, permits, consents and approvals would not have a Material Adverse Effect (as defined in Section 9.17). Each of the Company and the LLC is duly qualified to do business as a foreign entity and is in good standing in each jurisdiction where the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified or in good standing would not individually or in the aggregate have a Material Adverse Effect. Schedule 2.1 sets forth all of the jurisdictions in which the Company and the LLC are qualified to do business.

SECTION 2.2. CAPITALIZATION; TITLE.

All of the outstanding Shares of the Company and all of the outstanding Membership Units of the LLC are owned of record and beneficially by Seller. All of the Shares and Membership Units have been validly issued, and the Shares are fully paid and nonassessable. Except for this Agreement, there are no outstanding options, warrants, agreements, conversion rights, preemptive rights or other rights to subscribe for, purchase or otherwise acquire the Shares or Membership Units. There are no voting trusts or other agreements or understandings to which Seller, the Company or the LLC is a party with respect to the voting of the Shares or the Membership Units. There is no indebtedness of the Company or the LLC having general voting rights issued and outstanding. Except for this Agreement, there are no outstanding obligations of any person to repurchase, redeem or otherwise acquire outstanding Shares or Membership Units or any securities convertible into or exchangeable for any Shares or Membership Units. Seller has valid and marketable title to the Shares and Membership Units free and clear of any Encumbrances. True and correct copies of the Organizational Documents of the Company and the LLC with all amendments thereto to the date hereof, have been made available by the Seller to the Buyer or its representatives. "ORGANIZATIONAL DOCUMENTS" shall mean certificates of incorporation, by-laws, certificates of formation, limited liability company operating agreements,

partnership or limited partnership agreements or other formation or governing documents of a particular entity.

SECTION 2.3. SUBSIDIARIES AND EQUITY INTERESTS.

Neither the Company nor the LLC has any subsidiaries, and they do not own, directly or indirectly, any shares of capital stock, voting rights or other equity interests or investments in any other Person. Neither the Company nor the LLC has any rights to acquire by any means, directly or indirectly, any capital stock, voting rights, equity interests or investments in another Person.

SECTION 2.4. VALIDITY OF AGREEMENT; AUTHORIZATION.

Seller has the power to enter into this Agreement and the Transaction Documents to which Seller is a party and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and the Transaction Documents and the performance of its obligations hereunder and thereunder have been duly authorized by the Board of Directors of The Williams Companies, Inc. and the Management Committee of Seller, and no other proceedings on the part of Seller are necessary to authorize such execution, delivery and performance. This Agreement and the Transaction Documents each have been or will be duly executed by Seller and constitutes or will constitute Seller's valid and binding obligation enforceable against Seller in accordance with its terms (except to the extent that its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles).

SECTION 2.5. NO CONFLICT OR VIOLATION.

Except as set forth on Schedule 2.5, the execution, delivery and performance by Seller of this Agreement and the Transaction Documents to which Seller is a party does not and will not: (a) violate or conflict with any provision of the Organizational Documents of Seller; (b) violate any applicable provision of law, statute, judgment, order, writ, injunction, decree, award, rule, or regulation of any foreign, federal, tribal, state or local government, court, arbitrator, agency or commission or other governmental or regulatory body or authority ("GOVERNMENTAL AUTHORITY"); (c) violate, result in a breach of, constitute (with due notice or lapse of time or both) a default or cause any obligation, penalty or premium to arise or accrue under any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Company or the LLC is a party or by which either of them is bound or to which any of their respective properties or assets is subject; (d) result in the creation or imposition of any Encumbrance upon any of the properties or assets of the Company or the LLC; or (e) result in the cancellation, modification, revocation or suspension of any License (as defined in Section 2.14) of the Company or the LLC, except in the cases of clauses (b) - (e) above as would not have a Material Adverse Effect.

SECTION 2.6. CONSENTS AND APPROVALS.

Except as disclosed on Schedule 2.6, no material consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any

other Person (on the part of Seller, the LLC or the Company), is required as a condition to the execution and delivery of this Agreement and the Transaction Documents to which Seller is a party or the performance of their respective obligations hereunder or thereunder.

SECTION 2.7. FINANCIAL STATEMENTS.

Seller has heretofore furnished to Buyer copies of the audited financial statements of the Company as of December 31, 2001, and December 31, 2000, and the notes thereto, and the unaudited balance sheet of the Company as of June 30, 2002, together with the related statements of income and cash flows for the period then ended (the "FINANCIAL STATEMENTS"). The Financial Statements were prepared from the books and records of the Company in accordance with the accounting principles prescribed by the Federal Energy Regulatory Commission ("RAP") applied on a consistent basis throughout the periods covered thereby. The Financial Statements present fairly in all material respects the financial position, results of operations and cash flows of the Company as of such dates and for the periods then ended (the partial year Financial Statements being subject to normal year-end audit adjustments consistent with prior periods).

SECTION 2.8. ABSENCE OF CERTAIN CHANGES OR EVENTS.

Except as set forth in Schedule 2.8 and except for any intercompany receivables or payables that may be paid, cancelled or offset prior to Closing as contemplated in Section 1.3(d) hereof, since June 30, 2002, the business of the Company and the LLC has been conducted in the ordinary course consistent with past practices and neither the Company nor the LLC has taken any of the actions described in Section 4.1(a)(i) through (xvi). Since June 30, 2002, there has not been any event or condition that has had a Material Adverse Effect, except as disclosed in Schedule 2.8.

SECTION 2.9. TAX MATTERS.

(a) For purposes of this Agreement, "TAX RETURNS" shall mean returns, reports, exhibits, schedules, information statements and other documentation (including any additional or supporting material) filed or maintained, or required to be filed or maintained, in connection with the calculation, determination, assessment or collection of any Tax and shall include any amended returns required as a result of examination adjustments made by the Internal Revenue Service or other Tax authority. For purposes of this Agreement, "TAX" or "TAXES" shall mean any and all federal, state, local, foreign and other taxes, levies, fees, imposts and duties of whatever kind (including any interest, penalties or additions to the tax imposed in connection therewith or with respect thereto), including, without limitation, taxes imposed on, or measured by, income, franchise, profits or gross receipts, and also ad valorem, value added, sales, use, service, real or personal property, capital stock, license, payroll, withholding, employment, social security, workers' compensation, unemployment compensation, utility, severance, production, excise, stamp, occupation, premium, windfall profits, transfer and gains taxes and customs duties.

(b) Except as disclosed on Schedule 2.9, (i) the Company and the LLC have filed (or joined in the filing of) when due all Tax Returns required by applicable law to be filed with

respect to the Company or the LLC; (ii) all such Tax Returns were true, correct and complete in all respects as of the time of such filing; (iii) all Taxes relating to periods ending on or before the Closing Date owed by the Company or the LLC (whether or not shown on any Tax Return) at any time on or prior to the Closing Date, if required to have been paid, have been or will be paid (except for Taxes which are being contested in good faith in appropriate proceedings); (iv) any liability of the Company for Taxes not yet due and payable, or which are being contested in good faith in appropriate proceedings, has been provided for on the financial statements of the Company in accordance with RAP; (v) there is no action, suit, proceeding, investigation, audit or claim now pending against, or with respect to, the Company or the LLC in respect of any Tax or Tax assessment, nor is any claim for additional Tax or Tax assessment asserted in writing by any Tax authority; (vi) since January 1, 1998, no written claim has been made by any Tax authority in a jurisdiction where the Company or the LLC does not currently file a Tax Return that they are or may be subject to Tax by such jurisdiction, nor to Seller's knowledge is any such assertion threatened in writing; (vii) the Company and the LLC have no outstanding request for any extension of time within which to pay its Taxes or file its Tax Returns; (viii) there has been no waiver or extension of any applicable statute of limitations for the assessment or collection of any Taxes of the Company or the LLC; (ix) the LLC at all times has been treated as a disregarded entity for federal, state and local income and franchise tax purposes; (x) Seller is not a "FOREIGN PERSON" within the meaning of Section 1445 of the United States Internal Revenue Code of 1986, as amended (the "CODE"); (xi) the Company and the LLC are not parties to any agreement, whether written or unwritten, providing for the payment of Taxes, payment for Tax losses, entitlements to refunds or similar Tax matters; (xii) the Company and the LLC have withheld and paid all Taxes required to be withheld by the Company or the LLC in connection with any amounts paid or owing to any employee, creditor, independent contractor or other third party; (xiii) there are no liens for Taxes upon the Shares, the Membership Units, or any assets of the Company or the LLC except for Taxes not yet due and payable; (xiv) no property of the Company or the LLC is subject to a tax benefit transfer lease subject to the provisions of former Section 168(f)(8) of the Code; and (xiv) neither the Company nor the LLC has made any payments or is obligated to make any payments that will not be deductible under Section 280G or 162(m) of the Code;

(c) Any reference in this Section 2.9 to the Company or the LLC shall be deemed to include any predecessor of the Company or the LLC and any entity with respect to which the Company or the LLC has successor or transferee liability.

(d) The only representations and warranties given in respect of Tax matters are those contained in Section 2.9 and none of the other representations and warranties in this Agreement shall be deemed to constitute, directly or indirectly, a representation and warranty in respect of Tax matters.

SECTION 2.10. ABSENCE OF UNDISCLOSED LIABILITIES.

(a) Except as disclosed on Schedule 2.10(a), neither the Company nor the LLC has any material indebtedness or liability, absolute or contingent, which is not shown or provided for on the balance sheet of the Company included in the Financial Statements other than liabilities incurred or accrued in the ordinary course of business (including liens of current taxes and assessments not in default) since June 30, 2002.

(b) Except as set forth on Schedule 2.10(b), the LLC: (i) does not have any obligations or liabilities, absolute or contingent, direct or indirect; (ii) is not required or obligated and will not be required or obligated to make any payments to any Person, including to Seller or any of Seller's Affiliates; (iii) is not and will not be a party to any agreements or instruments of any kind; and (iv) has written off its investments in its proposed business and as such its general ledger asset accounts reflect a zero balance in all line items.

SECTION 2.11. REAL AND PERSONAL PROPERTY.

(a) Except as disclosed on Schedule 2.11(a), to the Knowledge of the Seller, each of the Company and the LLC owns valid and defensible fee title to, or holds a valid leasehold interest in, or a valid right-of-way or easement (all such rights-of-way and easements collectively, the "RIGHTS-OF-WAY") through, all real property ("REAL PROPERTY") used or necessary for the conduct of the Company's business as it is presently conducted, and each of the Company and the LLC has good and valid title to all of the material tangible assets and properties which they own and which are reflected on the Financial Statements (except for assets and properties sold, consumed or otherwise disposed of in the ordinary course of business since the date of the Financial Statements), and all such Real Property, assets and properties (other than Rights-of-Way) are owned or leased free and clear of all Encumbrances, except for (i) Encumbrances set forth on Schedule 2.11(b), (ii) liens for current Taxes not yet due and payable or for Taxes the validity of which is being contested in good faith, (iii) Encumbrances to secure indebtedness reflected on the Financial Statements, (iv) Encumbrances which will be discharged on or prior to the Closing Date, (v) laws, ordinances and regulations affecting building use and occupancy or reservations of interest in title (collectively, "PROPERTY RESTRICTIONS") imposed or promulgated by law or any Governmental Authority with respect to Real Property, including zoning regulations, provided they do not materially adversely affect the current use of the applicable Real Property, (vi) Encumbrances, Property Restrictions, Rights-of-Way and written agreements of record, (vii) mechanics', carriers', workmen's and repairmen's liens and other Encumbrances, Property Restrictions and other limitations of any kind, if any, which do not materially detract from the value of or materially interfere with the present use of any Real Property subject thereto or affected thereby and which have arisen or been incurred in the ordinary course of business and (viii) Encumbrances that do materially detract from the value or materially interfere with the present use of the asset subject thereto (clauses (i) through (viii) above referred to collectively as "PERMITTED ENCUMBRANCES").

(b) Except as set forth on Schedule 2.11(b), there are no material structural defects relating to any of the improvements to the Real Property and all tangible assets and property owned and used by the Company or the LLC are in good operating condition, ordinary wear and tear excepted.

SECTION 2.12. INTELLECTUAL PROPERTY AND COMPUTER HARDWARE.

(a) Except as set forth on Schedule 2.12, and as may be identified during development of the Migration Plan (as defined in Section 4.12 below) and for such matters as would not have a Material Adverse Effect, each of the Company and the LLC owns all right, title and interest in and to, or has a valid and enforceable license or other right to use, all the intellectual property used by each of the Company and the LLC in connection with its business,

which represents all intellectual property rights necessary for the Company and the LLC to each conduct its business as presently conducted.

(b) The only representations and warranties given in respect of intellectual property and matters and agreements relating thereto are those contained in this Section 2.12, and none of the other representations and warranties shall be deemed to constitute, directly or indirectly, a representation and warranty in respect of intellectual property and matters or agreements relating thereto.

(c) Computer hardware that is shared between other subsidiaries and the Company or the LLC, and which is not wholly owned by the Company or LLC, is not included in this Agreement. A listing of such hardware, and its related computer software system(s), is identified in Schedule 2.12.

SECTION 2.13. LICENSES, PERMITS AND GOVERNMENTAL APPROVALS.

Except as set forth on Schedule 2.13 and except as would not have a Material Adverse Effect, each of the Company and the LLC has all material licenses, permits, certificates, franchises, authorizations and approvals issued or granted to the Company by any Governmental Authority necessary for the conduct of its business as currently conducted (each a "LICENSE" and, collectively, the "LICENSES"). Each License has been issued to, and duly obtained and fully paid for by, the holder thereof and is valid, in full force and effect, except where such invalidity or failure to be in full force and effect would not have a Material Adverse Effect. As used in this Section 2.13, the term License does not include any Environmental Permits which shall be subject to Section 2.20(a)(iv).

SECTION 2.14. COMPLIANCE WITH LAW.

Except as relates to tax matters (which are provided for in Section 2.9) or environmental, health and safety matters (which are provided for in Section 2.20) and except as set forth on Schedule 2.14, since January 1, 2001, to the Knowledge of Seller, the operations of each of the Company and the LLC have been conducted in material compliance with all applicable laws, regulations, orders and other requirements of all Governmental Authorities having jurisdiction over the Company, the LLC and their respective assets, properties and operations. None of the Seller, the Company or the LLC has received written notice of any material violation of any such law, license, regulation, order or other legal requirement, or is in material default with respect to any order, writ, judgment, award, injunction or decree of any Governmental Authority, applicable to the Company, the LLC or any of their respective assets, properties or operations.

SECTION 2.15. LITIGATION.

Except as set forth on Schedule 2.15 there are no Legal Proceedings pending or, to the Knowledge of Seller, threatened against or involving Seller, the Company or the LLC that, individually or in the aggregate, are reasonably likely to (a) have a Material Adverse Effect or (b) materially impair or delay the ability of Seller to perform its obligations under this Agreement or consummate the transactions contemplated by this Agreement. Except as set forth

on Schedule 2.15, there is no order, judgment, injunction or decree of any Governmental Authority outstanding against Seller, the Company or the LLC that, individually or in the aggregate, would have any effect referred to in the foregoing clauses (a) and (b). "LEGAL PROCEEDING" shall mean any judicial, administrative or arbitral actions, suits, proceedings (public or private), investigations or governmental proceedings before any Governmental Authority.

SECTION 2.16. CONTRACTS.

To the Knowledge of the Seller, Schedule 2.16 sets forth (subject to the dollar amount limitations of clauses (a) or (b) below) a true and complete list of the following contracts, agreements, instruments and commitments to which the Company or the LLC is a party or otherwise relating to or affecting any of its assets, properties or operations, whether written or oral:

(a) contracts which require or could require payments by or to the Company or the LLC of amounts greater than $250,000 in any year;

(b) contracts, loan agreements, letters of credit, repurchase agreements, mortgages, security agreements, guarantees, pledge agreements, trust indentures and promissory notes and similar documents relating to the borrowing of money or for lines of credit in any case for amounts in excess of $500,000; and

(c) partnership or joint venture or noncompete agreements ("MATERIAL CONTRACTS").

Each Material Contract is valid, binding and enforceable against the Company or the LLC, as the case may be, and, to the Seller's Knowledge, each of the other parties thereto in accordance with its terms, and in full force and effect on the date hereof except where a failure to be so valid, binding or enforceable or in full force and effect would not have a Material Adverse Effect.

The Company or the LLC, as the case may be, and, to Seller's Knowledge, the other party(ies) to any Material Contract, have performed in all material respects all obligations required to be performed by them under, and are not in material default or breach of in respect of, any Material Contract, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default or breach except for any default or breach that would not individually or in the aggregate have a Material Adverse Effect. Seller has made available to Buyer or its representatives true and complete originals or copies of all the Material Contracts and a copy of every material default notice received by Seller, the Company, the LLC or any of their Affiliates during the past one year with respect to any of the Material Contracts.

SECTION 2.17. BROKERS.

Except as disclosed on Schedule 2.17, Seller has not employed the services of an investment banker, financial advisor, broker or finder in connection with this Agreement or any of the transactions contemplated hereby.

SECTION 2.18. EMPLOYEE PLANS.

(a) Except as disclosed on Schedule 2.18(a)(i), neither Seller, the Company, the LLC, nor any of their Affiliates sponsors or maintains, and has not at any time during the past five years sponsored or maintained, any "EMPLOYEE BENEFIT PLAN," as defined under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other bonus, pension, stock option, stock purchase, stock appreciation right, equity incentive, welfare, profit-sharing, retirement, disability, vacation, severance, hospitalization, insurance, incentive, deferred compensation, compensation, fringe benefit or other employee benefit plan, fund, trust, program, agreement or arrangement, whether written or oral, in each of the foregoing cases which cover, are maintained for the benefit of, or relate to any or all current or former employees, directors or independent contractors of the Company or the LLC or Dedicated Employees ("EMPLOYEE PLANS"). Seller or the Company has delivered to Buyer complete and correct copies of each Employee Plan, or written summaries of any unwritten Employee Plan. Schedule 2.18(a)(ii) sets forth a true and complete list of all Employee Plans which are sponsored solely by the Company and which cover only current or former employees, directors or independent contractors of the Company or the LLC (the "COMPANY PLANS").

(b) Schedule 2.18(b)(i) sets forth a list showing the names of employees of the Company and employees of Seller who are assigned to the business of the Company, ("BUSINESS EMPLOYEES"). Except as set forth on Schedule 2.18(b)(ii), there are no contracts, agreements, plans or arrangements covering any Business Employee with "CHANGE OF CONTROL" or similar provisions that would be triggered as a result of the consummation of this Agreement. To Seller's Knowledge, none of the Business Employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of such employee's efforts to promote the interests of the Company or Buyer or that would conflict with the Company's business as presently conducted. Neither Seller nor the Company has received notice from any officer or key Business Employee or group of Business Employees, that such person(s) intends to terminate their employment.

(c) Except as would not, individually or in the aggregate, have a Material Adverse Effect, each Employee Plan sponsored or maintained by the Company has been maintained and operated in compliance with its terms, the terms of any applicable collective bargaining agreement, and the requirements of applicable law, including the Code and ERISA, and each Employee Plan intended to be "QUALIFIED" within the meaning of Section 401(a) of the Code has received a favorable determination letter from the IRS and nothing has occurred since the date of such favorable determination letter which would adversely affect the qualified status of such plan.

(d) All contributions and premium payments required to have been paid under or with respect to any Employee Plan have been timely paid.

(e) Except as disclosed on Schedule 2.18(e), no Employee Plan provides health, life insurance or other welfare benefits to retirees or other terminated employees of the Company or Dedicated Employees, other than continuation coverage required by Section 4980B of the Code or Sections 601-608 of ERISA ("COBRA").

(f) No Employee Plan is a multi-employer plan within the meaning of Section 3(37) or 4001(a) of ERISA, and neither the Company nor the LLC has any outstanding liability with respect to any such plan.

(g) With respect to any "DEFINED BENEFIT PLAN", within the meaning of Section 3(35) of ERISA, maintained or contributed to by Seller, the Company, the LLC or any entity treated as a single employer with Seller, the Company, or the LLC under Section 4001(a) of ERISA ("ERISA AFFILIATE"): (i) no liability to the PBGC has been incurred (other than for premiums not yet due); (ii) no notice of intent to terminate any such plan has been filed with the PBGC or distributed to participants and no amendment terminating any such plan has been adopted; (iii) no proceedings to terminate any such plan have been instituted by the PBGC and no event or condition has occurred which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such plan; (iv) no "ACCUMULATED FUNDING DEFICIENCY," within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived, has been incurred; (v) no "REPORTABLE EVENT" within the meaning of Section 4043 of ERISA (for which the 30-day notice requirement has not been waived by the PBGC) has occurred within the last six years; (vi) no lien has arisen under ERISA or the Code, or is likely to arise, on the assets of the Company or the LLC; (vii) there has been no cessation of operations at a facility subject to the provisions of Section 4062(e) of ERISA within the last six years; and (viii) no event has occurred that places participants on actual or constructive notice of the plan's termination.

(h) No event has occurred and no condition exists with respect to any Employee Plan which could subject any Employee Plan, the Company, the LLC, Buyer or any of their employees, agents, directors or Affiliates, directly or indirectly (through an indemnification agreement or otherwise), to a liability for a breach of fiduciary duty, a "PROHIBITED TRANSACTION," within the meaning of Section 406 of ERISA or Section 4975 of the Code, or a tax, penalty or fine under Section 502 or 4071 of ERISA or Subtitle D, Chapter 43 of the Code.

(i) Except for litigation regarding Parent's 401(k) plan, there are no actions, suits, or claims (other than routine claims for benefits in the ordinary course) with respect to any Employee Plan pending which could give rise to a material liability, or to Seller's Knowledge, threatened, and Seller has no knowledge of any facts which could give rise to any such actions, suits or claims (other than routine claims for benefits in the ordinary course). No Employee Plan is currently under governmental investigation or audit and, to Seller's Knowledge, no such investigation or audit is contemplated or under consideration.

(j) Neither the Company nor the LLC has any liability, contingent or otherwise, (i) with respect to any terminated employee benefit plan or arrangement or (ii) under Section 4069 or 4212 of ERISA.

(k) Except as set forth on Schedule 2.18(k), (i) no Business Employees are covered by a collective bargaining agreement; (ii) no Business Employees are, or within the last three years have been, represented by a union or other bargaining agent; and (iii) to Seller's Knowledge, no union organizing efforts are pending with respect to Business Employees. Seller or the Company has delivered to Buyer a complete and correct copy of any collective bargaining agreement applicable to Business Employees. Within the last three years, there has been no

strike, work slowdown or other material labor dispute with respect to Business Employees, nor to Seller's Knowledge, is there pending or threatened (i) any strike, work slowdown or other material labor dispute involving Business Employees, or (ii) any grievance or arbitration proceeding involving Business Employees, whether arising out of any collective bargaining agreement or otherwise.

SECTION 2.19. INSURANCE.

(a) Schedule 2.19 sets forth a true and complete list of all current policies of all material property and casualty insurance, insuring the properties, assets, employees and/or operations of the Company and the LLC (collectively, the "POLICIES"). All premiums payable under such Policies have been paid in a timely manner and the Company and the LLC have complied fully with the terms and conditions of all such Policies.

(b) All Policies are in full force and effect. Coverage for the Company and the LLC under the Policies shall terminate on the Closing Date. Neither the Company nor the LLC is in default under any provisions of the Policies, and there is no claim by the Company or any other Person pending under any of the Policies as to which coverage has been questioned, denied or disputed by the underwriters or issuers of such Policies. After the Closing Date, Seller or Parent shall continue to manage all workers' compensation and general and automobile liability claims of the Company and the LLC, which are known and reported on or prior to the Closing Date, or which are covered under the worker's compensation policy or the primary automobile or general liability policy shown on Schedule 2.19. Buyer shall be responsible for all costs on account of such claims, including but not limited to deductibles and third party administrator charges.

SECTION 2.20. ENVIRONMENTAL; HEALTH AND SAFETY MATTERS.

(a) Except as set forth on Schedule 2.20:

(i) to the Knowledge of Seller, each of the Company and the LLC and its operations are in material compliance with all applicable Environmental Laws;

(ii) to the Knowledge of Seller, neither Seller, the LLC nor the Company has received any written request for information, or has received written notification that it is a potentially responsible party, under CERCLA or any similar state law with respect to any on-site or off-site location with respect to the activities or operations of the Company or the LLC;

(iii) there are no material writs, injunctions, decrees, orders or judgments outstanding, or any actions, suits, proceedings or investigations pending or, to Seller's Knowledge, threatened involving the Company or the LLC relating to (A) its compliance with any Environmental Law, or (B) the release, disposal, discharge, spill, treatment, storage or recycling of Hazardous Materials into the environment at any location which could reasonably be expected to result in the Company or the LLC incurring any material liability under Environmental Laws; and

(iv) the Company has obtained, currently maintains and is in material compliance with all Licenses which are required under Environmental Laws for the operation of its business (collectively, "ENVIRONMENTAL PERMITS"), all such Environmental Permits are in effect and no appeal nor any other action is pending to revoke any such Environmental Permit.

(b) The following terms shall have the following meanings:

"ENVIRONMENTAL LAW" shall mean current local, county, state, federal, and/or foreign law (including common law), statute, code, ordinance, rule, regulation or other legal obligation relating to the protection of the environment, natural resources or human health, or to the transportation or storage of petroleum or natural gas, and in effect on the date hereof, including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. section 9601 et seq.), as amended, the Resource Conservation and Recovery Act (42 U.S.C. section 6901 et seq.), as amended ("RCRA"), the Federal Water Pollution Control Act (33 U.S.C. section 1251 et seq.), as amended, the Clean Air Act (42 U.S.C. section 7401 et seq.), as amended, the Toxic Substances Control Act (15 U.S.C. section 2601 et seq.), as amended, the Occupational Safety and Health Act (29 U.S.C. section 651 et seq.), as amended, the Safe Drinking Water Act (42 U.S.C. section 300(f) et seq.), as amended, the Federal Natural Gas Pipeline Safety Act of 1968, as amended, the Hazardous Materials Transportation Act (49 U.S.C., sections 1801, et seq.), as amended, the Oil Pollution Act (33 U.S.C. sections 2701, et seq.), the Safe Drinking Water Act (42 U.S.C. sections 300(f) et seq.), as amended, the Endangered Species Act (16 U.S.C. sections 1531, et seq.), as amended, the National Environmental Policy Act (42 U.S.C. sections 4321 et seq.), as amended, analogous state, tribal or local laws, and any similar, implementing or successor law, and any amendment, rule, regulation, or directive issued thereunder.

"HAZARDOUS MATERIAL" shall mean any substance, material or waste which is regulated by any Environmental Law as hazardous, toxic, a pollutant, contaminant or words of similar meaning including, without limitation, petroleum, petroleum products, mercury, chlorinated solvents and their breakdown products, asbestos, urea formaldehyde and polychlorinated biphenyls.

(c) The only representations and warranties given in respect of environmental, health and safety matters and compliance with and liability under Environmental Laws are those contained in Section 2.20 and none of the other representations and warranties shall be deemed to constitute, directly or indirectly, a representation and warranty in respect of environmental, health and safety matters or compliance with and liability under Environmental Laws.

SECTION 2.21. REGULATORY MATTERS.

The Company is a "NATURAL GAS COMPANY" as that term is defined in Section 2 of the Natural Gas Act ("NGA"). The Company is not a "PUBLIC UTILITY COMPANY," "HOLDING COMPANY" or "SUBSIDIARY" or "AFFILIATE" of a holding company as such terms are defined in the Public Utility Holding Company Act of 1935 (the "1935 ACT"). Except as would not have a Material Adverse Effect, the Company is in material compliance with all provisions of the NGA and all rules and regulations promulgated by FERC pursuant thereto. Except as would not have

a Material Adverse Effect, the Company is in material compliance with all orders issued by FERC that pertain to all terms and conditions and rates charged for services. No approval of (i) the Securities and Exchange Commission under the 1935 Act or (ii) FERC under the NGA or the Federal Power Act is required in connection with the execution of this Agreement by the Seller or the transaction contemplated hereby with respect to the Seller. The Form No. 2 Annual Reports filed by the Company with FERC for the years ended December 31, 2001 and December 31, 2000 were true and correct in all material respects as of the dates thereof and since June 30, 2002 neither the Company nor the LLC has become subject to any proceeding under Section 5 of the NGA or any general rate case proceeding commenced under Section 4 of the NGA by reason of a filing made with the FERC after June 30, 2002.

SECTION 2.22. NO OTHER REPRESENTATIONS.

Except as and to the extent set forth in this Article II, Seller makes no representations or warranties whatsoever to Buyer and hereby disclaims all liability and responsibility for any representation, warranty, statement, or information made, communicated, or furnished (orally or in writing) to Buyer or its representatives (including any opinion, information, projection, or advice that may have been or may be provided to Buyer by any director, officer, employee, agent, consultant, or representative of Seller or any Affiliate thereof). Seller makes no representations or warranties to Buyer regarding the probable success or profitability of the Company or the LLC or their respective businesses.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF BUYER

As of the date hereof, Buyer hereby represents and warrants to Seller as follows:

SECTION 3.1. CORPORATE ORGANIZATION.

Buyer is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware and has all requisite power and authority to own its properties and assets and to conduct its business as now conducted. Buyer is duly qualified to do business as a foreign entity in every jurisdiction where the character of the properties owned or leased by it or the nature of the business conducted by it makes such qualifications necessary.

SECTION 3.2. VALIDITY OF AGREEMENT.

Buyer has the power to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the performance of Buyer's obligations hereunder have been duly authorized by the Board of Directors of Buyer, and no other proceedings on the part of Buyer are necessary to authorize such execution, delivery and performance. This Agreement has been duly executed by Buyer and constitutes the valid and binding obligation of Buyer enforceable against Buyer in accordance with its terms (except to the extent that its enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar law affecting the enforcement of creditors' rights generally or by general equitable principles).

SECTION 3.3. NO CONFLICT OR VIOLATION; NO DEFAULTS.

The execution, delivery and performance by Buyer of this Agreement does not and will not violate or conflict with any provision of its Organizational Documents and does not and will not violate any applicable provision of law, or any order, judgment or decree of any Governmental Authority, nor violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which Buyer is a party or by which it is bound or to which any of its properties or assets is subject, nor result in the creation or imposition of any Encumbrance upon any of its properties or assets where such violations, breaches or defaults in the aggregate would have a material adverse effect on the transactions contemplated hereby or on the assets, properties, business, operations, net income or financial condition of Buyer.

SECTION 3.4. CONSENTS AND APPROVALS.

Except as disclosed on Schedule 3.4, no material consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any other person (on the part of Buyer), is required as a condition to the execution and delivery of this Agreement or the performance of its obligations hereunder.

SECTION 3.5. FINANCIAL ABILITY.

Buyer will at the Closing have sufficient immediately available funds, in cash, to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to effect the transactions contemplated hereby. Buyer has provided to Seller true and correct copies of commitments from financial institutions to enable Buyer to consummate the transactions contemplated by this Agreement and the Transaction Documents to which Buyer is a party.

SECTION 3.6. BROKERS.

Except as disclosed on Schedule 3.6, Buyer has not employed the services of an investment banker, financial advisor, broker or finder in connection with this Agreement or any of the transactions contemplated hereby.

SECTION 3.7. INDEPENDENT INVESTIGATION.

Buyer has conducted its own independent investigation, review and analysis of the business, operations, assets, liabilities, results of operations, financial condition and prospects of the Company and the LLC, which investigation, review and analysis was done by Buyer and its Affiliates and, to the extent Buyer deemed necessary or appropriate, by Buyer's representatives. Buyer acknowledges that it and its representatives have been provided adequate access to the personnel, properties, premises and records of the Company and the LLC for such purpose. In entering into this Agreement, Buyer acknowledges that it has relied solely upon the aforementioned investigation, review and analysis and not on any factual representations of Seller or any of Seller's representatives (except the specific representations and warranties of Seller set forth in Article II of this Agreement).

SECTION 3.8. INVESTMENT INTENT; INVESTMENT EXPERIENCE; RESTRICTED SECURITIES.

Buyer is acquiring the Shares and Membership Units for its own account for investment and not with a view to, or for sale or other disposition in connection with, any distribution of all or any part thereof in violation of federal or state securities law. In acquiring the Shares and Membership Units, Buyer is not offering or selling, and will not offer or sell, for Seller in connection with any distribution of the Shares, and Buyer does not have a participation and will not participate in any such undertaking or in any underwriting of such an undertaking except in compliance with applicable federal and state securities laws. Buyer acknowledges that it is able to fend for itself, can bear the economic risk of its investment in the Shares, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Shares and Membership Units. Buyer is an "ACCREDITED INVESTOR" as such term is defined in Regulation D under the Securities Act. Buyer understands that neither the Shares nor the Membership Units will have been registered pursuant to the Securities Act or any applicable state securities laws, that the Shares and Membership Units will be characterized as "RESTRICTED SECURITIES" under federal securities laws and that under such laws and applicable regulations neither the Shares nor the Membership Units can be sold or otherwise disposed of without registration under the Securities Act or an exemption therefrom.

ARTICLE IV
COVENANTS

SECTION 4.1. CERTAIN CHANGES AND CONDUCT OF BUSINESS.

(a) From and after the date of this Agreement and until the Closing Date, the Company and the LLC shall (except as required or permitted pursuant to the terms hereof or as set forth on Schedule 4.1) conduct their businesses solely in the ordinary course consistent with past practices and, without the prior written consent of Buyer (which consent will not be unreasonably withheld or delayed), Seller will not, except as required or permitted pursuant to the terms hereof or as set forth on Schedule 4.1, permit the Company or the LLC to:

(i) make any material change in the conduct of its businesses and operations;

(ii) make any change in its Organizational Documents or issue any additional equity securities or grant any option, warrant or right to acquire any equity securities or issue any security convertible into or exchangeable for its equity securities;

(iii) (A) incur, assume or guarantee any indebtedness for borrowed money (including obligations in respect of capitalized lease obligations and purchase money debt), issue any notes, bonds, debentures or other corporate securities or grant any option, warrant or right to purchase any thereof or (B) issue any securities convertible or exchangeable for debt securities of the Company or the LLC;

(iv) make any sale, assignment, transfer, abandonment or other conveyance of any of its material assets or any part thereof except for dispositions of inventory or of worn-out or obsolete equipment for fair or reasonable value in the ordinary course of business consistent with past practices;

(v) subject any of its assets, or any part thereof, to any Encumbrance except Permitted Encumbrances or such other Encumbrances as may arise in the ordinary course of business consistent with past practices by operation of law;

(vi) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its equity interests or (except as permitted by Section 1.3(d)) declare, set aside or pay any dividends or other distribution in respect of such equity interests in excess of the cash and cash equivalents and advances reflected on the Base Statement;

(vii) (A) except as may be required by applicable law, enter into, adopt or make any amendments to, permit the acceleration of benefits under or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the benefit or welfare of any current or former director, officer or employee of the Company or the LLC or any Dedicated Employee; (B) except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company and the LLC, taken as a whole, increase the benefits or compensation to any current or former director, officer, or employee of the Company or the LLC or to any Dedicated Employee; or (C) pay to any current or former director, officer, or employee of the Company or the LLC or to any Dedicated Employee any benefit not permitted by any employee benefit agreement, trust, plan, fund, or other arrangement as in effect on the date hereof;

(viii) acquire any material assets or properties, except for inventory in the ordinary course of business consistent with past practices;

(ix) except in the ordinary course of business consistent with past practices, pay, loan or advance any amount to any of its Affiliates;

(x) sell, transfer or lease any properties or assets to, or enter into any agreement or arrangement with, any of its Affiliates;

(xi) make any loan, advance or capital contribution to or investment in any Person;

(xii) (A) make any change in any financial accounting or tax principle, method, estimate or practice (including any election with respect to Taxes) except as may be required by law or regulation; or (B) enter into any closing or other

agreement or settlement with respect to Taxes or file any amended Tax Return which could reasonably be expected to affect the amount of Taxes imposed on or with respect to the Company or the LLC;

(xiii) other than routine compliance filings, make any filings or submit any documents or information to FERC or any other Governmental Entity without prior consultation with Buyer;

(xiv) enter into any agreement or amendment, modification, or termination of any contract, lease, or license to which the Company or the LLC is a party, or by which any of their respective assets or properties are bound, except an agreement or an amendment, modification or termination of a contract, lease or license entered into in the ordinary course of business consistent with past practice that would not have been considered to have been a Material Contract had it been entered into prior to the date of this Agreement;

(xv) cancel, compromise, waive, release or settle any right, claim or lawsuit other than in the ordinary course of business consistent with past practices; or

(xvi) commit itself to do any of the foregoing.

(b) Seller agrees to cause the Company to consult with and to take into account Buyer's reasonable requests before finalizing the expansion and discretionary-maintenance capital expenditure plans and project schedules included in the 2003 capital budget for the Company.

SECTION 4.2. ACCESS TO PROPERTIES AND RECORDS.

(a) Seller shall afford, and shall cause the Company, the LLC and Seller's other Affiliates to afford, to Buyer and Buyer's accountants, counsel and representatives upon reasonable advance notice reasonable access during normal business hours throughout the period commencing on the date hereof and ending on the Closing Date (or the earlier termination of this Agreement pursuant to Article VII hereof) to all the Company's and the LLC's properties, books, contracts, and records and, during such period, shall furnish promptly to Buyer all information concerning the Company's and the LLC's business, properties, liabilities and personnel as Buyer may request, provided that no investigation or receipt of information pursuant to this Section 4.2 shall affect any representation or warranty of Seller or the conditions to the obligations of Buyer. Additionally, Buyer shall hold in confidence all such information on the terms and subject to the conditions contained in the Confidentiality Agreement. Buyer shall have no right of access to, and Seller shall have no obligation to provide to Buyer, (1) bids received from others in connection with the transactions contemplated by this Agreement and information and analysis (including financial analysis) relating to such bids or (2) any information the disclosure of which Seller has concluded may jeopardize any privilege available to the Company, the LLC or Seller relating to such information or would cause the Company, the LLC or Seller to breach a confidentiality obligation. Buyer agrees that if Buyer or its authorized representatives receive, or if the information (whether in electronic mail format, on computer hard drives or otherwise) held

by the Company or the LLC as of the Closing includes information that relates to the business operations or other strategic matters of the Seller, its corporate parent or any of their Affiliates (other than the Company or the LLC) such information shall be held in confidence on the terms and subject to the conditions contained in the Confidentiality Agreement, but the term of the restriction on the disclosure and use of such information shall continue in effect as to such information for a period of five years from the Closing. Buyer further agrees that if Seller or Company or the LLC inadvertently furnishes to Buyer copies of or access to information that is subject to clause (2) of the second preceding sentence, Buyer will, upon Seller's request promptly return same to Seller together with any and all extracts therefrom or notes pertaining thereto (whether in electronic or other format). Buyer shall indemnify, defend, and hold harmless Seller and its Affiliates from and against any Losses asserted against or suffered by the Seller Indemnified Parties relating to, resulting from, or arising out of, examinations or inspections made by Buyer or its authorized representatives pursuant to this Section 4.2(a).

(b) Each of the parties agrees that it shall preserve and keep, and make available to the other party for reasonable business needs, all books and records relating to the business or operations of the Company and the LLC on or before the Closing Date in its possession (including with respect to Seller, to the extent in its possession, the most recent rate case records and files of the Company and all other records and files of the Company and Seller necessary for the Company to make a future rate case filing with the FERC) for a period of at least 6 years from the Closing Date, except to the extent previously delivered to the other party and receipt of which acknowledged in writing by the other party. After such 6-year period, before a party may dispose of any of such books and records, at least 90 calendar days' prior notice to such effect shall be given to the other party, and the other party shall be given an opportunity, at its cost and expense, to remove and retain all or any part of such books and records that the notifying party elects to dispose of. Notwithstanding the foregoing, each party agrees that it shall preserve and keep all books and records of the Company and the LLC in its possession relating to any audit or investigation instituted by a Governmental Authority or any litigation (whether or not existing on the Closing Date), in each case of which it has actual knowledge, until any such audit, investigation or proceeding has been completed or finally resolved, if it is reasonably obvious that such audit, investigation or litigation may relate to matters occurring prior to the Closing.

SECTION 4.3. EMPLOYEE MATTERS.

(a) As promptly as practicable after the execution of this Agreement, representatives of Buyer and Seller shall meet to identify employees of the Seller or any of its Affiliates (other than the Company or the LLC) who are not Business Employees and to whom Buyer and Seller agree that Buyer, the Company or any Affiliate of Buyer may make offers of employment (collectively, the "ADDITIONAL EMPLOYEES"). Buyer, the Company or any other Affiliate of Buyer (i) shall offer employment effective as of the Closing Date to each Business Employee, and (ii) may offer employment effective as of the Closing Date to each Additional Employee, in each case on such terms and conditions as Buyer may determine in its discretion, provided, however, that such terms and conditions shall be reasonable in relation to the terms and conditions upon which similarly situated employees of Buyer or one or more of its Affiliates are employed. Business Employees and Additional Employees who accept such offer of employment effective as of the Closing Date shall be referred to as "TRANSFERRED EMPLOYEES." The total number of Business Employees and Additional Employees that Seller will make

available to Buyer for employment will be no less than 492, and Buyer, the Company or any other Affiliate of Buyer will make offers to no fewer than 458 of such Persons. Buyer shall not initiate any contact with any of Seller, Company or LLC employees except for Business or Additional Employees. After the date hereof and prior to Closing, Seller shall afford, and shall cause the Company and the LLC and Seller's other Affiliates to afford, to Buyer or its Affiliates reasonable access to the Additional Employees for the purpose of enabling Buyer and its Affiliates to determine to which of such employees it desires to extend offers of employment.

(b) Effective as of the Closing Date, Seller shall take, or shall cause the Company and the LLC to take, all necessary action to effect the cessation of, and withdrawal from, participation by the Company and the LLC in any Employee Plan which is not a Company Plan ("SELLER PLAN") and Transferred Employees shall cease active participation in any Seller Plan as of such date.

(c) Each Transferred Employee shall, without duplication of benefits, be given credit for all service with Seller prior to the Closing Date, using the same methodology used by Seller as of the date hereof for crediting service and determining levels of benefits (i) under all employee benefit plans, programs and arrangements maintained by or contributed to by the Buyer, the Company or another Affiliate of Buyer in which the Transferred Employees become participants for purposes of eligibility to participate, vesting and determination of level of benefits (excluding, however, benefit accrual or subsidies under any defined benefit plans), and (ii) for purposes of calculating the amount of each Transferred Employee's severance benefits, if any.

(d) With respect to the plan year during which the Closing Date occurs, Buyer will, or will cause its appropriate Affiliate to, (i) waive all limitations as to preexisting conditions exclusions and waiting periods with respect to participation and coverage requirements applicable to the Transferred Employees under any medical, dental and life insurance benefit plans that such employees may be eligible to participate in after the Closing Date, other than limitations or waiting periods that are already in effect with respect to such employees and that have not been satisfied as of the Closing Date under any welfare plan maintained for the Transferred Employees immediately prior to the Closing Date, and (ii) provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans that such employees are eligible to participate in after the Closing Date. Buyer will also ensure that Transferred Employees and their dependents who have commenced orthodontia treatment prior to the Closing Date receive at least the same level of benefit coverage for such treatment as they would have received if they had remained employed by Seller.

(e) Transferred Employees who are otherwise eligible for early retirement under the Williams Pension Plan as of the Closing Date shall be permitted to retire and commence receipt of benefits notwithstanding their continued employment with the Company, the Buyer or any Affiliate of Buyer.

(f) On or as soon as practicable after the Closing Date, Seller shall cause the assets of the Union Pension Plan held under a Seller master trust to be transferred to a trust established or maintained by Buyer, the Company or any other Affiliate of Buyer. Such transfer

shall be made within one business day after any valuation date of Seller's master trust and shall be made in cash, marketable securities or other property acceptable to Buyer.

(g) Effective as of the Closing Date, Transferred Employees shall become fully vested in their account balances in any defined contribution or 401(k) Plan maintained by Seller on behalf of such Transferred Employees (the "SELLER SAVINGS PLAN") and distributions of such account balances shall be made available to such Transferred Employees as soon as practicable following the Closing Date, in accordance with, the provisions of Seller Savings Plan and applicable law. Thereafter, Buyer shall accept, or shall cause the Company or the appropriate Affiliate of Buyer to accept, rollover contributions from Seller Savings Plan into a defined contribution or 401(k) Plan maintained by Buyer, the Company or another Affiliate of Buyer (the "BUYER SAVINGS PLAN") of the account balances distributed to the Transferred Employees from Seller Savings Plan in accordance with the provisions of the Buyer Savings Plan and applicable law. Such rollovers shall be made in cash and other property acceptable to Buyer.

(h) Effective as of the Closing Date, Buyer shall assume, or shall cause the Company or another Affiliate of Buyer to assume, Seller's obligation for providing retiree medical benefits to employees who are represented by Local No. 647, International Union of Operating Engineers, AFL-CIO ("UNION EMPLOYEES") or former Union Employees. On or as soon as practicable after the Closing Date, Seller shall cause to be transferred from Seller's VEBA trust to a VEBA trust established or maintained by Buyer, the Company or another Affiliate of Buyer assets attributable to current and former Union Employees. Such transfer shall be made in cash, marketable securities or other property acceptable to Buyer.

(i) Effective as of the Closing Date, Buyer shall assume, or shall cause the Company or another Affiliate of Buyer to assume, Seller's liabilities and obligations for providing retiree medical benefits to Transferred Employees who are not Union Employees ("SALARIED EMPLOYEES") and who as of the Closing Date are not eligible to retire under Seller's retiree medical benefit plan. Seller shall retain all liabilities and obligations for retiree medical benefits for Salaried Employees who as of the Closing Date are eligible to retire under Seller's retiree medical benefits plan and for retired or former Business Employees.

(j) Seller shall be responsible for any continuation of group health coverage required under Section 4980B of the Code or Sections 601 through 608 of ERISA with respect to any Business Employee or any "QUALIFIED BENEFICIARY" (as defined in Section 4980B of the Code) of any such employee who incurs a "QUALIFYING EVENT" (as defined in Section 4980B of the Code) on or prior to the Closing Date. Buyer, the Company or the appropriate Affiliate of Buyer shall be responsible for any continuation of group health coverage required under Section 4980B of the Code or Sections 601 through 608 of ERISA with respect to any Transferred Employee or any "QUALIFIED BENEFICIARY" (as defined in Section 4980B of the Code) who incurs a "QUALIFYING EVENT" (as defined in Section 4980B of the Code) after the Closing Date.

(k) Buyer and Seller agree to cooperate as necessary to effectuate the provisions of this Section 4.3 and to ensure an orderly transition of benefits coverage with respect to the Transferred Employees from the Seller Plans to the appropriate plans established by Buyer, the Company or another Affiliate of Buyer, including, without limitation, coverage with respect to Seller's educational assistance plan and Seller's Code Section 125 plan.

(l) Each Transferred Employee shall, without duplication of benefits, be given credit for all accrued but unused paid-time-off under Seller's paid-time-off program as of the Closing Date, using the same methodology used by Seller immediately prior to the Closing Date for crediting service and determining the amount of such paid time-off benefits.

(m) If Buyer, the Company or another Affiliate of Buyer terminates the employment of a Transferred Employee who is a Salaried Employee at any time between the Closing Date and the first anniversary of the Closing Date, Buyer shall provide, or shall cause the Company or such other Affiliate of Buyer, as appropriate, to provide, such Transferred Employee with a severance benefit equal to the greater of (i) the benefit provided under the applicable plan or program of Buyer, the Company or another Affiliate of Buyer and (ii) a sum equal to two weeks of pay for every year of service with a minimum of six weeks and a maximum of fifty-two weeks total severance benefit. Notwithstanding the foregoing, in no event shall such an employee be entitled to severance if such employee is terminated for cause, as defined under the terms of Seller's severance plan or program as in effect on the date hereof ("SELLER'S SEVERANCE PLAN"), a copy of which has been provided to Buyer, or if such employee would not otherwise be entitled to severance under the terms of Seller's Severance Plan, including, without limitation, by reason of the employee's failure to provide a release to the Company.

(n) Except as otherwise expressly provided in this Section 4.3, Seller shall retain all liabilities and obligations under Seller's Plans.

(o) Nothing in this Agreement shall limit Buyer's right to terminate the employment of any employee at any time or, except as provided in paragraph (m) above, amend or terminate any employee benefit plan or arrangement.

SECTION 4.4. CONSENTS AND APPROVALS.

(a) Seller and Buyer shall each use all commercially reasonable efforts to obtain, or in the case of Seller, cause the Company and the LLC to obtain, all necessary consents, waivers, authorizations and approvals of all Governmental Authorities, and of all other persons required in connection with the execution, delivery and performance by them of this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such authorizations, consents, orders, and approvals, giving such notices, and making such filings. To the extent required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR ACT"), each Party shall (i) file or cause to be filed, as promptly as practicable but in no event later than the tenth business day after the execution and delivery of this Agreement, with the Federal Trade Commission and the United States Department of Justice, all reports and other documents required to be filed by such Party under the HSR Act concerning the transactions contemplated hereby and (ii) promptly comply with or cause to be complied with any requests by the Federal Trade Commission or the United States Department of Justice for additional information concerning such transactions, in each case so that the waiting period applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall expire as soon as practicable after the execution and delivery of this Agreement. Each Party agrees to request, and to cooperate with the other Party in requesting, early termination of any applicable waiting period under the HSR Act.

(b) Without limiting the generality of Buyer's undertakings pursuant to Section 4.6, Buyer shall take promptly any or all of the following actions to the extent necessary to eliminate any concerns on the part of the Federal Trade Commission or the United States Department of Justice regarding the legality under any antitrust laws of Buyer's acquisition of the Shares and Membership Units: entering into negotiations, providing information, making proposals, entering into and performing agreements or submitting to judicial or administrative orders, holding separate (through the establishment of a trust or otherwise) particular assets or categories of assets, or businesses of the Company or the LLC, or agreeing to dispose of one or more assets or properties (whether owned by Buyer or its Affiliates or the Company or LLC) following the Closing; use commercially reasonable efforts (including taking the steps contemplated by Section 4.4(a)(i)) to prevent the entry in a judicial or administrative proceeding brought under any antitrust law by the Federal Trade Commission, the United States Department of Justice or any other party for a permanent or preliminary injunction or other order that would make consummation of the transactions contemplated by this Agreement unlawful or that would prevent or delay such consummation; and take promptly, in the event that such an injunction or order has been issued in such a proceeding, any and all reasonable steps, including the appeal thereof, the posting of a bond or the steps contemplated by Section 4.4(a)(i), necessary to vacate, modify, or suspend such injunction or order so as to permit such consummation on a schedule as close as possible to that contemplated by this Agreement.

(c) If the transfer of any instrument, contract, license, lease, permit, or other document to Buyer hereunder shall require the consent of any party thereto other than Seller, then this Agreement shall not constitute an agreement to assign the same, and such item shall not be assigned to or assumed by Buyer, if an actual or attempted assignment thereof would constitute a breach thereof or default thereunder. In such case, Seller and Buyer shall cooperate and each shall use commercially reasonable efforts to obtain such consents to the extent required of such other parties and, if and when any such consents are obtained, to transfer the applicable instrument, contract, license, lease, permit, or other document. If any such consent cannot be obtained, Seller shall cooperate in any reasonable arrangement designed to obtain for Buyer all benefits, privileges, obligations and privileges of the applicable instrument, contract, license, lease, permit, or document, including, without limitation, possession, use, risk of loss, potential for gain and dominion, control and demand. Without the express written consent of Seller, Buyer shall not commence proceedings to bring in any partner or operator or take any other action prior to Closing, the effect of which would add any additional regulatory or other approvals by any Governmental Authority or delay the Closing in any way.

SECTION 4.5. FURTHER ASSURANCES.

Upon the request of Buyer at any time after the Closing Date, Seller will promptly execute and deliver such further instruments of assignment, transfer, conveyance, endorsement, direction or authorization and other documents as the requesting party or parties or its or their counsel may reasonably request in order to perfect title of Buyer and its successors and assigns to the Shares and the Membership Units or otherwise to effectuate the purposes of this Agreement.

SECTION 4.6. REASONABLE EFFORTS.

Upon the terms and subject to the conditions of this Agreement, each of the parties hereto will use all commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable consistent with applicable law to consummate and make effective in the most expeditious manner practicable the transactions contemplated hereby.

SECTION 4.7. NOTICE OF BREACH.

Buyer shall promptly give to Seller written notice with particularity upon having knowledge of any matter that would constitute a breach of any representation, warranty, agreement or covenant contained in this Agreement, including, without limitation, Seller's representations in Article II. Seller shall have the right prior to the Closing to supplement the Disclosure Schedule with respect to any matter which would have been required to be set forth on or described in such Disclosure Schedule (a "DISCLOSURE SCHEDULE UPDATE"). Any such supplemental disclosure will not be deemed to have been disclosed as of the date of this Agreement for purposes of determining whether the conditions set forth in Article V have been satisfied, but, if the Closing occurs, such update shall be deemed to have cured any breach of representation, warranty, covenant or agreement relating to the matters set forth in such update for purposes of indemnification pursuant to Article VIII.

SECTION 4.8. CONFIDENTIAL INFORMATION.

For two years after the Closing, Seller and its Affiliates shall not, directly or indirectly, disclose to any person any information not in the public domain or generally known in the industry, in any form, whether acquired prior to or after the Closing Date, relating to the business and operations of the Company or the LLC. Notwithstanding the foregoing, Seller may disclose any information relating to the business and operations of the Company or the LLC (i) if required by law or applicable stock exchange rule, (ii) to other Persons in the conduct of Seller's or its Affiliates' other businesses, provided such disclosure is made in the ordinary course of business consistent with past practices or if not in the ordinary course of business consistent with past practices, such other Persons enter into a confidentiality agreement with Seller similar to the Confidentiality Agreement, and (iii) to such other Persons if, at the time such information is provided, such Person is already in the possession of such information.

SECTION 4.9. NEGOTIATIONS.

From and after the date hereof, neither Seller, the Company, the LLC nor their officers, directors, employees, affiliates, stockholders, representatives, agents, nor anyone acting on behalf of them shall, directly or indirectly, encourage, solicit, engage in discussions or negotiations with, or provide any information to, any Person (other than Buyer or its representatives) concerning any merger, sale of assets, purchase or sale of Shares or the Membership Units or similar transaction involving the Company or the LLC unless this Agreement is terminated pursuant to and in accordance with Article VII hereof.

SECTION 4.10. TAX COVENANTS.

(a) Seller shall prepare and timely file all Tax Returns relating to the Company or the LLC with the appropriate federal, state, local and foreign governmental agencies, and pay the Taxes shown to be due thereon, for which Tax Returns are due and Taxes are payable prior to the Closing Date. For periods ending on or prior to the Closing Date, but for which Tax Returns are not due and Taxes are not payable as of the Closing Date, Seller shall, no later than 15 days before the applicable due date, prepare and submit to Buyer for review, signature, and filing all such Tax Returns required to be filed by the Company or the LLC, and Seller shall timely pay the Taxes shown to be due thereon. Without limiting the foregoing, Seller specifically agrees to indemnify and hold Buyer harmless from and against any liability of the Company or the LLC for or in respect of any Taxes under Treasury Regulation Section 1.1502-6 (or any analogous or similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise, for any full or partial Tax period ending on or before the Closing Date. Buyer shall prepare and file all Tax Returns for taxable periods ending after the Closing Date and shall pay all Taxes shown to be due thereon; provided, that Seller shall reimburse Buyer for its allocable share of any Taxes attributable to Tax periods including the Closing Date and ending after the Closing Date ("STRADDLE PERIOD"). Buyer and Seller shall utilize appropriate methods to allocate liability for purposes of the preceding sentence, which appropriate methods shall include the following, without limitation: (i) for any transactional Taxes, including, without limitation, Taxes based on sales, revenue, or gross or net income, the allocation of liability between Seller and Buyer shall be determined using a closing-of-the-books method assuming that the applicable Tax period consists of two taxable periods, one ending at the close of the Closing Date and one beginning at the opening of the day after the Closing Date, and (ii) for any real estate Taxes or other property or asset-based Taxes, the allocation of liability between Seller and Buyer shall be based on the number of days the applicable asset was held by the Company or the LLC in the applicable Tax period prior to and including the Closing Date as compared to the number of days the applicable asset was held by the Company or the LLC in the applicable Tax period after the Closing Date.

(b) Seller will cause any tax sharing agreement or similar arrangement with respect to Taxes involving the Company or the LLC to be terminated effective as of the Closing Date, to the extent any such agreement or arrangement relates to the Company or the LLC, and after the Closing Date the Company and the LLC shall have no obligation under any such agreement or arrangement for any past, present or future period.

(c) All excise, sales, use, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the transactions contemplated by this Agreement (the "TRANSFER TAXES"), shall be borne by the party on which such Transfer Taxes are imposed by applicable law. Notwithstanding anything to the contrary in this Section 4.10, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by the party primarily or customarily responsible under the applicable local law for filing such Tax Returns, and such party will use reasonable commercial efforts to provide such Tax Returns to the other party at least 10 days prior to the due date for such Tax Returns. If such a Tax Return is not timely filed, any interest and penalties incurred as a result shall be the responsibility of the

filing party. In the event that any dispute between the parties concerning the form or content of such Tax Returns cannot be timely resolved prior to their due date through good-faith negotiation, the determination of the party liable for the applicable Transfer Taxes shall be controlling.

(d) If the Buyer elects and is qualified to do so, Buyer and Seller shall make an election under section 338(h)(10) of the Code (and any comparable election under state, local or foreign tax law) ("SECTION 338(h)(10) ELECTION") with respect to the acquisition of the Company by Buyer. Buyer and Seller shall cooperate fully with each other in the making of such election. In particular, Buyer shall be responsible for the preparation and filing of all tax returns and forms (the "SECTION 338 FORMS") required under applicable tax law to be filed in connection with making the Section 338(h)(10) Election. Seller shall deliver to Buyer no later than 45 days prior to the date the Section 338 Forms are required to be filed, such documents and other forms as reasonably requested by Buyer to properly complete the Section 338 Forms. Buyer and Seller shall allocate the Purchase Price in the manner required by Section 338 and Section 1060 of the Code and the Treasury Regulations promulgated thereunder, as applicable. Such allocations shall be used for purposes of determining the aggregate deemed sales price under the applicable Treasury Regulations and in reporting the deemed sale of assets of the Company in connection with the Section 338(h)(10) Elections. Buyer shall initially prepare a completed set of IRS Forms 8023 (and any comparable forms required to be filed under state, local or foreign tax law) and any additional data or materials required to be attached to Form 8023 pursuant to the Treasury Regulations promulgated under Section 338 of the Code. Buyer shall deliver said forms to Seller for review no later than 45 days prior to the date the Section 338 Forms are required to be filed. In the event Seller objects to the manner in which the Section 338 Forms have been prepared, Seller shall notify Buyer within 15 days of receipt of the Section 338 Forms of such objection, and the parties shall endeavor within the next 15 days in good faith to resolve such dispute. If the parties are unable to resolve such dispute within said 15 day period, Buyer and Seller shall submit such dispute to an independent accounting firm of recognized national standing (the "ALLOCATION ARBITER") selected by Buyer and Seller, which firm shall not be the auditor of the financial statements of either Buyer or Seller. Promptly, but not later than 15 days after its acceptance of appointment hereunder, the Allocation Arbiter will determine (based solely on presentations of Buyer and Seller and not by independent review) only those matters in dispute and will render a written report as to the disputed matters and the resulting preparation of the Section 338 Forms shall be conclusive and binding upon the parties. Seller shall be responsible for all federal income Taxes attributable to Company resulting from the Section 338(h)(10) Election. Seller shall be liable for any state, local or foreign Tax attributable to an election under the state, local or foreign law similar to the election available under Section 338(h)(10) of the Code. Buyer shall be responsible for and shall pay any income, franchise or similar taxes imposed by any state or local taxing authority as a result of any Section 338(g) election (or any comparable election under state law) if such state or local taxing authority does not allow or respect a Section 338(h)(10) Election (or any comparable or resulting election under state law) with respect to the purchase and sale of the shares of Company contemplated hereby.

(e) Seller and Buyer shall each provide the other with such assistance as may reasonably be requested by either of them in connection with the preparation of any Tax return, any audit or other examination by any Tax authority or any judicial or administrative proceeding with respect to Taxes, and each retain in accordance with its customary document retention

policies and provide the other with any records or other information which may be relevant to any such return, audit, examination or proceeding.

(f) Buyer shall, in the event that Buyer or, following the Closing Date, the Company or the LLC receives notice (whether orally or in writing) of any audit, examination or claim by any taxing authority with respect to Taxes for which Buyer or its Affiliates may be indemnified (a "TAX CLAIM"), promptly notify the Seller thereof, provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent that Seller has been actually prejudiced by such failure. Except in the case of Taxes imposed with respect to a Straddle Period, Seller shall have the right to contest, at its own expense, any Tax Claim, and shall be entitled to control any such contest, provided, however, that Seller shall not be entitled to settle or compromise any such contest without the consent of Buyer if such settlement or compromise could affect the tax liability of Buyer or any of its Affiliates for any period after the Closing. In the case of the contest of a Tax Claim with respect to any Straddle Period, Seller shall have the right to participate at its own expense in any such contest to the extent that the outcome could affect the liability of the Seller hereunder, and Buyer shall not settle any such contest in a manner that could affect the liability of the Seller without Seller's consent.

SECTION 4.11. INSURANCE, BONDS AND COLLATERAL.

(a) Prior to the Closing, Buyer shall use its reasonable best efforts to take such actions as may be necessary or appropriate so that all surety bonds, letters of credit, and cash collateral issued in respect of the Company or the LLC listed on Schedule 4.11 (collectively, the "SELLER'S BONDS") are released and replaced immediately after the Closing and Buyer shall take such actions as are necessary to replace and release all the Seller's Bonds not later than 30 days after the Closing Date by comparable surety bonds, letters of credit and cash collateral provided by Buyer or an Affiliate of Buyer (the "BUYER'S BONDS"). Seller shall use its commercially reasonable efforts to maintain the Bonds until they are released and replaced by Buyer. Buyer shall indemnify, defend and hold harmless Seller and its Affiliates for any and all Losses (in each case without deduction or set off) incurred on account of the Seller's Bonds on or after the Closing Date insofar as such Losses relate to events occurring after Closing.

(b) Seller agrees to pursue recovery under the applicable excess-liability insurance policies relating to claims made in connection with the explosion that is the subject of the Legal Proceeding described in Item III of Schedule 2.15 (KCP&L v. Bibb and Associates, et al.). Seller shall pay Buyer an amount equal to the amount of any recovery for monetary damages with respect to the claims for which Seller receives reimbursement from its excess liability carriers less any unreimbursed amounts incurred by Seller or its Affiliates in pursuing its recovery.

SECTION 4.12. INFORMATION TECHNOLOGY.

(a) The parties shall each designate representatives to a migration team ("IT MIGRATION TEAM") that shall be responsible for identifying the specific software and hardware, and agreements for the maintenance, support or service thereof, necessary for Buyer to continue operations of Company and the LLC in the manner in which they operate as of the Closing Date,

including any software listed on Schedule 2.12 ("IT ASSETS"). The IT Migration Team shall also be responsible for developing a detailed plan to include cost estimates and timetables for: conversion and loading of existing Company and LLC data, integration of the IT Assets into Buyer's or its Affiliate's information technology systems and transfer or replacement of IT Asset licenses and maintenance agreements not currently held in Company's or the LLC's name and any post-closing transitional services required by Buyer, the Company or the LLC ("IT MIGRATION PLAN"). The Migration Team shall complete the preparation of the IT Migration Plan no later than 45 days after execution of this Agreement. The IT Migration Team then promptly shall begin the pre-Closing implementation of the IT Migration Plan in order for the parties to be in a position to complete the post-Closing transfer, conversion and loading of the Company and LLC data from Seller to Buyer or Buyer's designated Affiliates, all in accordance with the IT Migration Plan. The time for completion and execution of the IT Migration Plan shall be referred to as the "IT MIGRATION PERIOD." The respective rights, benefits and obligations of the parties, their Affiliates and the Company and the LLC addressed in the IT Migration Plan, including the provision of various services and products by Seller and its Affiliates to Buyer, the Company and the LLC for the respective post-Closing transition period specified for such services or products in the IT Migration Plan, will be set forth in an agreement to be substantially in the form of the Transition Services Agreement attached as Exhibit 4.12 to be executed and delivered by Seller, Parent and Buyer prior to Closing (the "TRANSITION SERVICES AGREEMENT").

(b) On or before the expiration of the IT Migration Period and in accordance with the IT Migration Plan, Seller shall, and shall cause its Affiliates to either: (i) assign to Buyer, Company or the LLC all of their respective right, title and interest in the IT Assets, including license and contract rights, and secure any consents necessary for such assignment; (ii) with respect to license and software rights that, in accordance with the IT Migration Plan, are to be retained by Seller and its Affiliates during the IT Migration Period, secure any consents necessary for the use by the Seller and its Affiliates of the IT Assets on behalf of the Company or Buyer during the IT Migration Period; or (iii) obtain for the Buyer or its designated Affiliate, on commercially reasonable terms and at Buyer's expense, comparable replacements for any IT Assets not assigned pursuant to (i) above. Fees for license transfers or comparable replacements shall be borne by Buyer. Costs related to Seller's employees and contractors involved in the preparation and implementation of the IT Migration Plan shall be borne by Seller, and costs related to Buyer's employees and contractors involved in the preparation and implementation of the IT Migration Plan shall be borne by Buyer.

SECTION 4.13. SOFTWARE LICENSE.

Effective upon the Closing Date, Seller, for itself and on behalf of its Affiliates, hereby grants to Company, the LLC, Buyer and its Affiliates, a nonexclusive royalty-free, perpetual license, without right to sublicense, to use, copy, modify, enhance, and upgrade, solely for their internal business purposes and not as a service bureau, all computer software owned by the Seller and/or its Affiliates which is used in connection with the business of Company as conducted as of the Closing Date ("LICENSED SOFTWARE"). Any copies of the Licensed Software and any documentation related thereto must contain all copyright and other intellectual property rights notices included thereon. Except as may be expressly provided in the Transition Services Agreement, the Company, the LLC and Buyer shall not be entitled to receive and Seller and its Affiliates shall have no obligation to provide any modifications, enhancements, or upgrades

made to the Licenses Software developed subsequent to the Closing Date. Ownership of all intellectual property rights in the Licensed Software remains with Seller and its Affiliates. Buyer agrees, and agrees to cause its Affiliates, not to take any action inconsistent with Seller's and its Affiliates rights in the Licensed Software. All rights not expressly granted herein to Company, the LLC and Buyer are retained by Seller and its Affiliates. Except as otherwise expressly provided in this section, the Licensed Software and any related documentation are provided on an "AS IS" basis. Seller and its Affiliates hereby expressly disclaim any implied warranty of merchantability or fitness for a particular purpose. Seller and its Affiliates do not warrant that the Licensed Software or documentation are error-free or that Company's, the LLC's or Buyer's use thereof will be uninterrupted. Seller and Buyer acknowledge that Buyer and its Affiliates have the right to transfer to a third party any rights in the foregoing upon the sale or transfer of all or substantially all of the assets of Buyer or any of its Affiliates. All rights not expressly granted to Buyer and its Affiliates are retained by Seller and its Affiliates.

SECTION 4.14. NON-SOFTWARE COPYRIGHT LICENSE.

Effective upon the Closing Date, Seller, for itself and on behalf of its Affiliates, hereby grants to Company, the LLC, Buyer and its Affiliates, a nonexclusive royalty-free, perpetual license, without right to sublicense, to use, copy, modify, enhance, and upgrade, solely for their internal business purposes and not as a service bureau, all manuals, user guides, standards and operation procedures and similar documents owned by Seller and/or its Affiliates and used by Company or the LLC. All copies of the foregoing must reproduce and include all copyright and other intellectual property rights notices provided by Seller. Seller and Buyer acknowledge that Buyer and its Affiliates have the right to transfer to a third party any rights in the foregoing upon the sale or transfer of all or substantially all of the assets of Buyer or any of its Affiliates. All rights not expressly granted to Buyer and its Affiliates are retained by Seller and its Affiliates.

SECTION 4.15. TRANSITIONAL TRADEMARK LICENSE.

Effective upon the Closing Date, Seller and Seller's affiliates, hereby grant to Company, LLC and Buyer a nonexclusive, nontransferable, royalty-free license, without right to sublicense, to use, solely in Company's and LLC's businesses as they are presently conducted, any and all trademarks, service marks, and trade names owned by the Sellers and Seller's affiliates solely to the extent appearing on existing inventory, advertising materials and property of the Company or the LLC (such as signage, vehicles, and equipment) (collectively "SELLER'S MARKS") for a period of six (6) months from the Closing Date ("LICENSE PERIOD"). The Buyer, Company and LLC may use such existing inventory, advertising materials and property during the License Period, but shall not create new inventory, advertising materials or property using Seller's Marks. Buyer, Company and LLC shall promptly replace or remove Seller's Marks on inventory, advertising materials and Property, provided that all such use shall cease no later than the end of the License Period. The nature and quality of all uses of Seller's Marks by Buyer, Company and LLC shall conform to Seller's existing quality standards. Immediately upon expiration of the License Period, the Buyer, Company and LLC shall cease all further use of Seller's Marks and shall adopt new trademarks, service marks, and trade names which are not confusingly similar to Seller's Marks. All rights not expressly granted in this section with respect to Seller's Marks are hereby reserved. In the event Buyer, Company or LLC breaches

the provisions of this section, Seller may immediately terminate the License Period upon fifteen (15) days written notice.

SECTION 4.16. AUDIT OR REVIEW OF FINANCIAL STATEMENTS.

Seller will cooperate with Ernst & Young, LLP, the independent auditors chosen by Buyer and its Affiliates, in connection with their audit of any annual financial statements of the Company and the LLC that Buyer or any of its Affiliates requires to comply with Regulations S-X and S-K, and their review of any interim quarterly financial statements of the Company and the LLC that Buyer or any of its Affiliates requires to comply with the reporting requirements of the Securities and Exchange Commission (the "SEC") set forth in Regulations S-K and S-X, but in no event shall Seller be required pursuant to this Section 4.16 to cooperate with respect to more than three (3) years of such annual financial statements of the Company and the LLC. Seller's cooperation will include (i) such access to Seller's employees who were responsible for preparing the financial statements and to workpapers and other supporting documents used in the preparation of the financial statements as may be required by such auditors to perform an audit in accordance with generally accepted auditing standards, (ii) delivery of one or more customary representation letters from Seller to such auditors that are requested by Buyer or any of its Affiliates to allow such auditors to complete an audit (or review of any interim quarterly financials), and to issue an opinion that in such Buyer Affiliate's experience is acceptable to the SEC with respect to an audit or review of those financial statements required pursuant to Section 4.16, (iii) cooperation with Buyer and its Affiliates to obtain any necessary consents from Ernst & Young, LLP to the use of the financial statements in any filings Buyer or any of its Affiliates is required to make pursuant to the Securities Act of 1933, as amended ("SECURITIES ACT") or the Securities and Exchange Act of 1934 and to cooperate in seeking to obtain any related comfort letters from Ernst & Young, LLP; Buyer will reimburse Seller for any reasonable overhead costs with respect to the preparation of the financial statements. Buyer or its appropriate Affiliate will be responsible for any fees due to Ernst & Young LLP for preparing the financial statements.

SECTION 4.17. TERMINATION OF CERTAIN RELATED PARTY CONTRACTS.

Effective as of the Closing Date, except as otherwise provided in Schedule 4.17, Seller shall have terminated, or caused the Company, the LLC and Seller's other Affiliates to terminate, all contracts, commitments and agreements (including employment relationships and leases of Real Property) between Seller or any of its Affiliates (other than the Company and the LLC), on the one hand, and the Company or the LLC, on the other hand. Seller shall be solely liable for any contractual or other claims, express or implied, arising out of the termination, cancellation and elimination of any of the foregoing.

SECTION 4.18. OWENSBORO EMPLOYMENT BASE

Buyer agrees that until the first anniversary of the Closing Date, Buyer will maintain, or will cause the Company to maintain an employment base in the Company's present Owensboro, KY, headquarters, of not less than ninety percent (90%) of the Transferred Employees then employed in Owensboro, KY.

SECTION 4.19. MINIMUM STOCKHOLDER'S EQUITY

During the period commencing upon the termination of Buyer's Guaranty and ending on the third anniversary of the Closing, Buyer shall maintain a stockholder's equity of not less than $ 175 million, calculated in accordance with RAP.

ARTICLE V
CONDITIONS TO OBLIGATIONS OF BUYER

The obligations of Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by Buyer in its sole discretion:

SECTION 5.1. RECEIPT OF DOCUMENTS.

Seller shall have delivered, or be standing ready to deliver, to Buyer:

(a) a duly executed Stock Transfer and a duly executed Bill of Sale dated the Closing Date;

(b) any documents Buyer may reasonably require relating to the existence of Seller, the Company, the LLC and the authority of Seller, the Company and the LLC and their respective members or shareholders for this Agreement and the Transaction Documents, all in form and substance reasonably satisfactory to Buyer;

(c) the books of account, minute books, stock ledgers and Organizational Documents of the Company and the LLC and the employee records (or copies thereof) relating to the Transferred Employees;

(d) a properly executed statement, dated as of the Closing Date, in form and substance reasonably acceptable to Buyer conforming to the requirements of Treasury Regulation Section 1.1445-2(b)(2), and any other certificate or similar documents reasonably requested by Buyer that may be required by any relevant Tax authority in order to relieve Buyer of any obligation to withhold any portion of the Purchase Price; and

(e) if requested by Buyer, duly executed letters of resignation from any or all of the officers, directors and managers of the Company and the LLC, in a form reasonably acceptable to Buyer.

SECTION 5.2. REPRESENTATIONS AND WARRANTIES OF SELLER.

All representations and warranties made by Seller in this Agreement shall be true and correct (i) as of the date hereof and (ii) on and as of the Closing Date as if again made by Seller on and as of such date, except for such breaches as would not individually or in the aggregate have a Material Adverse Effect, and Buyer shall have received a certificate dated the Closing Date and signed by a senior executive officer of Seller to that effect.

SECTION 5.3. PERFORMANCE OF SELLER'S OBLIGATIONS.

Seller shall have performed all obligations required under this Agreement to be performed by it on or before the Closing Date except for such non-performance as would not have a Material Adverse Effect, and Buyer shall have received a certificate dated the Closing Date and signed by a senior executive officer of Seller to that effect.

SECTION 5.4. CONSENTS AND APPROVALS.

The consents, waivers, authorizations and approvals set forth on Schedule 2.6 shall have been duly obtained and shall be in full force and effect on the Closing Date. All applicable waiting periods under the HSR Act shall have expired or been terminated.

SECTION 5.5. NO VIOLATION OF ORDERS.

No preliminary or permanent injunction or other order issued by any Governmental Authority, which declares this Agreement or any of the Transaction Documents invalid or unenforceable in any respect or which prevents the consummation of the transactions contemplated hereby or thereby shall be in effect; and no action or proceeding before any Governmental Authority shall have been instituted by a Governmental Authority or other person or threatened by any Government Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or any of the Transaction Documents or which challenges the validity or enforceability of this Agreement or any of the Transaction Documents.

SECTION 5.6. TRANSITION SERVICES AGREEMENT; LITIGATION COOPERATION AGREEMENT.

The parties shall have executed and delivered prior to Closing a Transition Services Agreement (which shall provide that it shall last for six months, except for services relating to billing, the electronic bulletin board and use of the main frame computer which may last for up to one year from Closing), and a Litigation Cooperation Agreement with respect to (A) Will Price and Stixon Petroleum v. Williams et al., Case No. 99C30, in the Twenty-sixth Judicial District, District Court, Stevens County, Kansas, Civil Department (a/k/a Quinique), and any action containing the same or substantially similar allegations arising out of or related to the actions of the Company prior to the Closing Date; and (B) In Re: Natural Gas Royalties Qui Tam Litigation, MDL Docket No. 1293, United States District Court, District of Wyoming (consolidated matter that includes United States of America ex rel. Jack J. Grynberg v. Williams Natural Gas Company, et al. Civil Action No. 97-D-1428, United States District Court, District of Colorado), and any action containing the same or substantially similar allegations arising out of or related to the actions of the Company prior to the Closing Date, each in form and substance reasonably acceptable to Buyer and Seller and providing only for reasonable cooperation of Seller in the defense of any such actions.

SECTION 5.7. INTENTIONALLY OMITTED.

SECTION 5.8. OPINION OF COUNSEL TO SELLER.

Buyer shall have received a favorable opinion, dated as of the Closing Date, from Andrews and Kurth, L.L.P., counsel to Seller and Parent in form and substance reasonably satisfactory to Seller, including, without limitations, with respect to the enforceability of the Guaranty

SECTION 5.9. FAIRNESS OPINION.

Seller shall have received, and delivered to Buyer a true and complete copy of, the opinion of J.P. Morgan Securities Inc. to the effect that, as of the Closing Date, the Purchase Price, as adjusted, is fair, from a financial point of view, to Seller.

ARTICLE VI
CONDITIONS TO OBLIGATIONS OF SELLER

The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by Seller in their sole discretion:

SECTION 6.1. REPRESENTATIONS AND WARRANTIES OF BUYER.

All representations and warranties made by Buyer in this Agreement shall be true and correct on and as of the Closing Date as if again made by Buyer on and as of such date, except for such breaches as would not have a material adverse effect on Buyer's ability to perform its obligations under this Agreement, and Seller shall have received a certificate dated the Closing Date and signed by a senior executive officer of Buyer to that effect.

SECTION 6.2. PERFORMANCE OF BUYER'S OBLIGATIONS.

Buyer shall have performed all obligations required under this Agreement to be performed by it on or before the Closing Date except for such non-performance as would not have a material adverse effect on Buyer's ability to perform its obligations under this Agreement, and Seller shall have received a certificate dated the Closing Date and signed by a senior executive officer of Buyer to that effect.

SECTION 6.3. CONSENTS AND APPROVALS.

All consents, waivers, authorizations and approvals set forth on Schedule 3.4 shall have been duly obtained and shall be in full force and effect on the Closing Date. All applicable waiting periods under the HSR Act shall have expired or been terminated.

SECTION 6.4. NO VIOLATION OF ORDERS.

No preliminary or permanent injunction or other order issued by any Governmental Authority, that declares this Agreement invalid or unenforceable in any respect or

which prevents the consummation of the transactions contemplated hereby shall be in effect; and no action or proceeding before any Governmental Authority, shall have been instituted by a Governmental Authority or other person or threatened by any Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement.

SECTION 6.5. PURCHASE PRICE.

Buyer shall have paid and delivered to Seller, or be standing ready to pay and deliver to Seller, the Purchase Price.

SECTION 6.6. OPINION OF COUNSEL OF BUYER

Seller shall have received a favorable opinion, dated as of the Closing Date, from counsel to Buyer and Buyer Parent in form and substance reasonably satisfactory to Seller including with limitations, with respect to the enforceability of the Guaranty.

ARTICLE VII
TERMINATION AND ABANDONMENT

SECTION 7.1. METHODS OF TERMINATION; UPSET DATE.

This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time before the Closing:

(a) by the mutual written consent of Seller and Buyer;

(b) by Seller, if Buyer fails to comply with any of its covenants or agreements contained herein, or breaches its representations and warranties contained herein, which failure to comply or breach (other than a breach or failure of compliance with the covenant in the last sentence of Section 4.4 (c), in which case, there is no thirty (30) day cure period) is not cured within 30 days after receipt by Buyer from Seller of written notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in a failure to satisfy the conditions to Closing set forth in Sections 6.1 and/or 6.2;

(c) by Buyer, if Seller fails to comply with any of its covenants or agreements contained herein, or breaches its representations and warranties contained herein, which failure to comply or breach is not cured within 30 days after receipt by Seller from Buyer of written notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in the failure to satisfy the conditions to Closing set forth in Sections 5.2 and/or 5.3;

(d) by Seller or Buyer, if a Governmental Authority shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their commercially reasonable efforts to lift), which permanently restrains, enjoins or otherwise prohibits the transactions contemplated by this Agreement and which order, decree, ruling or other action is not subject to appeal;

(e) by Seller or Buyer at any time after March 10, 2003; or

(f) by Seller at any time if the Closing has not occurred by the latest of (i) one business day after the HSR waiting period has expired, (ii) satisfaction of the conditions in (a) the first sentence of Section 5.4 and (b) Section 5.5, (iii) satisfaction by Seller of the conditions to the obligations of Buyer set forth in Article V that are to be satisfied by Seller (other than those conditions that by their nature are to be fulfilled by Seller at Closing, in which case, Seller shall be prepared to fulfill same), and (iv) the expiration of the period, if any, by which Seller delayed the Closing Date in accordance with Section 1.1(b).

SECTION 7.2. PROCEDURE UPON TERMINATION.

In the event of termination and abandonment of this Agreement pursuant to Section 7.1, written notice thereof shall forthwith be given to the other party hereto and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by Seller or Buyer. If this Agreement is terminated as provided herein, no party to this Agreement shall have any liability or further obligation to any other party to this Agreement except as provided in Sections 8.4, 8.6, 9.3, 9.4 and 9.11 hereof; provided, however, that no termination of this Agreement pursuant to this Article VII shall relieve any party of liability for a willful and material breach of any provision of this Agreement occurring before such termination.

ARTICLE VIII
SURVIVAL; INDEMNIFICATION

SECTION 8.1. SURVIVAL.

The representations and warranties of Seller contained herein or in any certificates or other documents delivered pursuant to this Agreement on the Closing and Seller's covenants in Section 4.1 hereof shall survive the Closing until 180 days following the Closing Date, provided however, that the representations and warranties set forth in Section 2.2 (Capitalization; Title), Section 2.4 (Validity of Agreement; Authorization), and Section 2.17 (Brokers) shall survive indefinitely, the representations and warranties set forth in Section 2.9 (Taxes) shall survive for a period equal to the applicable statute of limitations for each Tax and taxable year, the representations and warranties set forth in Section 2.18 (Employees; Employee Plans) shall survive until the first (1st) anniversary of the Closing Date, and the representations and warranties set forth in Section 2.20 (Environmental; Health and Safety Matters) shall survive until the second (2nd) anniversary of the Closing Date. The other terms of this Agreement and the agreements delivered in connection herewith shall survive the Closing.

SECTION 8.2. INDEMNIFICATION COVERAGE.

(a) From and after the Closing, Seller shall indemnify and defend, save and hold Buyer, the Company, the LLC and their Affiliates and each of their officers, directors, employees and agents (collectively, the "BUYER INDEMNIFIED PARTIES") harmless if any such Buyer Indemnified Party shall suffer any damage, judgment, fine, penalty, demand, settlement, liability,

loss, cost, Tax, expense (including reasonable attorneys', consultants' and experts' fees), claim or cause of action (each, a "LOSS") arising out of, relating to or resulting from:

(i) any breach or inaccuracy in any representation by Seller or the breach of any warranty by Seller contained in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing; and

(ii) any failure by Seller to perform or observe any term, provision, covenant, or agreement on the part of Seller to be performed or observed under this Agreement.

(b) From and after the Closing, Buyer shall indemnify and defend, save and hold Seller and its Affiliates and its and their officers, directors, employees and agents (collectively, the "SELLER INDEMNIFIED PARTIES") harmless if Seller Indemnified Parties shall suffer any Loss arising out of, relating to, or resulting from:

(i) any breach or inaccuracy in any representation by Buyer or the breach of any warranty by Buyer contained in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing;

(ii) any failure by Buyer to perform or observe any term, provision, covenant, or agreement on the part of Buyer to be performed or observed under this Agreement; and

(iii) any Losses arising with respect to the Company or the LLC whether occurring before or after Closing to the extent such Losses (x) cannot be properly asserted against Seller under Section 8.2(a) or otherwise by Buyer, except to the extent such Losses cannot be properly asserted against Seller because of limitations under Section 8.2(c), and (y) do not arise as a result of any other obligation of Seller to any Buyer Indemnified Party arising under this Agreement

(c) The foregoing indemnification obligations shall be subject to the following limitations:

(i) Seller's aggregate liability under Section 8.2(a) shall not exceed $25,000,000;

(ii) no indemnification for any Losses asserted against Seller under this Section 8.2 shall be required unless and until the cumulative aggregate amount of such Losses exceeds $5,000,000 (the "DEDUCTIBLE"), at which point Seller shall be obligated to indemnify the Buyer Indemnified Parties only as to the amount of such Losses in excess of the Deductible, subject to the limitation in Section 8.2(c)(i), provided however, that the Deductible shall not be applicable to breaches under Sections 1.2 and 1.3;

(iii) the amount of any Losses suffered by a Seller Indemnified Party or a Buyer Indemnified Party, as the case may be (such party seeking

indemnification, the "INDEMNIFIED PARTY," and the other party, the "INDEMNIFYING PARTY") shall be reduced by any third-party insurance or other indemnification benefits which such party receives in respect of or as a result of such Losses. If any Losses for which indemnification is provided hereunder is subsequently reduced by any third-party insurance or other indemnification benefit or recovery, the amount of the reduction, shall be remitted to the Indemnifying Party;

(iv) any calculation of Losses for purposes of Article VIII hereof shall be net of any U.S. federal, state or local tax benefit to Seller Indemnified Party or Buyer Indemnified Party seeking indemnification pursuant to this Article VIII hereof, as the case may be (such party seeking indemnification, the "INDEMNIFIED PARTY", and the other party, the "INDEMNIFIED PARTY");

(v) no claim may be asserted nor may any action be commenced against Seller for breach or inaccuracy of any representation or breach of a warranty, unless written notice of such claim or action is received by Seller describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or action on or prior to the date on which the representation or warranty on which such claim or action is based ceases to survive as set forth in Section 8.1;

(vi) an Indemnified Party shall not be entitled under this Agreement to multiple recovery for the same Losses; and

(vii) the limitations on indemnification set forth in clauses (i) and (ii) of Section 8.2(c) shall not apply to any Losses arising from any inaccuracy or breach of Section 2.2, the failure by Seller or Buyer to pay any Taxes in accordance with Section 4.10 or for any amounts payable in accordance with Section 9.3 hereof.

SECTION 8.3. PROCEDURES.

Any Indemnified Party shall notify the Indemnifying Party (with reasonable specificity) promptly after it becomes aware of facts supporting a claim or action for indemnification under this Article VIII, and shall provide to the Indemnifying Party as soon as practicable thereafter all information and documentation necessary to support and verify any Losses associated with such claim or action. Subject to Section 8.2(c)(iv), the failure to so notify or provide information to the Indemnifying Party shall not relieve the Indemnifying Party of any liability that it may have to any Indemnified Party, except to the extent that the Indemnifying Party is materially prejudiced by the Indemnified Party's failure to give such notice, in which case the Indemnifying Party shall be relieved from its obligations hereunder to the extent of such material prejudice. The Indemnifying Party shall have the right, exercisable by written notice to the Indemnified Party within ten days after receipt of notice from the Indemnified Party of the commencement of or assertion of any claim or action, suit or proceeding by a third party in respect of which indemnity may be sought hereunder, to participate in and defend, contest or otherwise protect the Indemnified Party against any such claim, action, suit or proceeding with counsel of the Indemnifying Party's choice (which counsel shall be reasonably satisfactory to the

Indemnified Party) at its sole cost and expense; provided, however, that (i) the Indemnifying Party expressly agrees in such notice that, as between the Indemnifying Party and the Indemnified Party, solely the Indemnifying Party shall be obligated to satisfy and discharge such claim; (ii) such claim does not include a request or demand for injunctive or other equitable relief by a Governmental Authority and (iii) the Indemnifying Party makes reasonably adequate provision to assure the Indemnified Party of the ability of the Indemnifying Party to satisfy the full amount of any adverse monetary judgment that is reasonably likely to result and continues to make such assurances; and, provided, further, that the Indemnifying Party shall not make any settlement or compromise without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed) unless the sole relief provided is monetary damages that are paid in full by the Indemnifying Party. The Indemnified Party shall have the right, but not the obligation, to participate at its own expense in the defense thereof by counsel of the Indemnified Party's choice and shall in any event shall use its reasonable best efforts to cooperate with and assist the Indemnifying Party. If the Indemnifying Party fails timely to defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding in accordance herewith, the Indemnified Party shall have the right to do so, including, without limitation, the right to make any compromise or settlement thereof, and the Indemnified Party shall be entitled to recover the entire cost thereof from the Indemnifying Party, including, without limitation, reasonable attorneys' fees, disbursements and amounts paid as the result of such suit, action, investigation, claim or proceeding.

SECTION 8.4. WAIVER OF CONSEQUENTIAL, ETC. DAMAGES.

Notwithstanding anything to the contrary in this Agreement, Buyer shall not be liable to any of the Seller Indemnified Parties, nor shall Seller be liable to any of the Buyer Indemnified Parties, for any exemplary, punitive, SPECIAL, INDIRECT, CONSEQUENTIAL, REMOTE, or speculative damages (including, without limitation, any damages on account of lost profits or OPPORTUNITIES) or resulting from or arising out of this Agreement or the transactions contemplated hereby.

SECTION 8.5. COMPLIANCE WITH EXPRESS NEGLIGENCE RULE.

All releases, disclaimers, limitations on liability, and indemnities in this Agreement, including those in this Article VIII, shall apply even in the event of the sole, joint, and/or concurrent negligence, strict liability, or other fault of the party whose liability is released, disclaimed, limited, or indemnified.

SECTION 8.6. LIQUIDATED DAMAGES.

If Seller terminates this Agreement as provided in Section 7.1 (b) or 7.1(f), then Buyer shall pay to Seller a sum equal to Fifty-Five Million Five Hundred Thousand Dollars ($55,500,000.00) by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by Seller not later than three days following receipt of such designation. BUYER HEREBY ACKNOWLEDGES THAT (1) THE EXTENT OF DAMAGES TO SELLER CAUSED BY THE FAILURE OF THIS TRANSACTION TO BE CONSUMMATED WOULD BE IMPOSSIBLE OR EXTREMELY DIFFICULT TO ASCERTAIN (2) THE AMOUNT OF THE LIQUIDATED DAMAGES PROVIDED FOR IN

THIS SECTION 8.6 IS A FAIR AND REASONABLE ESTIMATE OF SUCH DAMAGES UNDER THE CIRCUMSTANCES AND (III) RECEIPT OF SUCH AMOUNT BY SELLER DOES NOT CONSTITUTE A PENALTY AND WILL BE SELLER'S SOLE AND EXCLUSIVE REMEDY FOR ANY SUCH TERMINATION OF THIS AGREEMENT.

SECTION 8.7. REMEDY.

Except for seeking equitable relief, from and after the Closing the sole remedy of a party in connection with (i) a breach or inaccuracy of the representations, or breach of warranties, in this Agreement or any certificates or other documents delivered pursuant to this Agreement on Closing, or (ii) any failure by a party to perform or observe any term, provision, covenant, or agreement on the part of such party to be performed or observed under this Agreement, shall, in each case, be as set forth in this Article VIII.

SECTION 8.8. TAX TREATMENT OF INDEMNITY PAYMENTS.

Each party, to the extent permitted by applicable law, agrees to treat any payments made pursuant to this Article VIII as adjustments to the Purchase Price for all federal and state income and franchise Tax purposes.

ARTICLE IX
MISCELLANEOUS PROVISIONS

SECTION 9.1. PUBLICITY.

Concurrently with the execution of this Agreement, each party shall have the right to issue a press release to announce this transaction. Thereafter, on or prior to the Closing Date, neither party shall, nor shall it permit its Affiliates to, issue or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby without the consent of the other party hereto. Notwithstanding the foregoing, in the event any such press release or announcement is required by law or stock exchange rule to be made by the party proposing to issue the same, such party shall use its reasonable best efforts to consult in good faith with the other party prior to the issuance of any such press release or announcement.

SECTION 9.2. SUCCESSORS AND ASSIGNS; NO THIRD-PARTY BENEFICIARIES.

This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and permitted assigns. Neither party shall assign or delegate any of the obligations created under this Agreement without the prior written consent of the other party; provided that, without the consent of Seller, Buyer may assign all of its rights and obligations under this Agreement to any of its Affiliates; and provided further, that, without the consent of Seller, Buyer may collaterally assign its rights and benefits under this Agreement to any lenders providing financing to Buyer or any of its Affiliates in connection with this Agreement to secure loans to be made by such lenders to Buyer or any of its Affiliates. Except as contemplated by Article VIII, nothing in this Agreement shall confer upon any Person not a party (or an Affiliate of a party) to this Agreement, or the legal representatives of such Person, any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

SECTION 9.3. INVESTMENT BANKERS, FINANCIAL ADVISORS, BROKERS AND FINDERS.

(a) Seller shall indemnify and agrees to defend and hold the Buyer Indemnified Parties harmless against and in respect of all claims, losses, liabilities and expenses which may be asserted against any Buyer Indemnified Party by any broker or other person who claims to be entitled to an investment banker's, financial advisor's, broker's, finder's or similar fee or commission in respect of the execution of this Agreement or the consummation of the transactions contemplated hereby, by reason of his acting at the request of Seller, any Affiliate of Seller, the LLC or the Company.

(b) Buyer shall indemnify and agrees to save and hold the Seller Indemnified Parties harmless against and in respect of all claims, losses, liabilities, fees, costs and expenses which may be asserted against any Seller Indemnified Party (or any Affiliate of Seller) by any broker or other person who claims to be entitled to an investment banker's, financial advisor's, broker's, finder's or similar fee or commission in respect of the execution of this Agreement or the consummation of the transactions contemplated hereby, by reason of his acting at the request of Buyer.

SECTION 9.4. FEES AND EXPENSES.

Except as otherwise expressly provided in this Agreement, all legal, accounting and other fees, costs and expenses of a party hereto incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees, costs or expenses; provided, however that Seller shall be solely responsible for all legal, accounting and other fees, costs and expenses incurred by Seller, the Company and the LLC. Buyer shall bear the costs of HSR Act filing fees.

SECTION 9.5. NOTICES.

All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if delivered personally or sent by overnight courier or sent by facsimile (with evidence of confirmation of receipt) to the parties at the following addresses:

(a) If to Buyer, to:

Southern Star Central Corp.
c/o AIG Highstar Capital, L.P.
175 Water Street, 26th Floor
New York, New York 10038
Attn: Christopher Lee
Facsimile: with a copy (which shall not constitute notice) to:

Bingham McCutchen LLP
399 Park Avenue
New York, New York 10022

Attention: Craigh Leonard, Esq.
Facsimile: (212) 752-5378

(b) If to Seller, to:

Williams Gas Pipeline Company, LLC
One Williams Center
Tulsa, Oklahoma 74172
Attention: Mark D. Wilson
Facsimile: (918) 573-5540

with a copy (which shall not constitute notice) to:

The Williams Companies, Inc.
One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attention: James N. Cundiff
Facsimile: (918) 573-8051

or to such other Persons or at such other addresses as shall be furnished by either party by like notice to the other, and such notice or communication shall be deemed to have been given or made as of the date so delivered. No change in any of such addresses shall be effective insofar as notices under this Section 9.5 are concerned unless such changed address is located in the United States of America and notice of such change shall have been given to such other party hereto as provided in this Section 9.5.

SECTION 9.6. ENTIRE AGREEMENT.

This Agreement, together with the Transaction Documents and the exhibits and schedules hereto and thereto, and the Confidentiality Agreement represent the entire agreement and understanding of the parties with respect to the transactions contemplated herein and therein and no representations or warranties have been made in connection with the transactions contemplated hereby or thereby other than those expressly set forth herein or therein. This Agreement, together with the Transaction Documents and the exhibits and schedules hereto and thereto, and the Confidentiality Agreement supersede all prior negotiations, discussions, correspondence, communications, understandings and agreements between the parties relating to the subject matter of this Agreement, the Transaction Documents and the Confidentiality Agreement and all prior drafts of this Agreement, the Transaction Documents and the Confidentiality Agreement, all of which are merged into this Agreement, the Transaction Documents and the Confidentiality Agreement, respectively. No prior drafts of this Agreement, the Transaction Documents or the Confidentiality Agreement and no words or phrases from any such prior drafts shall be admissible into evidence in any action or suit involving this Agreement, the Transaction Documents or the Confidentiality Agreement.

SECTION 9.7. WAIVERS AND AMENDMENTS.

Seller or Buyer may, by written notice to the other: (a) extend the time for the performance of any of the obligations or other actions of the other; (b) waive any inaccuracies in the representations or warranties of the other contained in this Agreement or in any document delivered pursuant to this Agreement by the other party; (c) waive compliance with any of the covenants of the other contained in this Agreement; (d) waive performance of any of the obligations of the other created under this Agreement; or (e) waive fulfillment of any of the conditions to its own obligations under this Agreement or in any documents delivered pursuant to this Agreement by the other party. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach, whether or not similar, unless such waiver specifically states that it is to be construed as a continuing waiver. This Agreement may be amended, modified or supplemented only by a written instrument executed by the parties hereto.

SECTION 9.8. SEVERABILITY.

This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

SECTION 9.9. TITLES AND HEADINGS.

The Article and Section headings and any table of contents contained in this Agreement are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or of any term or provision hereof.

SECTION 9.10. SIGNATURES AND COUNTERPARTS.

Facsimile transmission of any signed original document and/or retransmission of any signed facsimile transmission shall be the same as delivery of an original. At the request of Buyer or Seller, the parties will confirm facsimile transmission by signing a duplicate original document. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

SECTION 9.11. ENFORCEMENT OF THE AGREEMENT.

The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereto, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 9.12. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the internal and substantive laws of New York and without regard to any conflicts of laws concepts which would apply the substantive law of some other jurisdiction.

SECTION 9.13. DISCLOSURE.

Certain information set forth in the Disclosure Schedules is included solely for informational purposes, is not an admission of liability with respect to the matters covered by the information, and may not be required to be disclosed pursuant to this Agreement. The specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Disclosure Schedules is not intended to imply that such amounts (or higher or lower amounts) are or are not material, and no party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Disclosure Schedules in any dispute or controversy between the parties as to whether any obligation, item, or matter not described herein or included in a Disclosure Schedule is or is not material for purposes of this Agreement.

SECTION 9.14. DISCLAIMER OF WARRANTIES

(a) INFORMATION. EXCEPT AS PROVIDED IN ARTICLE II, SELLER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION, RECORDS, AND DATA NOW, HERETOFORE, OR HEREAFTER MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT (INCLUDING ANY DESCRIPTION OF THE COMPANY, THE LLC OR THEIR RESPECTIVE FACILITIES OR EQUIPMENT, REVENUE, PRICE AND EXPENSE ASSUMPTIONS, FORECASTS, OR ENVIRONMENTAL INFORMATION, OR ANY OTHER INFORMATION FURNISHED TO BUYER BY SELLER OR ANY AFFILIATE OR SELLER OR ANY DIRECTOR, OFFICER, EMPLOYEE, COUNSEL, AGENT, OR ADVISOR THEREOF).

(b) FACILITIES. NOTWITHSTANDING ANYTHING CONTAINED TO THE CONTRARY IN ANY OTHER PROVISION OF THIS AGREEMENT, IT IS THE EXPLICIT INTENT OF EACH PARTY TO THIS AGREEMENT THAT SELLER IS NOT MAKING ANY REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS, IMPLIED, AT COMMON LAW, STATUTORY OR OTHERWISE, EXCEPT FOR THE REPRESENTATIONS OR WARRANTIES GIVEN IN THIS AGREEMENT, AND BUYER ACKNOWLEDGES AND AGREES THAT THE FACILITIES, EQUIPMENT AND OTHER ASSETS OF THE COMPANY AND THE LLC ARE BEING TAKEN BY BUYER, SUBJECT TO ALL FAULTS, "AS IS" AND "WHERE IS." WITHOUT LIMITING THE GENERALITY OF THE IMMEDIATELY PRECEDING SENTENCE, EXCEPT AS PROVIDED IN HIS AGREEMENT, SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT COMMON LAW, STATUTORY, OR OTHERWISE, RELATING TO (I) THE CONDITION OF THE FACILITIES, EQUIPMENT AND OTHER ASSETS OF THE COMPANY OR THE

LLC (INCLUDING ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, OR THE PRESENCE OR ABSENCE OF ANY HAZARDOUS MATERIALS IN OR ON, OR DISPOSED OR DISCHARGED FROM, SUCH FACILITIES, EQUIPMENT AND OTHER ASSETS) OR (II) ANY INFRINGEMENT BY SELLER, THE COMPANY, THE LLC, OR ANY OF THEIR AFFILIATES OF ANY PATENT OR PROPRIETARY RIGHT OF ANY THIRD PARTY. BUYER HAS AGREED NOT TO RELY ON ANY REPRESENTATION MADE BY SELLER WITH RESPECT TO THE CONDITION, QUALITY, OR STATE OF THE FACILITIES, EQUIPMENT AND OTHER ASSETS OF THE COMPANY OR THE LLC EXCEPT FOR THOSE IN THIS AGREEMENT, BUT RATHER, AS A SIGNIFICANT PORTION OF THE CONSIDERATION GIVEN TO SELLER FOR THIS PURCHASE AND SALE, HAS AGREED, EXCEPT AS PROVIDED IN THIS AGREEMENT, TO RELY SOLELY AND EXCLUSIVELY UPON ITS OWN EVALUATION OF THE COMPANY, THE LLC AND THE FACILITIES, EQUIPMENT AND OTHER ASSETS OF THE COMPANY OR THE LLC. THE PROVISIONS CONTAINED IN THIS AGREEMENT ARE THE RESULT OF EXTENSIVE NEGOTIATIONS BETWEEN BUYER AND SELLER AND NO OTHER ASSURANCES, REPRESENTATIONS OR WARRANTIES ABOUT THE QUALITY, CONDITION, OR STATE OF THE COMPANY, THE LLC AND THE FACILITIES, EQUIPMENT AND OTHER ASSETS OF THE COMPANY OR THE LLC WERE MADE BY SELLER IN THE INDUCEMENT THEREOF, EXCEPT AS PROVIDED HEREIN.

SECTION 9.15. CONSENT TO JURISDICTION.

The parties hereby irrevocably submit to the exclusive jurisdiction of the courts of the State of New York located in the Borough of Manhattan and the federal courts of the United States of America located in the Southern District of the State of New York over any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby, and each party irrevocably agrees that all claims in respect of such dispute or proceeding shall be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the venue of any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby brought in any such court or any defense of inconvenient forum for the maintenance of such dispute. Each party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable law.

SECTION 9.16. BULK SALES OR TRANSFER LAWS.

The Buyer hereby waives compliance by the Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions.

SECTION 9.17. CERTAIN DEFINITIONS.

For purposes of this Agreement, the term:

(a) "AFFILIATE" or "AFFILIATE" of a person means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common

control with, the first mentioned person. For purposes of this Agreement, AIG Highstar Capital, L.P. shall be deemed to be an Affiliate of Buyer.

(b) "CONFIDENTIALITY AGREEMENT" shall mean collectively the Confidentiality Agreement dated as of July 19, 2002, between Buyer and J.P. Morgan Securities Inc., as agent for the Parent.

(c) "KNOWLEDGE" shall mean the actual knowledge of those Persons serving as CEO, CFO, Chief Accounting Officer, Chief Environmental Officer or Secretary of Seller, Company or the LLC.

(d) "MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on (x) the assets, properties, business, results of operations or financial condition of the Company and the LLC, taken as a whole, it being understood that none of the following shall be deemed to constitute a Material Adverse Effect: (i) any effect resulting from entering into this Agreement or the announcement of the transactions contemplated by this Agreement, (ii) any effect resulting from changes in general economic conditions in the industry in which the Company or the LLC operates, except for such effects which disproportionately impact the Company and the LLC, and (iii) any effect resulting from changes in the United States or global economy as a whole, except for such effects which disproportionately impact the Company and the LLC; or (y) the ability of Seller or Parent to perform in all material respects its obligations under this Agreement and the Transaction Documents.

(e) "PERSON" or "PERSON" means an individual, corporation, association, trust, limited liability company, limited partnership, limited liability partnership, partnership, incorporated organization, other entity or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934).

(f) "TRANSACTION DOCUMENTS" shall mean the agreements, contracts, documents, instruments and certificates provided for in this Agreement to be entered into by one or more of the parties hereto or any of their Affiliates in connection with the transactions contemplated by this Agreement, including without limitation the Parent's Guaranty Agreement.

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

SELLER: WILLIAMS GAS PIPELINE COMPANY, LLC

By: /s/ J. Douglas Whisenant

Name: J. Douglas Whisenant
Title President and Chief Executive Officer

BUYER: SOUTHERN STAR CENTRAL CORP.

By: /s/ Christopher Lee

Name: Christopher Lee
Title: President

EXHIBIT 10.79

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into as of November 11, 2002, by and among the Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, including without limitation the California Department of Water Resources; the California Electricity Oversight Board; the California Public Utilities Commission; the People of the State of California, by and through the Attorney General; the City and County of San Francisco and the City of Oakland; the County of Santa Clara; the County of Contra Costa; Valley Center Municipal Water District; Padre Dam Municipal Water District; Ramona Municipal Water District; Helix Water District; Vista Irrigation District; Yuima Municipal Water District; Fallbrook Public Utility District and Borrego Water District; The Metropolitan Transit Development Board; San Diego Trolley, Inc.; San Diego Transit Corporation; Sweetwater Authority; California Lieutenant Governor Cruz Bustamante; California Assemblywoman Barbara Mathews; classes consisting of all persons or entities in California who indirectly purchased Electric Power for purposes other than resale or distribution since January 1, 1998, represented by Pamela R. Gordon, Ruth Hendricks, Mary L. Davis and Oscar's Photo Lab; the Attorneys General of Washington and Oregon as chief law enforcement officers of their respective states; The Williams Companies, Inc.; and Williams Energy Marketing & Trading Company.

1. DEFINITIONS.

The following terms with initial capital letters, which are in addition to other terms with initial capital letters defined in the body of this Settlement Agreement or by the context in which they appear in this Settlement Agreement, have the following meanings when used in this Settlement Agreement:

1.1 "AB1X" means Assembly Bill 1 of the 2001-02 First Extraordinary Session, which amended the California Water Code by adding Division 27, authorizing the CDWR to, among other things, enter into contracts with energy suppliers.

1.2 "AES" means any one or more of AES Corporation; AES Southland L.L.C., a Delaware limited liability company, AES Alamitos, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, AES Huntington Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, and AES Redondo Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware.

1.3 "AES Contract" means that certain Capacity Sale and Tolling Agreement (together with all ancillary agreements) dated May 1, 1998, as amended May 15, 1998, by and among AES and Williams.

1.4 "AG" means the Attorney General of California; the People of the State of California, by and through the Attorney General Bill Lockyer.

1.5 "All Releasing Parties" means the California State Releasing Parties, the California Cities, Counties and Political Subdivisions, California Water Districts, Bustamante, the Northwest AGs, the Private Parties, Unnamed California Cities, Counties and Political Subdivisions, Williams, and Williams Companies.

1.6 This paragraph has been intentionally left blank.

1.7 "Bill of Sale" means, collectively, the Bill of Sale, Assignment and Assumption Agreement(s) providing for transfer and assignment of the Property to the AG or his designee(s) required to be delivered by Paragraph 3.2(b) of this Settlement Agreement.

1.8 "Business Day" means any day other than a Saturday, Sunday, or legal holiday in the State of California in which state government is not generally open for business to the public.

1.9 "Bustamante" means Lieutenant Governor Cruz Bustamante and California Assemblywoman Barbara Mathews.

1.10 "CAISO" means the California Independent System Operator Corporation.

1.11 "California Cities and Counties" means the County of Santa Clara, the County of Contra Costa, the City of Oakland and the City and County of San Francisco.

1.12 "California Executive" means the Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, including, without limitation, CDWR. California Executive shall not include the CPUC or any other body created by the California Constitution.

1.13 "California State Releasing Parties" means California Executive, the CDWR, the CPUC, the CEOB, and the AG.

1.14 "California Water Districts" means Valley Center Municipal Water District, Padre Dam Municipal Water District, Ramona Municipal Water District, Helix Water District, Vista Irrigation District, Yuima Municipal Water District, Fallbrook Public Utility District, Borrego Water District, and Sweetwater Authority.

1.15 "Cal PX" means the California Power Exchange.

1.16 "Cash Consideration" means $150,000,000, payable to the AG or its designee(s) as follows: (a) $42,000,000 payable on or before the Closing Date; (b) $30,000,000 payable on January 1, 2004; (c) $15,000,000 payable on January 1, 2005; (d) $15,000,000 payable on January 1, 2007; (e) $15,000,000 payable on January 1, 2008; (f) $15,000,000 payable on January 1, 2009; and (g) $15,000,000 payable on January 1, 2010, subject, however, to the provisions of Paragraphs 4.8(a), 4.8(b), and 4.8(c) hereof. The payments described in clauses (b), (c) and (d) shall be referred to collectively as the "Tranche A Payments," and the payments described in clauses (e), (f) and (g) shall be referred to collectively as the "Tranche B Payments."

1.17 "CDWR" means the State of California Department of Water Resources, including without limitation, the California Energy Resources Scheduling Division.

1.18 "Class" means a class or classes consisting of persons or entities in California who indirectly purchased Electric Power for purposes other than resale or distribution since January 1, 1998.

1.19 "CEOB" means the California Electricity Oversight Board.

1.20 "Civil Actions" mean Gordon v. Reliant Energy, Inc., et al., Case No. GIC 758487 (San Diego Super. Ct.), Hendricks v. Dynegy Power Marketing, Inc., et al, Case No. GIC 758565 (San Diego Super. Ct.) and Pier 23 Restaurant and Oscar's Photo Lab v. PG&E Energy Trading, et al., Case No. 308120 (San Francisco Super. Ct.).

1.21 "Civil Plaintiffs' Counsel" means the counsel of record for plaintiffs in the Civil Actions.

1.22 "Closing Date" has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.23 "Court" shall have the meaning given to it in Paragraph 3.3 of this Settlement Agreement.

1.24 "CPUC" means the California Public Utilities Commission.

1.25 "Credit Document(s)" means, any of the following documents delivered pursuant to this Settlement Agreement:

a. Letter(s) of Credit,

b. Cash held by the AG (or a third party for the benefit of the AG pursuant to the terms of a Deposit Account Control Agreement satisfactory in form and substance to the AG or such other agreement as may be necessary to perfect the AG's interests therein) as security for all or part of the Cash Consideration,

c. Credit Default Swap(s) designating the AG (or such other party as may be designated in writing by the AG) as the fixed rate payor meeting the criteria set forth in Schedule 1.25 and Paragraph 4.8(e) of this Settlement Agreement and otherwise satisfactory in form and substance to the AG, or

d. Documents evidencing such other security for all or part of the Cash Consideration as the AG may agree in writing to accept.

1.26 "Electric Power" means electric energy and related products, including capacity and ancillary services such as regulation, spinning reserve, non-spinning reserve and replacement reserve.

1.27 "Event of Default" has the meaning given to it in Paragraph 4.8(a) of this Settlement Agreement.

1.28 "Fee and Expense Fund" shall have the meaning given to it in Paragraph 4.18 of this Settlement Agreement.

1.29 "FERC" means the Federal Energy Regulatory Commission.

1.30 "Gas" means any natural gas or natural gas-related product or service.

1.31 "Gas Contract" means the NAESB Base Contract to be executed and delivered by Williams to CDWR pursuant to the terms of Paragraph 3.2(c) of this Settlement Agreement.

1.32 "GE Agreement" means that certain Agreement dated October 18, 2001, by and between GE Packaged Power, Inc., as seller, and State Street Bank and Trust Company of Connecticut, National Association, not in its individual capacity but solely as Owner Trustee under that certain trust established under the laws of the State of Connecticut pursuant to a Trust Agreement dated December 5, 2000, between State Street Bank and Trust Company of Connecticut, National Association, and Newcourt Capital U.S.A., Inc., as buyer, relating to the Property.

1.33 "Just and Reasonable" has the meaning ascribed to it in Sections 205 and 206 of the Federal Power Act, 16 U.S.C. Sections 824d and 824e and/or Sections 4 and 5 of the Natural Gas Act 15 U.S.C. Sections 717c and 717d.

1.34 "Letter of Credit" means a standby letter of credit satisfactory to the AG that (a) permits the AG to draw on the Letter of Credit for the full amount stated therein upon any Event of Default, (b) is issued by Bank of America, or another financial institution acceptable to the AG in the AG's reasonable discretion, and (c) permits the AG to draw on the Letter of Credit for the full amount stated therein (but only to the extent of outstanding obligations secured thereby) if a substitute Letter of Credit issued by Bank of America, or another financial institution acceptable to the AG in the AG's reasonable discretion, (which shall equal the Cash Consideration obligation outstanding that is secured by such Letter of Credit), in substantially the same form as the Letter of Credit delivered to the AG on the Closing Date, or other Security Documents fully securing the outstanding obligation secured by the Letter of Credit being replaced, is not issued in favor of the AG on or before sixty (60) days prior to the expiration date stated in the Letter of Credit.

1.35 "Litigation Claims" has the meaning given to it in Paragraph 2.19 of this Settlement Agreement.

1.36 "Northwest AGs" means the Attorneys General of Washington and Oregon as chief law enforcement officers of their respective states.

1.37 "Notice Order" has the meaning given to it in Paragraph 3.3 of this Agreement.

1.38 "Original Contracts" means that certain Master Power Purchase and Sale Agreement (together with any exhibits, schedules, confirmation letters and any written

supplements thereto) dated as of February 16, 2001, between Williams and CDWR, and the Amended and Restated Confirmation Letter dated February 21, 2001 (together with any exhibits, schedules, confirmation letters and any written supplements thereto).

1.39 "Owner Trustee" means State Street Bank and Trust Company of Connecticut, National Association, not in its individual capacity but solely as Owner Trustee under that certain trust established under the laws of the State of Connecticut pursuant to a Trust Agreement dated December 5, 2000, between State Street Bank and Trust Company of Connecticut, National Association, and Newcourt Capital U.S.A., Inc.

1.40 "Paragraph" means a numbered paragraph of this Settlement Agreement, unless otherwise noted, and all references to a Paragraph shall include all subparts or subparagraphs of that Paragraph.

1.41 "Parties" means the persons and entities listed in the first Paragraph of this Settlement Agreement, collectively, and their successors and assigns. Each of the Parties may be individually referred to herein as a "Party."

1.42 "Phase I Execution Date" has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.43 "Phase II Parties" has the meaning given to it in Paragraph 3.1 of this Settlement Agreement.

1.44 "Private Parties" means the named plaintiffs individually and in their respective representative capacities in each of the Civil Actions, the Class, the Metropolitan Transit Development Board, San Diego Trolley, Inc., the Bustamante Civil Action, the Water District Action, and San Diego Transit Corporation.

1.45 "Property" means the six (6) LM 6000 Gas Turbine Generator Sets described in the GE Agreement and all rights of the Owner Trustee under the GE Agreement relating thereto.

1.46 "Rate Agreement" has the meaning given to it in Paragraph 2.8 of this Settlement Agreement.

1.47 "Released Claims" means any and all of the claims set forth and described in Paragraphs 4.1, 4.2, 4.3, 4.4, and 4.5.

1.48 "Renegotiated Contracts" means, collectively, the following agreements to be executed and delivered by Williams and CDWR pursuant to the terms of Paragraph 3.2(a) of this Settlement Agreement, together with any exhibits, schedules, confirmation letters and any written supplements thereto: (a) Product A, B, C Master Agreement (including the Product A, B, C Confirmation); and (b) Product D Master Agreement (including the Product D Confirmation).

1.49 "Settlement Agreement" means this document.

1.50 "Tranche A Payments" mean the payments described in Paragraphs 1.16 (b), (c) and (d) of this Settlement Agreement.

1.51 "Tranche B Payments" means the payments described in Paragraphs 1.16 (e), (f) and (g) of this Settlement Agreement.

1.52 "Unnamed California Cities, Counties and Political Subdivisions" means each of the cities, counties and political subdivisions and districts of the State of California not otherwise identified as parties to this Settlement Agreement to the fullest extent of the authority of the Attorney General of the State of California to release such claims herein.

1.53 "Water District Action" shall have the meaning described in Paragraph 2.4.

1.54 "Wholesale Electricity Antitrust Cases I & II" means the Gordon Class Action (described herein in Paragraph 2.2), Hendricks Class Action (described herein in Paragraph 2.3), Water District Action (described in Paragraph 2.4), Cities and Counties' Action (described herein in Paragraph 2.5), Pier 23 Class Action (described herein in Paragraph 2.6), and Bustamante Complaint (described herein in Paragraph 2.9) that were coordinated under the caption Wholesale Electricity Antitrust Cases I & II, Judicial Council Coordination Proceeding Nos. 4202-00005 and 4202-00006.

1.55 "Williams" means Williams Energy Marketing & Trading Company, a Delaware corporation, formerly known as Williams Energy Services Company, which is an indirectly wholly-owned subsidiary of the Williams Companies and the signatory on the Original Contract and Renegotiated Contracts.

1.56 "Williams Companies" means The Williams Companies, Inc., a Delaware corporation which is the parent of Williams (exclusive of any subsidiary or affiliates as to the releases provided herein). As to the releases with respect to Gas herein, such releases extend only to conduct by Williams imputed to the Williams Companies.

1.57 "Williams Companies Guaranty" means a guaranty from Williams Companies in the form attached hereto as Schedule 1.57.

2. RECITALS.

2.1 On August 2, 2000, San Diego Gas & Electric Company filed a Section 206 Complaint (Docket No. EL00-95-000, et al.) at the FERC, which complaint was consolidated with complaints filed by other persons or entities, including the CEOB (Docket No. EL00-104-000), alleging, among other things, that the energy markets in California operated by the Cal PX and CAISO resulted in prices paid for electric energy and energy-related products that were not Just and Reasonable (the "Refund Proceeding"). The Refund Proceeding could result in an obligation on the part of Williams to issue refunds for a portion of sums received for the sale of Electric Power in California.

2.2 On November 27, 2000, Class Representative Pamela Gordon filed a class action complaint against Williams and the Williams Companies in the California State Court in San Diego County (Gordon v. Reliant Energy, Inc., et al., Case No. GIC 758487), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the "Gordon Civil

Action"). The Gordon Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.3 On November 29, 2000, Class Representative Ruth Hendricks filed a class action complaint against Williams and the Williams Companies in the California State Court in San Diego County (Hendricks v. Dynegy Power Marketing, Inc., et al, Case No. GIC 758565), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the "Hendricks Civil Action"). The Hendricks Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.4 On January 16, 2001, Sweetwater Authority, Valley Center Municipal Water District and Padre Dam Municipal Water District filed a complaint against Williams and the Williams Companies in the California State Court in San Diego County (Sweetwater Authority, et al. v. Dynegy, Inc. et al., Case No. GIC 760743), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the "Water District Action"). Ramona Municipal Water District; Helix Water District; Vista Irrigation District; Yuima Municipal Water District; Fallbrook Public Utility District; Borrego Water District; Metropolitan Transit Development Board; San Diego Trolley, Inc; San Diego Transit Corporation later joined as plaintiffs in the Water District Complaint. The Water District Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.5 On January 18, 2001, the City and County of San Francisco filed a complaint against Williams and the Williams Companies on behalf of the People of the State of California, in the California State Court in San Francisco County (People v. Dynegy Power Marketing, Inc., et al., Case No. 318189), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the "Cities' and Counties' Action"). The City of Oakland, Santa Clara County, and Contra Costa County later joined as plaintiffs in the Cities' and Counties' Action. The Cities' and Counties' Action seeks (a) monetary damages, (b) injunctive relief, (c) for Williams to pay restitution and disgorgement of profits, and (d) civil penalties. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.6 On January 24, 2001, Class Representative Pier 23 Restaurant filed a class action complaint against Williams and the Williams Companies in the California State Court in San Francisco County (Pier 23 Restaurant and Oscar's Photo Lab v. PG&E Energy Trading, et al., Case No. 308120), alleging that Williams and the Williams Companies had engaged in unfair competition in the California wholesale Electric Power markets (the "Pier 23 Civil Action"). Oscar's Photo Lab and Mary L. Davis later joined as plaintiffs in the Pier 23 Civil Action, and

Pier 23 Restaurant later withdrew from the litigation. The Pier 23 Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits to the Class and the general public. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.7 On February 16 and 21, 2001, the CDWR and Williams entered into the Original Contracts.

2.8 On February 21, 2002, pursuant to AB1X, the CDWR and the CPUC executed a duly authorized Rate Agreement (the "Rate Agreement") providing for the recovery by CDWR of its revenue requirements. The Rate Agreement, among other things, facilitates CDWR's payment of suppliers of Electric Power such as Williams. The CPUC issued D.02-02-051 on February 21, 2002, finding the Rate Agreement to be in the public interest and adopted it.

2.9 On May 2, 2001, Lieutenant Governor Cruz Bustamante and California Assemblywoman Barbara Mathews filed a complaint against Williams and the Williams Companies and certain of their officers and directors in the California State Court in Los Angeles County (Bustamante v. Dynegy, Inc., et al., Case No. BC 249705), alleging that Williams and the Williams Companies had engaged in unfair competition and committed antitrust violations in the California wholesale Electric Power markets (the "Bustamante Civil Action"). The Bustamante Civil Action seeks (a) monetary damages, (b) injunctive relief, and (c) for Williams to pay restitution and disgorgement of profits. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.10 On February 25, 2002, and on February 26, 2002, the CPUC and the CEOB, respectively, filed separate complaints in Docket Nos. EL02-60-000 and EL02-62-000 under Section 206 of the Federal Power Act at the FERC alleging, among other things, that the terms and the rates under the Original Contracts are not Just and Reasonable or consistent with the public interest (the "CPUC Complaint" and the "CEOB Complaint," respectively). As to Williams, the CPUC and CEOB Complaints seek rescission or, in the alternative, reformation of the Original Contracts. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.11 On March 8, 2002, after the Gordon Civil Action, the Hendricks Civil Action, the Cities' and Counties' Action, the Water District Action, the Pier 23 Civil Action and the Bustamante Action had been coordinated before a single trial judge in Wholesale Electricity Antitrust Cases I & II, the plaintiffs in these actions filed a single Master Complaint.

2.12 On March 11, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint against Williams and the Williams Companies in the California State Court in San Francisco County, Docket CGC-02-405432, alleging that Williams and the Williams Companies had engaged from 1998 to the present in unfair competition in the California ancillary services Electric Power markets (the "AG Unfair Competition Complaint"). The AG unfair Competition Complaint seeks (a) injunctive relief against Williams, (b) restitution, (c) disgorgement of profits, and (d) civil penalties. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.13 On March 20, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint at FERC in Docket No. EL02-71-000 under Sections 205 and 206 of the Federal Power Act alleging, among other things, that public utility sellers which had made sales to CDWR, Cal PX, and the CAISO were in violation of certain reporting and filing requirements (the "AG 206 Complaint"). The AG 206 Complaint, if successful, could result in refund obligations on the part of Williams. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.14 Beginning in late 2000 and continuing through 2002, the People of the State of California, by and through Attorney General Bill Lockyer, served various sets of subpoenas and interrogatories (the "AG subpoenas") on Williams pursuant to its investigation In the Matter of the Investigation of Possible Unlawful, Unfair or Anti-Competitive Behavior Affecting Electricity Prices in California (as further described in Section 2.15, the "AG Investigation").

2.15 The AG Investigation includes an inquiry into facts relating to Williams' and Williams Companies' participation in the California Gas and Electric Power markets from 1998 to the present. The AG Investigation includes the following: any alleged conspiracy between Williams or Williams Companies and other market participants in the Electric Power or Gas markets; the AES Contract; the acquisition and holding of the generation facilities which are the subject of the AES Contract; the exercise of market power and restraint of trade issues relating to the AES Contract and the relationship between AES and Williams and the Williams Companies; the exercise of market power by Williams in the Electric Power or Gas markets; the alleged misconduct concerning outages of AES generation facilities including without limitation outages in April and May 2000; the alleged physical or economic withholding of Electric Power or Gas; the alleged manipulation of supply or prices of Electric Power or Gas; improper or unlawful trading activities relating to Electric Power or Gas; and alleged "cornering" of the Gas market. To date, the AG subpoenas and Investigation have resulted in production by Williams of hundreds of thousands of documents. If the case were not closed the continuing administrative burden and cost to Williams would be much greater. Williams and Williams Companies deny wrongdoing in connection with any of the matters under investigation by the AG.

2.16 On April 9, 2002, the People of the State of California, by and through Attorney General Bill Lockyer, filed a complaint against Williams in the California State Court in San Francisco County, Docket CGC-02-406459, alleging that Williams engaged in unjust and illegal overcharges and price gouging during the California energy crisis ("the AG Profiteering Complaint."). If successful, the AG Profiteering Complaint could result in civil penalties against Williams. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in these proceedings.

2.17 On April 11, 2002, as part of the AG Investigation, the People of the State of California, by and through Attorney General Bill Lockyer, provided Williams with a draft complaint it intended to file in the United States District Court for the Northern District of California against Williams, the Williams Companies, and AES for allegedly illegal acquisitions and/or holdings and/or control of assets or rights related to such assets, under section 7 of the Clayton Act, 15 U.S.C. ss. 18, and California Business and Professions Code section 17200, seeking an injunction and other equitable and ancillary relief, divestiture, damages and restitution

("Clayton Act Complaint"). The Clayton Act Complaint alleged wrongful conduct, including without limitation withholding capacity, decreasing competition and/or raising prices, relating to the acquisition and continued holding of the generation facilities governed by the AES Contract from 1998 to the present (the "AG Clayton Act Investigation"). Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in the Clayton Act Complaint.

2.18 Beginning in late 2000 and continuing through 2002, the Attorneys General of Washington and Oregon have conducted an investigation into facts relating to Williams' and Williams Companies' participation in the Oregon and Washington electricity and gas markets from 1998 to the present (the "Northwest AGs Investigations"). The Northwest AGs worked cooperatively with the AG in sharing documents and information related to Williams and other companies. The Northwest AGs have asserted that Williams may be subject to civil liability, including civil penalties and/or restitution, as a result of potential illegal activity. Williams and Williams Companies deny liability for any of the Litigation Claims including the claims asserted in the Northwest AG's Investigations.

2.19 The Refund Proceeding, CPUC Complaint, CEOB Complaint, AG Unfair Competition Complaint, AG 206 Complaint, AG subpoenas, AG Investigation, AG Profiteering Complaint, Cities' and Counties' Action, Water District Action, Bustamante Action, Northwest AGs Investigations, Civil Actions, Clayton Act Complaint, and AG Clayton Act Investigation (collectively, the "Litigation Claims") have resulted in significant legal and other expenses and present risks and uncertainties for all Parties, including, without limitation, the risk of one or more unfavorable judgments in the Litigations Claims.

2.20 Recognizing the mutual benefits of buying peace by reaching a settlement related to the Electric Power and Gas Markets, representatives of Williams, Williams Companies, and the California State Releasing Parties initiated discussions in the winter of 2001-02 to determine whether a resolution was achievable. Subsequently, the parties to the Litigation Claims joined in the settlement discussions.

2.21 After extensive negotiations, the Parties reached the terms of this Settlement Agreement, which provides that in exchange for the releases described in this Settlement Agreement, Williams and/or Williams Companies will, among other things, enter into the Renegotiated Contracts and Gas Contract, pay the Cash Consideration, transfer six combustion turbines to the AG or his designee(s), and cooperate with the AG, the Northwest AGs and the Private Parties, California Cities and Counties, and California Water Districts as provided herein.

2.22 The Parties desire to resolve certain matters and to avoid any future claims relating to them, including issues relating to the effectiveness, enforceability, validity or justness and reasonableness of the Renegotiated Contracts and the Gas Contract, by way of compromise rather than by litigation. The Parties have agreed to resolve such matters and to ensure the ongoing effectiveness and validity of the Renegotiated Contracts and the Gas Contract on the terms and conditions set forth in this Settlement Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed between and among the Parties as follows:

3. CLOSING.

3.1 Execution of the transactions contemplated by this Settlement Agreement by CDWR, Williams, Williams Companies, the AG, the CPUC and the CEOB ("Phase I Execution")shall take place at such place on such date and in such manner (e.g., in person, by facsimile or by overnight mail) as such parties (the "Phase I Parties") may mutually agree (the "Phase I Execution Date"), but in no event shall the Phase I Execution Date be more than four (4) days following satisfaction of the conditions precedent set forth below in Paragraph 3.6(a) unless otherwise agreed to in writing by the Phase I Parties. Following the Phase I Execution, the consummation of the transactions contemplated by this Settlement Agreement shall be deemed to have occurred on December 31, 2002 (the "Closing Date") provided the conditions set forth in Paragraph 3.6(b) have been satisfied or waived. This Settlement Agreement shall also be executed by the California Cities and Counties, the California Water Districts, the Northwest AGs, and the Private Parties (collectively, the "Phase II Parties") on or before the Closing Date; provided however, that any of the California Cities, Counties and Political Subdivisions may execute this Settlement Agreement after the Closing Date and such Party shall thereafter be bound by the terms and conditions herein as of the date of said execution. Notwithstanding any other provision contained in this Settlement Agreement, the failure of any Party, other than a Phase I Party, to execute this Settlement Agreement on or before the Closing Date shall not invalidate this Settlement Agreement or nullify any provision hereof except that, as between such Party and any other Party hereto, this Settlement Agreement and any provision hereof shall be invalid and of no force or effect; provided, however, that if any of the Private Parties fail to execute the Agreement and the Class is not certified and the settlement is not finally approved, then the Agreement shall terminate as to the Private Parties at Williams exclusive option.

3.2 Phase I Execution Date, Closing:

a. The following actions shall take place on or prior to the Phase I Execution Date:

(i) Renegotiated Contracts. CDWR and Williams shall execute and deliver an original copy of the Renegotiated Contracts, the form of which shall be the same or substantially similar to the documents attached hereto and made a part hereof as Schedule 3.2(a)(i), to each other and to the CPUC, CEOB, and the AG.

(ii) Williams Companies Guaranty. The Williams Companies shall execute and deliver to the AG the Williams Companies Guaranty.

(iii) Gas Contract. CDWR and Williams shall execute and deliver an original copy of the Gas Contract, the form of which shall be the same or substantially similar to the document attached hereto and made a part hereof as Schedule 3.2(a)(iii), to each other and to the CPUC, CEOB, and the AG.

b. Subject to the satisfaction of the Closing conditions precedent described below, the following actions shall take place on or by the Closing Date:

(i) Credit Documents. Williams shall deliver Credit Document(s) in support of the Tranche A payments. Such Credit Documents shall include a Letter of Credit in an amount of not less than $45,000,000 with an expiration date not earlier than July, 2003, provided Credit Documents delivered before the Closing date shall not be effective until the Closing date.

(ii) Bill of Sale. Owner Trustee shall execute and deliver one or more Bills of Sale, the form of which shall be the same or substantially similar to the document attached hereto and made a part hereof as Schedule 3.2(b), to transfer and assign the Property to the AG or its designee(s). Any transfer or assignment of Property pursuant to the preceding sentence shall not be effective until the Closing Date.

(iii) Williams and Williams Companies shall (i) make the first payment as described in Paragraph 1.16(a) and shall pay such remaining amounts of the Tranche A Payments as have not been subject to credit support pursuant to Section 3.2(b)(i).

(iv) Consents. Williams shall deliver a written document, satisfactory in form and substance to the AG, executed by GE Packaged Power, Inc. affirming that the warranties on the Property will not expire until 24 months following the dates specified in Schedule 3.2(b)(iv).

3.3 Private Parties' Provisions:

a. No later than five (5) business days after the Closing Date, Civil Plaintiffs' Counsel shall submit this Settlement Agreement together with its schedules to the court in which the Wholesale Electricity Antitrust Cases I & II are pending on the date of submission (the "Court") and shall apply for entry of an order (the "Notice Order"), to be agreed to by Williams and Civil Plaintiffs' Counsel. The Notice Order will request, inter alia:

(i) Certification of the Class for settlement purposes only;

(ii) Preliminary approval of the settlement set forth in the Settlement Agreement; and

(iii) Approval of the dissemination of a settlement notice or notices, in a form to be agreed to by Williams and Civil Plaintiffs' Counsel, which shall set forth the general terms of the settlement set forth in the Settlement Agreement and the date of the Settlement Hearing as defined below. Williams and Civil Plaintiffs' Counsel shall propose to the Court that notice be provided by such methods as are agreed to between Williams and Civil Plaintiffs' Counsel.

b. The Private Parties and Williams shall be responsible for paying the costs of notice to the Class as follows:

(i) Civil Plaintiffs' Counsel shall pay the costs of notice in the form ordered by the Court not to exceed $250,000. As set forth below, the Private Parties (through their counsel) shall be entitled to draw upon the Fee and Expense Fund to pay for the costs of this notice.

(ii) If the costs of notice in the form ordered by the Court do not exceed $250,000, then Williams shall have no responsibility for payment of any notice costs. If the costs of notice exceed $250,000, then Williams shall pay the remaining costs of notice, not to exceed an additional $250,000.

(iii) If the estimated cost of notice in the form ordered by the Court exceeds $500,000 (the $250,000 to be paid by Civil Plaintiffs' Counsel pursuant to paragraph 3.3(b)(i) and the $250,000 to be paid by Williams pursuant to paragraph 3.3(b)(ii)), then Williams or Williams Companies and Civil Plaintiffs' Counsel shall attempt to reach agreement on further allocation of any additional costs of notice; provided, however, Williams or Williams Companies and the Private Parties shall have, in their sole and absolute discretion, the option to pay the additional costs of notice above $500,000 or to terminate this Settlement Agreement as to the Private Parties.

c. Civil Plaintiffs' Counsel shall request that after notice is given, the Court hold a hearing (the "Settlement Hearing") in which it shall approve the settlement of the Civil Actions as set forth herein as fair, adequate and reasonable to the Class, and enter a final judgment of dismissal with prejudice pursuant to the settlement as to Williams, the Williams Companies, William E. Hobbs, Keith E. Bailey, and Steven J. Malcolm.

d. If prior to the Settlement Hearing, any Persons who otherwise would be Members of the Class have timely requested exclusion ("Requests for Exclusion") from the Class in accordance with the provisions of the Notice Order and the notice given pursuant thereto, and such Persons in the aggregate represent claims in an amount greater than an amount to be set forth in a supplemental agreement between Williams and Civil Plaintiffs' Counsel, Williams or Williams Companies shall have, in its sole and absolute discretion, the option to terminate this Settlement Agreement as to the Private Parties. Copies of all Requests for Exclusion received, together with copies of all written revocations of Requests for Exclusion received shall be delivered to Williams' and Williams Companies' counsel within seven (7) business days before the Settlement Hearing.

e. Solely for the purposes of the settlement of the Civil Actions, the Parties agree to the certification of the Class as defined above in Paragraph 1.18 for settlement purposes; and Civil Plaintiffs' Counsel and Williams agree to jointly request the Court to enter an order, which, among other things, certifies the Class, as set forth in paragraph 3.3(a)(i). In the event this Settlement Agreement and the settlement proposed herein is not finally approved, or is terminated, canceled, or fails to become effective for any reason, this class certification, solely for the purpose of the settlement of the Civil Actions, shall be null and void and the Private Parties, the California Cities and Counties, the Water Districts, Williams and the Williams Companies will revert to their respective positions immediately prior to the Closing Date. Under no circumstances may this Agreement be used as an admission or evidence concerning the appropriateness of class certification should this Settlement Agreement be terminated in whole or

part. Williams and Williams Companies reserve the right to oppose class certification should the Settlement Agreement be terminated in whole or part.

f. The releases in Paragraph 4.5, and in Paragraph 4.9 as they relate to the Private Parties shall become effective upon, and any obligations to return any payments from the Fee and Expense Fund as set forth in Paragraph 4.18 shall terminate upon:

(i) A final determination by the Court pursuant to California Code of Civil Procedure section 877.6 that this Settlement Agreement was made in good faith and final conclusion of any petition for mandate;

(ii) Certification of the Class for settlement purposes and final judgment after final court approval of the settlement, including any appeal;

The first day on which all of these events shall have occurred shall be called the "Class Settlement Effective Date." Notwithstanding this provision, prior to the Class Settlement Effective Date, the Civil Plaintiffs' Counsel shall be entitled to draw upon the Fee and Expense Fund to pay for the costs of Class Notice.

3.4 The AG may, at its sole option, waive execution and delivery of Consents required by Paragraph 3.2(b)(iv) of this Settlement Agreement. Any such waiver, which must be in writing and signed by the AG, shall not affect the effectiveness of the releases provided for in this Settlement Agreement in Paragraphs 4.1 through 4.5 and Paragraph 4.9.

3.5 Any of the agreements described above in Paragraphs 3.2(a), (b) and (c) which are signed only by parties to this Settlement Agreement may be signed in any number of counterparts, each of which is equally admissible in evidence and shall be deemed to be one and the same instrument. No such agreement shall take effect, however, until each Party to that agreement has signed a counterpart.

3.6 Conditions Precedent:

a. The following conditions precedent shall be satisfied prior to the Phase I Execution:

(i) the Phase I Parties shall have obtained all necessary internal consents and shall have taken all internal actions necessary to authorize the performance of their obligations herein;

(ii) notwithstanding any other provision contained in this Settlement Agreement, this Settlement Agreement, the Renegotiated Contracts, and the Gas Contract shall not become effective until and unless the CPUC shall have considered and voted to approve and adopt this Settlement Agreement and communicated the outcome of such vote to Williams and the California State Releasing Parties; and

(iii) each Phase I Party shall have performed any obligation required to be performed by that Party prior to the Phase I Execution Date or, if permitted to be

performed on the Closing Date, has demonstrated to the reasonable satisfaction of the other Parties that it is capable of performing such obligations by the Closing Date.

b. The following conditions precedent shall be satisfied by or prior to December 31, 2002, or by a date certain as specified below, if any:

(i) Requests by the CEOB and the CPUC advising the FERC that a resolution between themselves and Williams concerning claims regarding the Original Contracts has been reached and requesting that the FERC suspend such proceedings as between the CEOB and CPUC and Williams only relating to such claims pending the Closing at which time they will seek an order allowing the withdrawal of such claims;

(ii) Issuance by the FERC of an order in the Refund Proceeding granting Williams' motion to dismiss claims for refunds due to any of the California State Releasing Parties or in relation to any Electric Power provided to the CDWR that is or may be subject to the Refund Proceeding from Williams or the Williams Companies (the "Refund Order"). Receipt of the Refund Order shall not be a condition precedent to closing unless Williams and the Williams Companies, within ten (10) Business Days from the Phase I Execution, files a Motion to Dismiss in the Refund Proceeding in which it shall advise FERC that resolution has been reached between themselves and the State Releasing Parties concerning such actions and complaints and that each of CDWR, CEOB and CPUC have agreed to release claims as described in Paragraph 4.3 hereof. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement. The Parties will cooperate and assist each other in good faith in the preparation and filing of such motion;

(iii) If Williams and the Williams Companies have filed the Motion to Dismiss described in Paragraph 3.6(b)(ii), the State Releasing Parties shall file a responsive pleading consistent with the terms and conditions of this Settlement Agreement within five (5) Business Days thereafter; and

(iv) Williams and the Williams Companies shall have (i) made the payment described in Paragraph 1.16(a), and (ii) delivered to the AG or its designee(s) the Credit Documents described in Paragraph 3.2(b)(i) (except to the extent additional payments shall have been made pursuant to Paragraph 3.2(b)(iii).

Absent the express written agreement of Williams and the California State Releasing Parties extending the time to satisfy or waiving any of the conditions set forth in this Paragraph 3.6, if each of the conditions have not been fulfilled on or prior to the dates specified above, then this Settlement Agreement shall be null and void and of no further effect, with all rights, duties and obligations of the Parties thereafter restored as if this Settlement Agreement had never been executed; provided, however that if all of such conditions other than Williams' obligations in Paragraph 3.6(b)(iv) have been fulfilled, the AG shall be entitled to enforce such obligations of Williams, in which event this Agreement shall not so terminate.

3.7 The releases and other Consideration provided for in this Settlement Agreement, including without limitation the releases set forth in Paragraphs 4.1 through 4.5 and Paragraph

4.9 (excluding the releases as they relate to the Private Parties) shall become effective retroactive to the Phase I Execution Date. The releases set forth herein in Paragraphs 4.5 and 4.9 (with respect to the Private Parties) shall become effective, retroactive to the Phase I Execution Date, upon the Class Settlement Effective Date as set forth in Paragraph 3.3(f).

3.8 This Settlement Agreement and the transactions contemplated hereby may be terminated at any time prior to the Closing Date by written notice delivered by the California State Releasing Parties to Williams and the Williams Companies or by Williams or the Williams Companies to the California State Releasing Parties, as the case may be, in the following instances (each a "Termination Event"):

a. by the California State Releasing Parties if there has been a material misrepresentation, a material breach of warranty, or a material failure to comply with any covenant or agreement on the part of Williams or Williams Companies with respect to any of their representations, warranties, covenants or agreements set forth herein, and such misrepresentation, breach, or failure to comply has not been cured within five (5) Business Days of receipt by Williams and Williams Companies from the California State Releasing Parties of written notice thereof; provided, however, that any failure by Williams or Williams Companies to perform its or their obligations under Paragraph 4.7 hereof shall constitute a material failure to comply with an agreement and shall not be subject to such notice and cure period;

b. by Williams or Williams Companies if there has been a material misrepresentation, a material breach of warranty, or a material failure to comply with any covenant or agreement on the part of the California State Releasing Parties with respect to their representations, warranties, covenants or agreements set forth herein, and such misrepresentation, breach, or failure to comply has not been cured within five (5) Business Days of receipt by the California State Releasing Parties from Williams or Williams Companies of written notice thereof;

c. by the mutual written consent of the California State Releasing Parties, Williams and the Williams Companies;.

d. by the AG, before December 15, 2002 if the AG, in his sole discretion, determines that there is evidence of illegal conduct by Williams or the Williams Companies in the Gas or Electric Power markets of which he was not previously aware or if Williams or the Williams Companies fail to fully cooperate in good faith with the AG's due diligence review.

3.9 From time to time after the Closing, the Parties shall cooperate in consummating the settlement and release of claims and exchange of consideration provided for herein. This cooperation shall include, without limitation, the execution of such instruments of conveyance, assignment, transfer and delivery, release and waiver, the filing of additional complaints by the Private Parties as necessary to obtain the release set forth in Paragraph 4.5 herein and the provision of submissions, stipulations and other filings with courts and regulatory agencies, and the provision of such additional documents or taking of such other action as any Party may reasonably request.

4. MUTUAL RELEASES AND WAIVERS.

4.1. Original Contracts and the Renegotiated Contracts:

Each of the California State Releasing Parties for itself hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that it ever had, now has, or hereafter can, shall, or may have against Williams or Williams Companies based on, or arising out of, in whole or in part, (a) the Original Contracts, or (b) issues relating to effectiveness, due authorization, validity, or enforceability of any of the obligations of any of the California State Releasing Parties under the Renegotiated Contracts or the Gas Contract or whether such obligations are Just and Reasonable. This release does not constitute a waiver by the California State Releasing Parties of the right to pursue remedies under the Renegotiated Contracts or the Gas Contract for acts and omissions from and after the Phase I Execution Date as provided therein, including but not limited to (a) claims of breach of an obligation created by the Renegotiated Contracts, (b) claims of failure to perform under the Renegotiated Contracts, and (c) disputes over the obligations created by, or the meaning of any terms used in the Renegotiated Contracts. The release in this Paragraph 4.1 applies only to matters based on, or arising out of, in whole or in part, the generation, sale, purchase, ownership, dispatch and/or transmission of Electric Power, and/or Gas pursuant to the Original Contracts and the Renegotiated Contracts, and does not include matters of general applicability including, without limitation, environmental, permitting, health, safety and taxation.

Each of the California State Releasing Parties waives all rights to challenge the terms, conditions, rates or validity of the Renegotiated Contracts or the Gas Contract or whether each such contract is Just and Reasonable for and with respect to the entire term thereof, including any rights under Sections 205 and 206 of the Federal Power Act to request the FERC to revise the terms and conditions and the rates or services specified in the Renegotiated Contracts or the Gas Contract, and hereby further agrees to make no filings at the FERC or with any other state or federal agency, board, court or tribunal challenging the rates, terms and conditions of the Renegotiated Contracts or the Gas Contract as to whether they are Just and Reasonable or in the public interest. It is further agreed that, in the event of any future challenges to the Renegotiated Contracts or the Gas Contract for any other reason, the Parties will not dispute the applicability, as to the Parties, of the public interest standard as that term has been defined and interpreted under the Federal Power Act or the Natural Gas Act and the cases of United Gas Pipe Line Co. v. Mobile Gas Corp., 350 U.S. 332 (1956), and FPC v. Sierra Pacific Power Co., 350 U.S. 348 (1956), and subsequent cases.

The Unnamed California Cities, Counties and Political Subdivisions also release any claims they may have relating to the Original Contracts, Renegotiated Contracts, or Gas Contract.

4.2. Original Contracts, Renegotiated Contracts and FERC:

The CEOB and CPUC hereby agree to seek suspension and withdrawal with prejudice, as to Williams and the Williams Companies only, all actions or complaints set forth in the CPUC Complaint and the CEOB Complaint pertaining to the Original Contracts pursuant to the procedures set forth in Paragraph 4.12. In filing to suspend and withdraw the CPUC Complaint

and the CEOB Complaint, the CPUC and the CEOB shall advise FERC that resolution has been reached between themselves and Williams and the Williams Companies concerning such actions and complaints. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement.

This provision shall not restrict in any way the ability of the CEOB or the CPUC to continue to participate in the CPUC Complaint or CEOB Complaint as against the other parties named therein.

4.3. CDWR, CEOB and CPUC: Refund Proceeding:

Each of the CDWR, CEOB, and CPUC hereby releases, acquits and discharges Williams and the Williams Companies from any and all claims of any nature whatsoever that they have ever had, now have, or hereafter may have against Williams or the Williams Companies based on the alleged existence or exercise of market power prior to the Phase I Closing or for charges for excessive or unlawful charges for Electric Power or Gas including, without limitation, claims to receive refunds, credits, payments or compensation or consideration of any kind from Williams or the Williams Companies related to claims that were alleged or could have been alleged in the Refund Proceeding. Nothing in this release shall preclude the CDWR, CEOB, and CPUC from otherwise continuing their participation in the Refund Proceeding to the ultimate conclusion of that proceeding, including any actions on appeal as to parties other than Williams or the Williams Companies, nor does anything herein release such claims or entitlement of any other parties, such as the IOUs, to refunds in the Refund Proceeding.

Each of CDWR, CEOB, and CPUC hereby releases, acquits and discharges Williams from claims, including for refunds, (a) arising from sales, acts or omissions prior to the Effective Date related to the operation and management of generation facilities, and the generation, dispatch, purchase, marketing, sale, or transmission of Electric Power or Gas, and without limitation of the foregoing (b) any and all federal or state antitrust or unfair competition claims based on, arising out of or in any way related to the Original Contracts, the Gas Contract, or Renegotiated Contracts.

The releases set forth in this Paragraph 4.3 shall not restrict the ability of the CDWR, CEOB, and CPUC to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams but which could indirectly affect the Williams or the Williams Companies, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation, provided, however, this Settlement Agreement does release all claims by CDWR, CEOB and CPUC for monetary damages or compensation of any kind based on the participation of Williams or Williams Companies in the California Electric Power markets prior to the Phase I Execution. The releases in this Paragraph 4.3 apply only to matters based on, or arising out of, in whole or in part, the generation, sale, purchase, ownership, dispatch and/or transmission of Electric Power, and/or Gas and do not include matters of general applicability including, without limitation, environmental, permitting, health, safety and taxation. This Paragraph 4.3 does not affect any of the Parties' rights and obligations in pending Reliability Must Run proceedings, or in pending proceedings pertaining to market-based rate authority;

provided however that it is not the intent of the maintenance of such rights and obligations to prevent or preclude performance by Williams of the Renegotiated Contracts.

While the CPUC is releasing its claims as described in this paragraph 4.3 for monetary damages or compensation of any kind against Williams and the Williams Companies, this paragraph 4.3 does not restrict the ability of the CPUC to continue its investigation of generator operation and maintenance, or from collecting information or investigating any matter for the purposes of making policy and/or legal arguments for rule changes, market reform, market mitigation, or related matters, or from making such policy arguments in any forum, based on information resulting from such investigation.

CDWR, CPUC, and CEOB shall terminate any and all investigations as to Williams or Williams Companies as they relate to the pursuit of claims released in this Paragraph 4.3 and shall not initiate any new investigations against Williams or Williams Companies that are related to the pursuit of claims released in this Paragraph 4.3. This does not limit the CEOB, CDWR or the CPUC in collecting information or in investigating any matter not related to the claims released in this Paragraph 4.3. This paragraph 4.3 does not restrict the ability of the CPUC to continue its investigation of generator operation and maintenance, or to carry out its responsibilities under SB 39XX. In the event that: (i) the order referred to in Paragraph 3.6(b)(ii) hereof is overturned, rescinded, retracted, or is otherwise rendered ineffective by the FERC or any court of appeals; (ii) Williams or the Williams Companies is subjected to a final nonappealable order explicitly directing Williams or the Williams Companies to pay refunds due to CDWR either (a) directly to CDWR or (b) to a third party; (iii) such refunds are awarded for claims in the Refund Proceeding that are released or waived pursuant to this Paragraph 4.3; and, (iv) Williams or the Williams Companies pays such refunds as ordered; then, if Williams so elects and in its sole discretion, the release in this Paragraph 4.3, as it relates to the Refund Proceeding shall be void and of no force or effect. If the releases herein related to the Refund Proceeding are voided pursuant to the preceding sentence, the payor (Williams or the Williams Companies, as appropriate) shall be entitled to a reduction in the Consideration provided for such releases in the following manner:

(1) for each refund dollar that Williams or the Williams Companies pays as ordered, an equal sum shall be recovered by Williams by way of the additional net revenues associated with maintaining the same Net Dependable Capacity and maintaining the same Base Capacity Payment in effect as of December 2007 for so long as is required to offset refunds that Williams or the Williams Companies is required to pay. In no event shall such period extend beyond the Delivery Period set forth in the Product D Transaction. To the extent such additional revenues are not sufficient to offset dollar for dollar the refunds paid by Williams as described herein, the price of Product B as set forth in the Product A, B, C, Transaction, shall be adjusted upward in each year, beginning January 2006, by $5.80/MWh for such additional period as is necessary to offset such refunds paid by Williams or the Williams Companies but in no event beyond the Delivery Period associated with Product B as set forth in the Product A, B, C Transaction. All capitalized terms in this Paragraph have the meanings set forth in the Product D Transaction and Product A, B, C Transaction, respectively.

4.4 Release of the AG, the Northwest AG's and the Unnamed California Cities, Counties and Political Subdivisions:

a. The AG and each of the Northwest AGs and the and each of the Unnamed California Cities, Counties and Political Subdivisions hereby release, acquit and forever discharge any and all claims of any nature whatsoever that they ever had, now have, or hereafter can, shall, or may have against Williams or Williams Companies, based on, arising out of or in any way related to:

(i) the AG Investigation as defined in Paragraph 2.15, including each allegation or claim that was or could have been asserted against Williams or Williams Companies;

(ii) the Northwest AGs Investigation as defined in Paragraph 2.18, including each allegation or claim that was or could have been asserted against Williams or Williams Companies;

(iii) the AG Profiteering Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Profiteering Complaint;

(iv) the AG Clayton Act Investigation or Clayton Act Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Clayton Act Investigation or Clayton Act Complaint;

(v) the AG Unfair Competition Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG Unfair Competition Complaint;

(vi) the AG 206 Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the AG 206 Complaint;

(vii) the Refund Proceeding, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the Refund Proceeding;

(viii) the CEOB Complaint or CPUC Complaint, including without limitation each allegation or claim that was or could have been asserted against Williams or Williams Companies relating in any way to the CEOB Complaint or CPUC Complaint;

(ix) the sale, purchase, offer, bidding, marketing, trading, or withholding of bids or offers, of Electric Power or Gas in California, Washington or Oregon at any time prior to the Phase I Execution Date, including any claimed overcharges or refunds;

(x) the acquisition, operation, dispatch, ownership, control or management of any Electric Power generation facilities or any interest in or dispatch rights to the output

of such facilities including any alleged withholding of supply, exercise of alleged market power, or alleged failure to provide Electric Power or Gas at any time prior to the Phase I Execution Date;

(xi) any violations or claimed violations of any rules, regulations, orders or protocols of any state or federal agency having or claiming to have regulatory authority over any conduct that is the subject of any Released Claims including, without limitation, the Federal Power Act and/or any rules, regulations, tariffs, protocols or orders which occurred prior to the Phase I Execution Date;

(xii) any claims for refunds, contract reformation or any other relief, any federal or state antitrust claims or any claims under Business & Professions Code section 17200 et seq. relating in any way to the Litigation Claims, the Original Contracts or the Renegotiated Contracts; and

(xiii) subject to the limitations set forth in Paragraph 4.13 hereof, any information provided to the AG prior to the Phase I Execution to the extent related to the claims released under clauses (i) through (xii) of this Paragraph 4.4(a), including any such allegation or claim that was or could have been asserted against Williams or Williams Companies related in any way to any information sought by or produced in response to Williams obligations under Paragraph 4.6 below

b. This release does not affect the right of the AG or the Northwest AGs to pursue criminal prosecution for any acts or omissions by Williams and the Williams Companies both before or subsequent to the Phase I Execution Date. This release applies only to matters that are based on, or arising out of, in whole or in part, the operation and management of generation facilities, and the generation, purchase, sale, ownership, dispatch, and/or transmission of Electric Power, and/or Gas, and does not include matters of general applicability, including, without limitation, environmental, permitting, health, safety and taxation. This Paragraph shall not restrict the ability of the AG or the Northwest AGs to continue to participate in any existing proceeding, or to bring or participate in any future proceeding, that does not include specific claims against Williams or the Williams Companies but could indirectly affect them, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation, provided, however, this Settlement Agreement does release all claims for monetary damages or compensation of any kind based on the participation of Williams or Williams Companies in the California Electric Power and Gas markets prior to the Phase I Execution Date. This release is modified by Paragraph 4.13 below.

c. The AG further agrees that it (i) will voluntarily withdraw or dismiss with prejudice (or, if necessary by applicable rule, request withdrawal or dismissal with prejudice from the court or tribunal) within two (2) Business Days of the Closing Date all pending claims or actions against Williams or Williams Companies, including without limitation the AG Unfair Competition Complaint, the AG 206 Complaint and the AG Profiteering Complaint and will terminate all outstanding investigations and all subpoenas to Williams or Williams Companies relating to the Released Claims, including without limitation the AG Investigation, the AG Subpoenas, and the AG Clayton Act Investigation, and (ii) will not file any actions or initiate any formal or informal investigations based on, arising out of or related to any Released Claims

or any legal theory based on or related to conduct underlying any of the Released Claims, including without limitation Business and Professions Code Section 17200 or federal or state antitrust statutes, against Williams or Williams Companies.

d. AES/Williams Tolling Agreement. The AES Contract, whereby AES owns and operates generating units and Williams markets the power, creates a somewhat unique structure with respect to the California market. The Attorney General has conducted an investigation into alleged anticompetitive aspects of the AES Contract and agrees to the following limitations in connection with any relief or remedies that he may seek from AES in connection with the investigation.

(i) The Attorney General will not seek monetary remedies from AES for any portion of alleged anticompetitive conduct attributable to Williams pursuant to operation or enforcement of the AES Contract.

(ii) The Attorney General will not seek relief from AES, monetary or otherwise, that will preclude Williams from performing its obligations pursuant to the Renegotiated Contracts.

(iii) The CPUC and CEOB will not bring any action against AES for the purpose of hindering the ability of Williams to perform under the Renegotiated Contracts.

4.5 Release by California Cities and Counties, California Water Districts and Private Parties:

The Private Parties, the Class, the California Cities and Counties and the Water Districts hereby release, acquit and forever discharge any and all claims of any nature whatsoever that they ever had, now have, or hereafter can, shall, or may have against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and Steven J. Malcolm based on or arising out of the claims that were or could have been asserted in any of the Civil Actions, the Bustamante Action, the Water District Action, or the Cities' and Counties' Action, and any other acts or omissions by or of Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm related to their participation in the California Electric Power markets from January 1, 1998 to the Effective Date, including, without limitation, the acquisition, operation and management of facilities for the generation of Electric Power or dispatch rights to such facilities or the Electric Power generated from such facilities or the generation, purchase, sale, trading, marketing or transmission of Electric Power prior to the Closing Date, including but not limited to (a) claims related to the Original Contracts, Renegotiated Contracts, and Gas Contract, (b) claims under California Business & Professional Code Section 17200, and (c) any federal or state antitrust claims, or (d) any taxpayer or other representative claims.

This Paragraph shall not restrict the ability of plaintiffs in the Wholesale Electricity Antitrust Cases I & II to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm. This settlement shall not release any claims against any entity (except for Williams, Williams

Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm) and shall in no way restrict the ability of plaintiffs in Wholesale Electricity Antitrust Cases I & II to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm but could indirectly affect them, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and generally applicable price mitigation; provided, however, this Settlement Agreement does release all claims for monetary damages or compensation of any kind as against Williams, Williams Companies, William E. Hobbs, Keith E. Bailey, and/or Steven J. Malcolm based on their participation in the California Electric Power markets prior to the Effective Date. To the extent the Private Parties pursue any claim against AES, such parties shall be subject to the limitations applicable to the AG as set forth in Paragraphs 4.4(d)(i) and (ii).

4.6 Williams Cooperation:

Williams agrees to cooperate with the AG and the Northwest AGs in their civil investigation of the Electric Power and Gas markets in California, Oregon and Washington and to cooperate with the Private Parties, Water Districts and Cities and Counties in the Wholesale Electricity Antitrust Cases I & II ("Cooperating Parties"), provided that such cooperation shall not obligate Williams to waive any privileges. As part of its ongoing cooperation obligations, Williams shall make witnesses available for interviews and depositions by the Cooperating Parties at mutually convenient times and locations. The Cooperating Parties will seek information in a focused manner, and will work with Williams to streamline information and requests as appropriate. The witness interviews, depositions and all documents disclosed pursuant to this Paragraph 4.6 will be subject to the existing or future confidentiality agreements and protective orders between Williams and the Cooperating Parties and the confidentiality provisions of Calif. Govt Code Section 11180, et seq. As a further part of its ongoing cooperation, Williams will continue to produce documents to the Cooperating Parties as requested. All documents provided to the Cooperating Parties pursuant to this Settlement Agreement will also be treated as confidential under Section 11180, et seq. Williams shall not contend that the AG has violated Cal. Govt. Code Section 11180 et seq. by providing documents received from Williams to the Cities and Counties, the Water Districts and the Private Parties. The documents produced to the Cooperating Parties by Williams under this Settlement Agreement and pursuant to the Cooperating Parties' subpoenas can be used by the Cooperating Parties in litigation against third parties pursuant to a court approved protective order. The Cooperating Parties shall give reasonable notice to Williams of their intent to use such documents in litigation which notice shall specify the terms of the protective order under which they may be used. The Cooperating Parties will promptly notify Williams in writing when their investigations are closed. This provision for continuing cooperation by Williams shall extend to the conclusion of the Cooperating Parties' litigation and active investigation of California energy markets, and including cooperation through any trials and appeals as necessary.

4.7 Consideration for Releases in Paragraphs 4.1 through 4.5 Inclusive:

a. In consideration for the release of the above-described claims, Williams and Williams Companies agree to provide the following consideration (collectively, the "Consideration"):

i. Cash Consideration;

ii. Renegotiated Contracts;

iii. Gas Contract;

iv. Bill of Sale;

v. Credit Documents, as more fully described in Paragraph 3.2(b)(i), subject to Paragraph 3.2(b)(iii);

vi. the cooperation described above in Paragraph 4.6;

vii. the Williams Companies Guaranty;

viii. the release provided for in Paragraph 4.9; and

ix. to take all other action expressly required of Williams and Williams Companies under the terms of this Settlement Agreement.

b. This Settlement Agreement encompasses renegotiated long-term contract terms as well as consideration for resolution of claims of the various parties to the settlement. Consideration for those claims includes $147 million in cash and approximately $90 million in-kind. Additional consideration for those claims has been captured within the terms of the Renegotiated Contracts, including approximately $180 million related to the price of natural gas, capacity, and Electricity

c. The Parties understand and acknowledge that none of the Consideration represents any civil fines or penalties, and all Consideration represents payment for alleged overcharges, damages or restitution allegedly owed to the States of California, Oregon and Washington and their agencies, departments, cities, counties, political subdivisions and citizens, including without limitation the California State Releasing Parties, California Water Districts, California Cities and Counties, Unnamed California Cities, Counties and Political Subdivisions, the Northwest AGs, and the Private Parties in connection with the Released Claims herein including, without limitation, claims related to alleged unlawful or excessive charges for Electric Power or Gas by Williams or Williams Companies prior to the Phase I Execution Date.

d. The AG informs Williams that as of the execution of this Settlement Agreement, it will distribute the Cash Consideration as described in Schedule 4.7(d) hereto. Williams has no obligation to ensure that the funds are distributed as represented by the AG, and the failure to distribute the funds in accordance with this schedule shall not be a basis for challenging the validity or enforceability of this Settlement Agreement.

4.8 Cash Consideration/Rights Upon Default:

a. Upon the occurrence of any one of the following events, the AG or its designee may, at its option and without notice or demand upon Williams or Williams Companies, immediately accelerate the Cash Consideration, making the entire amount of the outstanding Cash Consideration (as adjusted pursuant to this Paragraph 4.8(a)) immediately due and payable in full, and thereafter exercise any of its rights and remedies hereunder, under the Credit Documents, or under applicable law to recover the Cash Consideration (each an "Event of Default"):

(i) the failure by Williams to make any payment of the Cash Consideration within five (5) Business Days of when due, or the failure by Williams or Williams Companies to provide and maintain in effect Security Documents as set forth in Paragraph 4.8(c), without notice or right to cure;

(ii) a breach by Williams or Williams Companies (but not any successor or assign excluding any Williams or Williams Companies affiliates) under this Settlement Agreement, the Gas Contract, the Security Documents, or the Renegotiated Contracts (collectively, the "Settlement Documents") which is not cured within any applicable grace period;

(iii) the inaccuracy in any material respect of any representation or warranty of Williams or Williams Companies contained in the Settlement Documents; or

(iv) the assignment or transfer, whether directly, indirectly, or by operation of law (including, without limitation, any transfer by merger), by Williams of any or all of its rights and obligations under any of the Renegotiated Contracts other than a collateral assignment in favor of Williams' senior secured bank lender(s) without the AG's prior written consent unless simultaneous with such transfer, Williams pays to the AG or its designee(s) the Tranche B Payments.

Notwithstanding the foregoing, (x) in the event of an acceleration of the Cash Consideration pursuant to this clause (a) above, the Tranche B Payments shall be reduced to their then net present value utilizing a discount rate equal to 10% per annum provided that the net present value of Tranche B Payments if accelerated on the following dates shall be as follows: (A) for payment on or prior April 1, 2003, $25,700,000; (B) for payment after April 1, 2003 and on or prior to July 1, 2003, $26,300,000; (C) for payment after July 1, 2003 and on or prior to October 1, 2003, $27,000,000; and, (D) for payment after October 1, 2003 and on or prior to January 1, 2004, $27,700,000., and (y) an acceleration pursuant to clause (iv) above shall result only in the acceleration of the Tranche B Payments and of the payment due pursuant to Paragraph 1.16(iv).

b. Williams shall be entitled to prepay any of the Cash Consideration, in whole or in part, at any time or from time to time without premium or penalty; provided, however, that any prepayment of the Tranche B Payments shall be reduced to the then current net present value thereof, calculated using a discount rate of ten percent (10%) per annum. The net present value of Tranche B Payments if prepaid in full on the following dates shall be as follows: (i) for

prepayment on or prior to April 1, 2003, $25,700,000; (ii) for prepayment after April 1, 2003 and on or prior to July 1, 2003, $26,300,000; (iii) for prepayment after July 1, 2003 and on or prior to October 1, 2003, $27,000,000; and (iv) for prepayment after October 1, 2003 and on or prior to January 1, 2004, $27,700,000.

c. Williams shall pay to the AG or its designee, upon demand, any and all costs (including reasonable attorneys' fees) reasonably incurred by the AG or its designee in connection with enforcing or collecting the Cash Consideration not paid when due by Williams.

d. Any Cash Consideration not paid by Williams when due shall bear interest from such due date until paid at a rate equal to the greater of (i) fifteen percent (15%) per annum, or (ii) the prime rate (as published in the money rates section of The Wall Street Journal on the default date) plus six percent (Prime + 6%), compounded monthly.

e. Credit Default Swaps

(i) Any Credit Default Swap provided as a Credit Document shall meet the criteria set forth in Schedule 1.25 and be otherwise satisfactory in form and substance to the AG, and be issued by Bank of America or another single financial institution acceptable to the AG (an "Eligible CDS party") with Fixed and Floating Rate Payor Calculation Amounts equal to or greater than 125% of the amount of Tranche A Payments to be supported.

(ii) Williams shall prepay fees for any Credit Default Swap provided hereunder for the initial two successive calendar quarters and thereafter prepay succeeding calendar quarters one full quarter in advance of that calendar quarter. Williams agrees to pay each Fixed Payment due under any Credit Default Swap entered into or obtained pursuant to this Paragraph 4.8 not less than one calendar quarter before such Fixed Payment becomes due and to deliver or cause to be delivered to the AG a written receipt from the Floating Rate Payor under such Credit Default Swap not less than eighty (80) days before such Fixed Payment becomes due.

(iii) To the extent any payment under any Credit Default Swap issued pursuant to this clause exceeds the amount owed to the AG under Tranche A, then such excess amount will be applied by the AG against Williams' obligations to the AG under Tranche B.

f. Williams agrees to put into place any other Credit Document(s) to replace any Credit Document that is expiring, lapsing or terminating to the extent any outstanding Tranche A Payments would otherwise be without credit support, except as provided in clause (e), such replacement Credit Documents to be executed and delivered to the AG not less than thirty (30) days before the expiration, lapse or termination date of the Credit Document being replaced. Notwithstanding any other provision in this Agreement, there shall be no cure period with respect to any failure to perform by Williams under this Paragraph 4.8.

g. The AG shall not be deemed to have waived any of its rights under this Paragraph or otherwise unless such waiver is in writing and signed by the AG. The AG's failure to require strict performance of the terms, covenants and agreements of this Paragraph, the Settlement Documents, or any delay or omission on the part of the AG in exercising any right, or any acceptance of partial or adequate payment or performance shall not waive, affect or diminish such right or Williams' or Williams Companies' duty of compliance and performance therewith. A waiver on any one occasion shall not be construed as a bar to or waiver of the same or any other right on the same or any future occasion. All rights and remedies of the AG under this Paragraph 4.8 or any other of the Settlement Documents shall be cumulative and may be exercised singularly or concurrently.

4.9 Williams Release:

Williams hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that it ever had, now has, or hereafter can, shall, or may have against the Parties based on, or arising out of, in whole or in part, (a) the Original Contracts, or (b) issues relating to effectiveness, due authorization, validity, or enforceability of any of the obligations of any of the Parties under the Renegotiated Contracts or whether such obligations are Just and Reasonable. This release does not constitute a waiver by Williams of the right to pursue remedies under the Renegotiated Contracts for acts and omissions from and after the Phase I Execution Date as provided therein, including but not limited to (a) claims of breach of an obligation created the Renegotiated Contracts, (b) claims of failure to perform under the Renegotiated Contracts, and (c) disputes over the obligations created by, or the meaning of any terms used in the Renegotiated Contracts. This release does not constitute a waiver of any claims by Williams that actions of the Parties subsequent to the Phase I Execution Date may constitute an "impairment of contract," as used in the California and United States Constitution, with respect to the Renegotiated Contracts.

Williams and Williams Companies hereby release, acquit, and forever discharge the California State Releasing Parties, California Water Districts, the California Cities, Counties and Political Subdivisions, the Northwest AGs, and the Private Parties from any and all claims arising on or before the Phase I Execution Date related to the claims described in Paragraphs 4.1, 4.2, 4.3, 4.4, and 4.5.

4.10 The releases set forth above in Paragraphs 4.1, 4.2, 4.3, 4.4, 4.5, and 4.9 shall run to, benefit, and be enforceable by all of the present and former officers, directors, employees, agents, legal representatives, successors, and assigns of All Releasing Parties. No other parties that are not a party to this Settlement Agreement shall be entitled to the benefits of, and entitled to enforce, the releases provided for in such Paragraphs.

4.11 Notwithstanding anything herein to the contrary, nothing in Paragraphs 4.1 through 4.10 inclusive shall constitute a limitation to, or waiver of, any right to enforce any obligation or pursue any remedy provided under this Settlement Agreement or the Renegotiated Contracts or the Gas Contract (including the enforcement of the releases provided by the Parties hereunder).

4.12 The CEOB and CPUC hereby agree to withdraw with prejudice, by means of filing a Notice of Partial Withdrawal, pursuant to 18 C.F.R. Section 385.216(a), as to Williams only, all actions or complaints set forth in the CPUC Complaint and the CEOB Complaint pertaining to Williams within two (2) Business Days following the Closing Date following suspension of such proceedings as provided in Paragraph 3.6(b). In filing to withdraw the AG 206 Complaint, the CPUC Complaint and the CEOB Complaint as to Williams, the AG, the CEOB and the CPUC shall each advise the FERC that resolution has been reached between it and Williams concerning such actions and complaints. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement. In the event the FERC denies the partial withdrawal, this Agreement shall be null and void and of no further effect, with all rights, duties and obligations of the Parties thereafter restored as if this Settlement Agreement had never been executed.

The Parties will cooperate and assist each other in good faith in the preparation and filing of such partial withdrawal in any and all proceedings arising out of, or related to, the request for partial withdrawal, including but not limited to acting in good faith to take all necessary actions to effectuate FERC acceptance of the withdrawal and associated dismissal of the portions of the complaints and claims, and effectuation of the releases as contemplated in this Paragraph.

4.13 All Releasing Parties expressly waives the benefits of any statutory provision or common law rule that provides, in sum or substance, that a release does not extend to claims which the party does not know or suspect to exist in its favor at the time of executing the release, which if known by it, would have materially affected its settlement with the other party. In particular, but without limitation, All Releasing Parties expressly waive the provisions of California Civil Code Section 1542, which statute reads:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

All Releasing Parties acknowledges that they may hereafter discover facts other than or different from those that they know or believe to be true with respect to the claims released pursuant to the provisions of this Settlement Agreement, but All Releasing Parties hereby expressly waive and fully, finally and forever settle and release any known or unknown, suspected or unsuspected, asserted or unasserted, contingent or non-contingent claim with respect to the Released Claims, and without regard to the subsequent discovery or existence of such different or additional facts, except, with respect to the AG and Northwest AG's and the CPUC only, this California Civil Code Section 1542 waiver does not apply to any criminal claims or unknown claims of willful fraud.

4.14 This Settlement Agreement may be pleaded as a full and complete defense to any claim that may be instituted, prosecuted or attempted in breach of this Settlement Agreement. The Parties further agree that their respective duties and obligations hereunder may be specifically enforced through an action seeking equitable relief or a petition for writ of mandamus by the Party or Parties for whose benefit such duty or obligation is to be performed, but no breach of any duty or obligation by any Party hereunder shall entitle any other Party to rescind or terminate this Settlement Agreement, except as provided in Paragraph 3.8 hereof. In

any such action, and in any action to enforce the provisions of the Settlement Agreement, the prevailing party shall recover its reasonable attorneys' fees and costs.

4.15 Williams agrees that it is subject to, and will comply in all material respects with, applicable rate filing requirements under the Federal Power Act and regulations thereunder, as those requirements may be interpreted, reviewed and revised by the FERC or a federal court from time to time. The AG will not file any actions based on any legal theory, including without limitation Business and Professions Code Section 17200, against Williams with respect to such filing requirements or any filings made, or any failure or omission to make filings, under the Federal Power Act so long as such parties comply with the requirements of this Paragraph 4.15.

4.16 The Parties expressly understand that both direct and indirect breaches of the provisions of this Settlement Agreement are proscribed. Therefore, the Parties covenant that each will not institute or prosecute, against the other, any action or other proceeding based in whole or in part upon any claims released by this Settlement Agreement; provided, however, the Parties expressly acknowledge that the CPUC Complaint, CEOB Complaint, Refund Proceeding, and AG 206 Complaint are continuing with respect to entities other than Williams and this release is not intended to impair in any way the Parties' participation in those pending actions.

4.17 Except for the provisions of Paragraph 4.18, the California State Releasing Parties stipulate that part of the cash portion of this settlement constitutes full payment of any claim for attorneys' fees and costs, and the Parties hereby waive and release any and all claims for attorneys' fees or costs, statutory or otherwise, related in any way to disputes pre-dating this Settlement Agreement or related to the Parties' entry into this Settlement Agreement.

4.18 Williams agrees to pay the amount of $15 million (the "Fee and Expense Fund") by wire transfer into an escrow account (the "Escrow Account") with a qualified third party financial institution (the "Escrow Agent") acceptable to Williams and Civil Plaintiffs' Counsel. These funds shall be wired to the Escrow Account no later than January 2, 2003, provided however, that if the Phase I parties extend the date for satisfaction of any conditions precedent set forth in Paragraph 3.6 beyond January 2, 2003, the date for funding the Escrow Account shall be the earlier of the date of satisfaction of the Paragraph 3.6 conditions or April 1, 2003, provided however that this date may be extended by mutual agreement of Williams and Civil Plaintiffs' Counsel. This amount will be held in escrow, and will be returned to Williams, with all interest earned, less approved costs of notice paid from the Fee and Expense Fund, should this settlement not be completed or approved by the Court.

a. If this settlement is approved, then the funds provided by Williams shall remain in escrow, with all interest added to the fund, to be disbursed upon application to the Court by a majority of Civil Plaintiffs' Counsel as follows:

(i) Upon satisfaction of the conditions of Paragraphs 3.3(f)(i) and 3.3(f)(ii), excluding any appeals, any or all of the funds may be expended for litigation expenses of the Private Parties, Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class, including but not limited to expert fees, as approved from time to time by the Court. Any counsel receiving funds from the Fee and Expense Fund agrees to be bound by the provisions of the Settlement

Agreement including without limitation Paragraph 3.3 as it applies to Civil Plaintiffs' Counsel;

(ii) Any or all of the funds may be expended for attorneys' fees of the Private Parties, Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class. Any counsel receiving funds from the Fee and Expense Fund agrees to be bound by the provisions of the Settlement Agreement including without limitation the provisions of the Paragraph 3.3 as it applies to Civil Plaintiffs' Counsel, as approved from time to time by the trial court;

(iii) Counsel for the Private Parties, the Water Districts, the California Cities and Counties and/or any other counsel that represents or purports to represent the Class, may make multiple requests, at their sole discretion, for expenses and/or attorneys' fees as the litigation progresses;

(iv) Should the litigation be completed without exhausting the funds for the purposes described above, then all remaining funds shall be paid, upon Court order, to the Class or the Private Parties, or to a charity approved by the Court; and

(v) Except as provided in Paragraphs 4.18(e), (f) and (g), in no event shall any of these funds be returned to Williams or paid to the State of California, the AG, or any agency or officer of the State of California.

b. Except as provided in this paragraph 4.18 above, if payment under this paragraph is not made by January 2, 2003, this Settlement Agreement with respect to the Plaintiffs and the Class in Wholesale Electricity Antitrust Cases I & II may, at the option of Civil Plaintiffs' Counsel be terminated. If the Settlement Agreement is not terminated, any amount due under this paragraph shall bear interest from such due date until paid at a rate equal to the greater of (i) fifteen percent (15%) per annum, or (ii) the prime rate (as published in the money rates section of The Wall Street Journal on the default date) plus six percent (Prime + 6%), compounded monthly.

c. Other than the deposit of the Fee and Expense Payment into the Escrow Account, Williams shall have no further obligation to any person or entity including, without limitation, the Private Parties, Water Districts, the California Cities and Counties, Civil Plaintiffs' Counsel, any other counsel that represents or purports to represent the Class, or any of them with respect to any claim for incentive awards, attorneys' fees, costs or disbursements incurred or claimed to have been incurred in connection with the Civil Actions.

d. Williams shall have no responsibility for, and no liability whatsoever with respect to the allocation among Civil Plaintiffs' Counsel, or any other person who may assert some claim thereto, of any part of the Fee and Expense Fund, and Williams takes no position with respect to such matters.

e. All (i) taxes (including any estimated taxes, interest or penalties) arising with respect to the income earned by the Fee and Expense Fund ("Taxes"); and (ii) expenses and costs

incurred in connection with the operation and implementation of this Paragraph (including, without limitation, expenses of tax attorneys and/or accounting and mailing distribution costs and expenses relating to filing (or failing to file) any necessary filings) ("Tax Expenses"), shall be paid out of the Fee and Expense Fund; in all events Williams and Williams Companies shall have no liability or responsibility for the Taxes, the Tax Expenses, or the filing of any tax returns or other documents with the Internal Revenue Service or any other state or local taxing authority. The Fee and Expense Fund, by and through Civil Plaintiffs' Counsel, shall hold Williams and Williams Companies harmless for Taxes and Tax Expenses (including, without limitation, Taxes payable by reason of any such indemnification). Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the settlement and shall be timely paid by the Escrow Agent out of the Fee and Expense Fund without prior order from the Court, and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Civil Plaintiffs' Counsel any funds necessary to pay such amounts. Williams and Williams Companies are not responsible and shall have no liability therefor, or for any reporting requirements that may relate thereto. Williams and Williams Companies and the Plaintiffs in the Civil Actions hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this Paragraph 4.18.

f. In the event the Phase I Execution Date or the Closing does not occur for any reason, or the Settlement Agreement is terminated pursuant to its terms, or the Class Settlement provided for in this Paragraph is not approved, or is terminated, canceled, or fails to become effective for any reason, the Fee and Expense Fund (including accrued interest), less any amounts expended to provide notice to the Class pursuant to Paragraph 3.3(b), shall be refunded to Williams and Williams Companies as provided in Paragraph 4.18(g) below.

g. The attorneys' fees and expenses including the fees of experts and consultants as awarded by the Court (the "Fee and Expense Award"), shall be paid from the Fee and Expense Fund, as ordered, immediately after the Court executes an order awarding such fees and expenses. Civil Plaintiffs' Counsel shall thereafter allocate the Fee and Expense Award in a manner in which they in good faith believe reflects the contributions of each such counsel to the litigation and settlement. In the event that the Settlement Agreement or Class Settlement does not occur for any reason, or the Judgment or the order making the Fee and Expense Award is reversed or modified on appeal, and in the event that the Fee and Expense Award has been paid to any extent, then Civil Plaintiffs' Counsel shall within ten (10) business days from the event which precludes the Effective Date from occurring or such reversal or modification, refund to the Fee and Expense Fund the fees, expenses and interest previously paid to them from the Fee and Expense Fund, including accrued interest on any such amount at the average rate earned on the Fee and Expense Fund from the time of withdrawal until the date of refund. Each such Civil Plaintiffs' Counsel's law firm, as a condition of receiving such fees and expenses, on behalf of itself and each partner and/or shareholder of it, agrees that the law firm and its partners and/or shareholders are subject to the jurisdiction of the Court for the purpose of enforcing this Paragraph 4.18 of this Settlement Agreement. Without limitation, each such law firm and its partners and/or shareholders agree that the Court may, upon application of Williams or Williams Companies on notice to each such law firm and its partners and/or shareholders, summarily issue orders, including but not limited to, judgments and attachment orders, and may make appropriate

findings of or sanctions for contempt, against each such law firm and its partners and/or shareholders, or any of them, should such law firm fail timely to repay fees and expenses pursuant to this Paragraph 4.18 of this Settlement Agreement.

h. Except as provided in Paragraphs 4.18(f), and (g), Williams and Williams Companies shall not have any responsibility for interest in, or liability whatsoever with respect to the administration, investment or distribution of the Fee and Expense Fund, the plan of allocation, the determination or administration of Taxes, or any losses incurred in connection therewith. No Person shall have any claim of any kind against Williams or Williams Companies, or its counsel, or its primary or excess directors' and officers' liability insurer and reinsurers with respect to the matters set forth in this paragraph.

4.19 Each of the Parties acknowledges and agrees that the various releases in this Settlement Agreement were individually negotiated with the various releasing parties under such releases and that such releases should be interpreted individually in the context of this Settlement Agreement without regard to other releases herein.

5. REPRESENTATIONS, WARRANTIES, AND OTHER AGREEMENTS.

5.1 Each of the Parties hereto as to itself represents and warrants to each other Party as of the date hereof, and as of the Closing Date, as follows:

a. it has the full power and authority to enter into this Settlement Agreement and to perform all transactions, duties and obligations herein set forth;

b. it has taken all necessary actions duly and validly to authorize the execution and delivery of this Settlement Agreement and the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract) in accordance with applicable law;

c. they have duly and validly executed and delivered this Settlement Agreement and, on the Closing Date, will have duly and validly executed and delivered, the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract);

d. this Settlement Agreement constitutes, and other documents and agreements provided for herein to be executed and delivered by it will constitute on and after Closing, its legal, valid and binding obligations, enforceable against it in accordance with this Settlement Agreement's terms and the respective terms of the other documents and agreements provided for herein to be executed and delivered by it (including without limitation the Renegotiated Contracts and the Gas Contract);

e. it has not sold, assigned, transferred, or encumbered, or otherwise disposed of, in whole or in part, voluntarily or involuntarily, any claim of any nature whatsoever released pursuant to this Settlement Agreement; and

f. except as set forth in Schedule 5.1(f) attached to this Settlement Agreement, no discharge or consent of any party is required for (i) the execution, delivery or performance of this Settlement Agreement, (ii) the consummation of the transactions contemplated hereby (including without limitation the Renegotiated Contracts and the Gas Contract), or (iii) the transfer of any of the Property to the AG or his designee(s).

5.2 In order to induce the California State Releasing Parties, California Cities and Counties, California Water Districts, the Northwest AGs, and the Private Parties to enter into this Settlement Agreement and provide the releases and other consideration set forth herein, and as further consideration therefor, Williams and Williams Companies acknowledge and agree as follows:

a. Reasonably Equivalent Value (Williams). Williams has made an independent determination of (i) the fair market value of the Property to be conveyed pursuant to the Bill of Sale, (ii) the fair market value of William's interests in the Original Contracts, (iii) the fair market value of Williams' claims released in this Settlement Agreement, and (iv) the fair market value of all other consideration provided by Williams pursuant to this Settlement Agreement to any party hereto (collectively, the "Williams Consideration"), and has determined that, in the aggregate, the fair market value of the Williams Consideration is reasonably equivalent to the aggregate of (A) the fair market value of Williams' interests in the Renegotiated Contracts and the Gas Contract, (B) the fair market value of the claims of the Parties released in this Settlement Agreement, and (C) the fair market value of all other consideration received by Williams pursuant to this Settlement Agreement from any Party hereto.

b. Reasonably Equivalent Value (Williams Companies). Williams Companies has made an independent determination of (i) the fair market value of Williams Companies' claims released in this Settlement Agreement, and (ii) the fair market value of all other consideration provided by Williams Companies pursuant to this Settlement Agreement to any party hereto (collectively, the "Williams Companies Consideration"), and has determined that, in the aggregate, the fair market value of the Williams Companies Consideration is reasonably equivalent to the aggregate of (A) the fair market value of the claims of the Parties released in this Settlement Agreement, and (B) the fair market value of all other consideration received by Williams Companies pursuant to this Settlement Agreement from any party hereto.

c. Solvency (Williams). Williams acknowledges and agrees that before and after giving effect to the transactions contemplated by this Settlement Agreement (i) Williams' financial condition is and will be such that the fair value of its property (exclusive of property transferred, concealed or removed with intent to hinder, delay or defraud any creditor) exceeds the sum of Williams' debts, (ii) Williams has not incurred and will not have incurred, and does not intend to incur, debts beyond its ability to pay as they become due, and (iii) Williams has and will have sufficient capital to conduct its business affairs.

d. Solvency (Williams Companies). Williams acknowledges and agrees that before and after giving effect to the transactions contemplated by this Settlement Agreement (i) Williams' financial condition is and will be such that that the fair value of its property (exclusive of property transferred, concealed or removed with intent to hinder, delay or defraud any creditor) exceeds the sum of Williams Companies' debts, (ii) Williams Companies has not

incurred and will not have incurred, and does not intend to incur, debts beyond its ability to pay as they become due, and (iii) Williams Companies has and will have sufficient capital to conduct its business affairs.

e. Reinstatement of Claims. If under any debtor relief proceedings all or any part of any conveyance of property or any payment of cash by Williams or Williams Companies to any Party to this Settlement Agreement is subsequently invalidated, declared to be fraudulent or preferential, or set aside, then, to the extent such Party is required to return such property or pay the value thereof or refund any payment, Williams' and Williams Companies' liabilities to such Party shall be deemed reinstated to the extent necessary to provide such Party with a distribution on its claim in such debtor relief proceeding equal to the value assigned herein to the returned property or the full amount of the avoided payment or refund and the release given by such party to Williams and Williams' Companies in this Settlement Agreement shall be to such extent of no further force or effect.

f. Prior Obligations; Taxes. No Party shall be liable for or obligated to pay any amounts or obligations with respect to the Property arising prior to the date hereof. Williams shall pay when due all fees, taxes and governmental charges (including without limitation interest and penalties) of any nature which may now or hereafter be imposed or levied by any federal, state or local authority upon any Party, the Property (including, without limitation, the purchase, ownership, transportation, delivery, installation, leasing, possession, use, operation, storage, and return of such Property) arising as a result of Williams' ownership of the Property.

5.3 All Releasing Parties represents and warrants, as to itself, that it is not aware of any other pending or existing lawsuits, claims, or formal or informal investigations by or on behalf of itself against Williams related to the Original Contracts other than as released in this Settlement Agreement.

5.4. Each of the CDWR, CEOB, and CPUC represents and warrants, as to its own agency, that it is not aware of any pending or existing lawsuits, claims, or formal or informal investigations or inquiries by or on behalf of the itself against Williams or Williams Companies, other than as set forth above, related to the pursuit of claims released in Paragraph 4.3 other than as released in this Settlement Agreement.

5.5 Each of the AG and the Northwest AGs represents and warrants that he or she is not aware of any pending or existing lawsuits, claims, or formal or informal investigations or inquiries by or on behalf of him or her against Williams or Williams Companies related in any way to the subject matter of this Settlement Agreement other than the claims he or she is releasing in Paragraph 4.4 of this Settlement Agreement.

5.6 Each Party warrants the following: (1) it is represented by competent counsel with respect to this Settlement Agreement and all matters covered by it; (2) it has been fully advised by said counsel with respect to its rights and obligations and with respect to the execution of this Settlement Agreement; and (3) it authorizes and directs its respective attorneys to have such papers executed and to take such other action as is necessary and appropriate to effectuate the terms of this Settlement Agreement.

5.7 Each Party warrants that no promise, inducement or agreement not expressed herein has been made in connection with this Settlement Agreement. To the extent that it was deemed necessary and desirable by a Party, each such Party warrants that it has received appropriate, adequate, and competent technical and economic advice. Each Party warrants that it has not relied on any other Party for advice or guidance concerning the technical or economic implications or consequences of the Renegotiated Contracts or this Settlement Agreement. This Settlement Agreement constitutes the entire agreement between the Parties and supersedes and replaces all prior negotiations or proposed agreements, written or oral, with respect to the subject matter thereof.

5.8 The representations, warranties and agreements of the Parties set forth in Paragraphs 5.1 through 5.7 of this Settlement Agreement shall survive the Closing indefinitely.

6. GENERAL PROVISIONS.

6.1 In entering and making this Settlement Agreement, the Parties assume the risk of any mistake of fact or law. If the Parties, or any of them, should later discover that any fact they relied upon in entering this Settlement Agreement is not true, or that their understanding of the facts or law was incorrect, then the Parties shall not be entitled to seek rescission of this Settlement Agreement by reason thereof. This Settlement Agreement is intended to be final and binding upon the Parties regardless of any mistake of fact or law.

6.2 This Settlement Agreement shall be binding upon and for the benefit of any of the Parties and their successors and assigns. Nothing in this Settlement Agreement shall be construed or interpreted to impart any rights or obligations to any third party (other than a permitted successor or assignee bound to this Settlement Agreement).

6.3 Neither the provision of consideration in the form of the mutual covenants contained herein, nor the performance of any such covenants contained herein, nor anything contained or incorporated herein shall be deemed, nor shall the negotiations, execution and performance of this Settlement Agreement constitute, any admission or concession of liability or wrongdoing on the part of any Party. Any such liability or wrongdoing is expressly denied.

6.4 This Settlement Agreement may not be altered, amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by an authorized representative of each of the Parties.

6.5 The language of this Settlement Agreement shall be construed as a whole, according to its fair meaning and intendment, and not strictly for or against any Party, regardless of who drafted or was principally responsible for drafting the Settlement Agreement or any specific terms or conditions hereof. This Settlement Agreement shall be deemed to have been drafted by all Parties, and no Party shall urge otherwise.

6.6 The headings in this Settlement Agreement are for convenience only. They in no way limit, alter or affect the meaning of this Settlement Agreement.

6.7 This Settlement Agreement shall be construed and enforced pursuant to the laws of the State of California, excluding any choice of laws provisions or conflict of laws principles which would require reference to the laws of any other jurisdiction.

6.8 Should any provision of this Settlement Agreement be held illegal, such illegality shall not invalidate the whole of this Settlement Agreement; instead, the Parties shall use their best efforts to reform the Settlement Agreement in order to give effect to the original intention of the Parties in all material respects.

6.9 This Settlement Agreement may be executed in multiple original and/or facsimile counterparts, each of which is equally admissible in evidence and shall be deemed to be one and the same instrument. This Settlement Agreement shall not take effect until each Party has signed a counterpart.

6.10 The failure of any Party hereto to enforce any condition or provision in this Settlement Agreement at any time shall not be construed as a waiver of that condition or provision unless such waiver is in writing and signed by the waiving Party, nor shall it forfeit any rights to future enforcement thereof.

6.11 The schedules attached to this Settlement Agreement are hereby made a part of this Settlement Agreement.

6.12 Time shall be of the essence for purposes of construing and enforcing this Agreement.

6.13 If the Closing does not occur, the Parties shall be restored to their respective positions as of the Phase I Execution Date.

6.14 The Parties (a) acknowledge that it is their intent to consummate this Settlement Agreement; and (b) agree to cooperate to the extent necessary to effectuate and implement all terms and conditions of this Settlement Agreement and to exercise their best efforts to accomplish the foregoing terms and conditions of this Settlement Agreement.

6.15 The Parties agree that the terms of the settlement reflect a good-faith settlement of all Parties hereto, reached voluntarily after consultation with experienced legal counsel. Neither this Settlement Agreement nor the settlement contained herein, nor any act performed or document executed pursuant to or in furtherance of this Settlement Agreement or the settlement: (i) is or may be deemed to be or may be used as an admission of, or evidence of, the validity of any Released Claim, or of any wrongdoing or liability of Williams or Williams Companies; (ii) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of Williams or Williams Companies in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal; or (iii) shall be offered in evidence or alleged in any pleading by any party hereto, Williams' or Williams Companies' counsel or Civil Plaintiffs' Counsel. Released Persons may file this Settlement Agreement and/or Judgment from this Litigation in any other action that may be brought against them in order to support a defense or counterclaim based on principles of res judicata, collateral estoppel, release, good-faith settlement, judgment bar or reduction or any theory of claim preclusion or issue preclusion or similar defense or counterclaim. The Parties, their respective counsel or any other Member of

the Class may file this Settlement Agreement in any proceeding brought to enforce any of its terms or provisions. The Parties and their counsel, and each of them, agree, to the extent permitted by law, that all agreements made and orders entered during the course of the Litigation relating to the confidentiality of information shall survive this Settlement Agreement.

6.16 This Settlement Agreement and the attached Schedules constitute the entire agreement among the Parties, and no representations, warranties or inducements have been made to any Party concerning this Settlement Agreement or its Exhibits other than the representations, warranties and covenants contained and memorialized in such documents. Except as otherwise provided herein, each Party shall bear its own costs.

6.17 Each Party, or any person or entity executing this Settlement Agreement or any of its Exhibits on behalf of any of the Parties, warrants that it is expressly authorized to take all appropriate action required or permitted to be taken by the Parties pursuant to this Settlement Agreement to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to this Settlement Agreement on behalf of the Class which they deem appropriate.

6.18 Each counsel or other Person executing this Settlement Agreement or any of its Exhibits on behalf of any Party hereto hereby warrants that such Person has the full authority to do so.

6.19 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of this Settlement Agreement, and all Parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the settlement embodied in this Settlement Agreement.

6.20 This Settlement Agreement and the Exhibits hereto shall be considered to have been negotiated, executed and delivered, and to be wholly performed, in the State of California, and the rights and obligations of the parties to this Settlement Agreement shall be construed and enforced in accordance with the laws of the State of California without giving effect to that State's choice of law principles.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, the Parties have executed and delivered this Settlement Agreement and made it effective as of the date set forth at the beginning of this Settlement Agreement.

THE GOVERNOR OF THE STATE OF CALIFORNIA

By: /s/ Barry Goode

Barry Goode, Secretary of Legal Affairs
Attorney for the Governor of the State of California

THE CALIFORNIA DEPARTMENT OF WATER RESOURCES

By: /s/ Peter S. Garris

Name: Peter S. Garris
Title: Deputy Director

THE CALIFORNIA ELECTRICITY OVERSIGHT BOARD

By: /s/ Erik N. Saltmarsh

Erik N. Saltmarsh
Chief Counsel

THE CALIFORNIA PUBLIC UTILITIES COMMISSION

By: /s/ Gary M. Cohen

Name: Gary M. Cohen
Title: General Counsel

ATTORNEY GENERAL OF THE STATE OF CALIFORNIA

By: /s/ Ken Alex

Ken Alex
Supervising Deputy Attorney General

ATTORNEY GENERAL OF THE STATE OF OREGON

By: /s/ Hardy Myers

Name: HARDY MYERS
Title: ATTORNEY GENERAL OF OREGON

ATTORNEY GENERAL OF THE STATE OF WASHINGTON

By: /s/ Brady R. Johnson

Name: BRADY R. JOHNSON
Title: ASSISTANT ATTORNEY GENERAL

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Dennis J. Herrera

Name: Dennis J. Herrera
Title: San Francisco City Attorney

CITY OF OAKLAND

By: /s/ J. Patrick Tang

Name: J. Patrick Tang
Title: Deputy City Attorney

COUNTY OF SANTA CLARA

By: /s/ Donald F. Gage

Name: Donald F. Gage
Title: Chairperson

COUNTY OF CONTRA COSTA

By: /s/ Silvano B. Marchesi

Name: Silvan B. Marchesi
Title: County Counsel

VALLEY CENTER MUNICIPAL WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

PADRE DAM MUNICIPAL WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

RAMONA MUNICIPAL WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

HELIX WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

VISTA IRRIGATION DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Counsel

YUIMA MUNICIPAL WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

FALLBROOK PUBLIC UTILITY DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

BORREGO WATER DISTRICT

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

METROPOLITAN TRANSIT DEVELOPMENT BOARD

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

SAN DIEGO TROLLEY, INC.

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

SAN DIEGO TRANSIT CORPORATION

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

SWEETWATER AUTHORITY

By: /s/ C. Michael Cowett

Name: C. Michael Cowett
Title: Special Counsel

/s/ Cruz M. Bustamante

California Lieutenant Governor Cruz Bustamante

/s/ Barbara S. Matthews

California Assemblywoman Barbara Mathews

/s/ Pamela R. Gordon

Pamela R. Gordon, in her capacity as a
Representative of the Class

/s/ Ruth Hendricks

Ruth Hendricks, in her capacity as a
Representative of the Class

/s/ Mary L. Davis

Mary L. Davis, in her capacity as a
Representative of the Class

OSCAR'S PHOTO LAB, IN ITS CAPACITY AS A
REPRESENTATIVE OF THE CLASS

By: /s/ Vartan Demirjian__

Name: Vartan Demirjian
Title: Owner

WILLIAMS ENERGY MARKETING & TRADING COMPANY

By: /s/ William E. Hobbs

Name: William E. Hobbs
Title: President and CEO

THE WILLIAMS COMPANIES, INC.

By: /s/ Steven J. Malcolm

Name: Steven J. Malcolm
Title: Chairman, President and CEO

AMENDED AND RESTATED MASTER POWER PURCHASE
AND SALE AGREEMENT

COVER SHEET

PRODUCTS A, B, AND C

This Amended and Restated Master Power Purchase and Sale Agreement (Version 2.1; modified 4/25/00) ("Products A, B, C Master Agreement") is made as of the following date: November 11, 2002 ("Effective Date"). The Products A, B, C Master Agreement, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including the Products A, B, C Transaction (defined below) and any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the "Agreement." The Parties to this Products A, B, C Master Agreement are the following:

Name: WILLIAMS ENERGY MARKETING & TRADING COMPANY ("Williams" or "Party A" or "Seller")	Name: STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("California Department of Water Resources" or "Department" or"Party B" or "Buyer")
All Notices:	All Notices: California Department of Water Resources/CERS
Street: One Williams Center	Street: 3310 El Camino Avenue, Suite 120
City: Tulsa, OK Zip: 74172	City: Sacramento, California Zip: 95821
Attn: Contract Administration Phone: 918-573-4188 Facsimile: 918-732-0269 Duns: 82-467-8478 Federal Tax ID Number: 73-142-3657	Attn: Executive Manager Power Systems Phone: (916) 574-0339 Facsimile: (916) 574-2152 Duns: Federal Tax ID Number: 52-1692634
INVOICES: Attn: Power Accounting Phone: 918-573-8337 Facsimile: 918-561-6893	INVOICES: DWR/CERS SETTLEMENTS UNIT Attn: Doreen Singh Phone: (916) 574-0309 Facsimile: (916) 574-1239
SCHEDULING: Attn: Cherry Smith Phone: 918-573-4835 Facsimile: 918-573-1534	SCHEDULING: Attn: Chief Water and Power Dispatcher Phone: (916) 574-0161 Facsimile: (916) 574-2569
PAYMENTS: Attn: Power Accounting Phone: 918-573-8337 Facsimile: 918-561-6893	PAYMENTS: Attn: Cash Receipts Section Phone: (916) 653-6892 Facsimile: (916) 654-9882

WIRE TRANSFER: BNK: Bank One, N.A. ABA: 071000013 ACCT: 55-27554	WIRE TRANSFER: BNK: Bank of America (Sacramento main branch) for: Department of Water Resources ABA: Routing # 121000358 ACCT: # 14365-80598
CREDIT AND COLLECTIONS: Attn: Tim Neuman Phone: 918-573-4880 Facsimile: 918-561-6987	CREDIT AND COLLECTIONS: Attn: Deputy Controller Phone: (916) 653-6148 Facsimile: (916) 653-8230
With additional Notices of an Event of Default to: Attn: Contract Administration Phone: 918-573-3059 Facsimile: 918-573-1935	With additional Notices of an Event of Default or Potential Event of Default to: Attn: Deputy Controller Phone: (916) 653-6148 Facsimile: (916) 653-8230

The Parties hereby agree that the General Terms and Conditions are incorporated herein, and to the following provisions as provided for in the General Terms and Conditions:

Party A Tariff Tariff n/a Dated_____ Docket Number_____

Party B Tariff Tariff n/a Dated_____ Docket Number_____

ARTICLE TWO

Transaction Terms and Conditions [x] Optional provision in Section 2.4. If not checked, inapplicable.

ARTICLE FOUR
Remedies for Failure to Deliver or Receive [ ] Accelerated Payment of Damages. If not checked, inapplicable.

ARTICLE FIVE

Events of Default; Remedies

[ ] Cross Default for Party A:

[ ] Party A:_____ Cross Default Amount $_____

[ ] Other Entity:_____ Cross Default Amount $_____

[ ] Cross Default for Party B:

[ ] Party B:_____ Cross Default Amount $_____

[ ] Other Entity:_____ Cross Default Amount $_____

5.6 Closeout Setoff

[ ] Option A (Applicable if no other selection is made.)

[ ] Option B - Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows:_____

_____

[X] Option C (No Setoff)

ARTICLE 8

Credit and Collateral Requirements

8.1 Party A Credit Protection:

(a) Financial Information:

[ ] Option A

[ ] Option B Specify:_____

[x] Option C Specify: (1) Annual audit, annual budget and all financial information sent to any seller under a power purchase agreement; Party B shall use reasonable commercial efforts to periodically prepare and make available to all sellers under power sales agreements, but not more frequently than quarterly, financial information reasonably intended to apprise all such sellers of the financial conditions of the Fund.) (2) Under any Buyer Replacement Agreement (defined below), or if Party B is an entity other than the California Department of Water Resources, financial statements, audited if available, no less frequently than quarterly. Notwithstanding anything in this Agreement to the contrary, any non-public financial statements provided pursuant to this Section shall be kept confidential.

(b) Credit Assurances:

[x] Not Applicable
[ ] Applicable

(c) Collateral Threshold:

[x] Not Applicable
[ ]

If applicable, complete the following:

Party B Collateral Threshold: ; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.

Party B Independent Amount: [$_____]

Party B Rounding Amount: [$_____]

(d) Downgrade Event:

[x] Not Applicable
[ ] Applicable

If applicable, complete the following:

[ ] It shall be a Downgrade Event for Party B if Party B's Credit Rating falls below [_____] from S&P or _____ from Moody's or if Party B is not rated by either S&P or Moody's

[ ] Other:
Specify:_____

(e) Guarantor for Party B:_____

Guarantee Amount:_____

8.2 Party B Credit Protection:

(a) Financial Information:

[ ] Option A
[ ] Option B Specify:_____
[x] Option C Specify: Party A to provide annual 10k filings of its parent and financial statements of Party A, audited if available, together with an officer's certificate relating to same, no less frequently than quarterly. Notwithstanding anything in this Agreement to the contrary, non-public financial statements provided pursuant to this Section shall be kept confidential.

(b) Credit Assurances:

[x] Not Applicable
[ ] Applicable

(c) Collateral Threshold:

[x] Not Applicable
[ ]

If applicable, complete the following:

Party A Collateral Threshold: $; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing.

Party A Independent Amount: $_____

Party A Rounding Amount: $_____

(d) Downgrade Event

[x] Not Applicable
[ ] Applicable

If applicable, complete the following:

[ ] It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party A is not rated by either S&P or Moody's

[ ] Other:

(e) Guarantor for Party A:_____

_____

- ---

ARTICLE 10
Confidentiality [ ] Confidentiality Applicable If not checked, inapplicable.

- ---

SCHEDULE M
[ ] Party A is a Governmental Entity or Public Power System
[x] Party B is a Governmental Entity or Public Power System
[ ] Add Section 3.6. If not checked, inapplicable
[ ] Add Section 8.4. If not checked, inapplicable

OTHER CHANGES Specify, if any:_____

(a) DEFINITIONS.

(1) Section 1.11 is amended by adding the following sentence at the end of the current definition: "The Non-defaulting Party shall use commercially reasonable efforts to mitigate or eliminate these Costs."

(2) Section 1.51, "Replacement Price" is amended on the fifth line by deleting the phrase "at Buyer's option" and inserting the following phrase: "absent a purchase."

(3) Section 1.53, "Sales Price" is amended on the fifth line of by deleting the phrase "at Seller's option" and inserting the following phrase: "absent a sale."

(4) Sections 1.6, 1.24, 1.28, 1.33, 1.34, 1.35, 1.36, 1.43, 1.44, 1.46, 1.48 and 1.56 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(5) Section 1.59 is amended by changing "Section 5.3" to "Section 5.2."

(6) Sections 1.62 through 1.73 are added to Article One as follows:

1.62 "Bonds" means the bonds offered by the Department of Water Resources pursuant to AB 1X, codified at California Water Code Section 80100 et seq (the "Act") with recourse only to the Trust Estate, and shall include any financing pursuant to Executive Order D-42-01 and a Credit and Security Agreement, dated as of June 26, 2001, by and among the Department of Water Resources, various lenders and Morgan Guaranty Trust Company of New York, as agent on behalf of such lenders.

1.63 "Buyer Replacement Agreement" means any agreement identical to this Agreement (including the Products A, B, C Transaction) between Party A and a Qualified Electrical Corporation, excluding provisions relating to Party B's status as a governmental agency or to the original start date(s) of this Agreement, and together with such changes as Party A and such Qualified Electrical Corporation may agree.

1.64 "Fund" means the Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code.

1.65 "Market Quotation Average Price" means the average of the good faith quotations solicited from not less than three (3) Reference Market-makers; provided, however, that the Party soliciting such quotations shall use commercially reasonable efforts to obtain good faith quotations from at least five (5) Reference Market-makers and, if at least five (5) such quotations are obtained, the Market Quotation Average Price shall be determined disregarding the highest and lowest quotations.

1.66 "Market Value" has the meaning set forth in Section 5.3.

1.67 "Per Unit Market Price" means the applicable price per MWh determined in accordance with Section 5.3.

1.68 "Products A, B, C Transaction" means the Transaction described in the attached Confirmation dated November 11, 2002.

1.69 "Qualified Electric Corporation" means an electrical corporation as defined by the Act, whose long-term unsecured senior debt on the effective date of any Buyer Replacement Agreement is rated BBB or better by S&P and Baa2 or better by Moody's and is not on negative outlook or Credit Watch from either rating agency; provided that with the exception of San Diego Gas and Electric Company,

Southern California Edison Company and Pacific gas and Electric Company, no electrical corporation shall be a Qualified Electrical Corporation without the prior written agreement of Party A.

1.70 "Qualified Power Seller" means any entity (a) engaged in the selling of electricity whose long-term unsecured senior debt on the effective date of any Assignment and Assumption Agreement is rated BBB or better by Standard & Poor's and Baa2 or better by Moody's and is not on negative outlook or Credit Watch from either rating agency, and (b) approved by Party B, such approval not to be unreasonably withheld.

1.71 "Reference Market-maker" means any marketer, trader or seller of or dealer in firm energy products whose long-term unsecured senior debt is rated BBB- or better by Standard & Poor's and Baa3 or better by Moody's Investor Services.

1.72 "Replacement Contract" means a contract having a term, quantity, delivery rate, delivery point and product substantially similar to the remaining Term, quantity, delivery rate, Delivery Point and Product to be provided under this Agreement.

1.73 "Trust Estate" means all revenues received by Party B under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof.

(b) TRANSACTIONS. The Transaction shall be in writing and this Agreement may not be amended or modified except in writing signed by the Parties' respective duly authorized representatives. For purposes of this requirement, a Recording pursuant to Section 2.5 shall not constitute a writing.

(c) GOVERNING TERMS. Section 2.2 is amended by adding the following sentence at the end of the current section:

"Notwithstanding the foregoing, the Products A, B, C Transaction shall be treated as a stand-alone Transaction and accordingly, (a) provisions in the Master Agreement referring to offsetting or netting multiple Transactions shall not be applicable to the Products A, B, C Transaction, and (b) an Event of Default or Potential Event of Default with respect to any Transaction other than the Products A, B, C Transaction shall not affect the Products A, B, C Transaction. No provision of any other Confirmation entered into pursuant to Section 2.4 shall affect the Products A, B, C Transaction."

(d) CONFIRMATION. Section 2.3, Confirmation, the term "Seller" (and cognates) is deleted and is replaced with "Party A" in each place where it occurs; and the term "Buyer" (and cognates) is deleted and is replaced with "Party B" in each place where it occurs. And insert the words "or other electronic transmission," after the word "facsimile."

(e) RECORDING. Section 2.5, Recording, the phrase "of all telephone conversations between the Parties to this Master Agreement" is deleted and replaced with the phrase "of all telephone conversations between the energy scheduling and/or trading personnel of the Parties to this Products A, B, C Master Agreement related to scheduling of energy to be delivered pursuant to this Agreement."

(f) TRANSMISSION AND SCHEDULING. Section 3.2 is amended by renaming it "Transmission, Scheduling and Imbalance Charges" and inserting the following sentences at the end thereof:

"In addition to the remedies provided under Article 4, Buyer shall assume all liability for and reimburse Seller within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Buyer's failure to (i) notify Seller of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. Seller shall assume all liability for and reimburse Buyer within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Seller's failure to (i) notify Buyer of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. The Parties shall notify each other as soon as

possible of any imbalance that is occurring or has occurred and shall cooperate to eliminate imbalances and minimize Penalties. Penalties shall be defined as any fees, liabilities, assessments or similar charges assessed by a Transmission Provider."

(g) EVENTS OF DEFAULT. Section 5.1 is amended as follows.

(1) In Section 5.1(c) the phrase "three (3) Business Days", is deleted and replaced with "fifteen (15) Business Days".

(2) Add a new subsection (i) as follows:

(i) for Party B, any amendment or repeal of the Water Code subsequent to the date hereof, that adversely affects the ability of Party B to perform its obligations under this Agreement or otherwise adversely affects the rights of Party A hereunder, in which event Party B shall be the Defaulting Party.

(h) DECLARATION OF AN EARLY TERMINATION DATE AND CALCULATION OF TERMINATION PAYMENT.

(1) The last sentence of Section 5.2 is replaced in its entirety by the following: "Upon termination of this Agreement as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be the aggregate of the Market Value and Costs calculated as of the Early Termination Date in accordance with Section 5.3. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination Payment to be made no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(2) The following shall be added to the end of Section 5.2 (as amended by clause (1) immediately above): "Notwithstanding the other provisions of this Agreement, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Agreement under the provisions of this Article 5 because the Defaulting Party or its Guarantor either (a) is the subject of a bankruptcy, insolvency, or similar proceeding, or (b) applies for, seeks, consents to, or acquiesces in the appointment of a receiver, custodian, trustee, liquidator, or similar official for all or a substantial portion of its assets, then this Agreement and the Transaction shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 5.1."

(3) Section 5.3 is replaced in its entirety by the following:

"5.3. Termination Payment Calculations. The Non-Defaulting Party shall calculate the Termination Payment as follows:

(a) Market Value shall be (i) in the case Party B is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under a Replacement Contract based on the Per Unit Market Price, and (B) payments under this Agreement, or (ii) in the case Party A is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under this Agreement, and (B) payments under a Replacement Contract based on the Per Unit Market Price, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement. It is expressly agreed that the Non-Defaulting Party shall not be required to enter into a Replacement Contract in order to determine the Termination Payment.

(b) To ascertain the Per Unit Market Price of a Replacement Contract with a term of less than one year, the Non-Defaulting Party may consider, among other valuations, quotations from leading dealers in

energy contracts, the settlement prices on established, actively traded power exchanges, other bona fide third party offers and other commercially reasonable market information.

(c) To ascertain the Per Unit Market Price of a Replacement Contract with a term of one year or more, the Non-Defaulting Party shall use the Market Quotation Average Price; provided, however, that if there is not an actively traded market for such Replacement Contract or if the Non-Defaulting Party is unable to obtain reliable quotations from at least three (3) Reference Market-makers, the Non-Defaulting Party shall use the methodology set forth in paragraph (b).

(d) In no event, however, shall a party's Market Value or Costs include any penalties, ratcheted demand charges or similar charges imposed by the Non-Defaulting Party.

If the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, the calculation issue shall be submitted to dispute resolution as provided in Section 10.12 of this Agreement. Pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(3) Section 5.4 is replaced in its entirety by the following:

Section 5.4 Adequate Assurance. Notwithstanding any other provision of this Agreement, Party A and Party B acknowledge and agree that if an order for relief under Chapter 11 of the United States Bankruptcy Code (11 U.S.C. sec. 101 et seq.), as the same may be amended from time to time (the "Bankruptcy Code"), is entered against Party A at any time during the term of this Agreement, then, if this Agreement has not been terminated, adequate assurances of future performance will not be provided to Party B by Party A within the meaning of section 365(b)(1) of the Bankruptcy Code unless Party A affirmatively establishes that it has the required financial or other resources necessary to operate and perform under this Agreement.

Party A and Party B further acknowledge and agree that if an order for relief under Chapter 11 of the Bankruptcy Code is at any time entered against Party A during the term hereof, then Party A must be able to cure (a) all non-monetary defaults hereunder within ninety (90) days of the date on which Party A proposes to assume this Agreement; and (b) all monetary defaults hereunder within one (1) year from the date on which Party A proposes to assume this Agreement.

(4) Sections 5.5, 6.7 and 6.8 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(i) TIMELINESS OF PAYMENT. Add the following to Section 6.2 before the first sentence in that section: "Party A shall provide invoice data, disaggregated by transaction components, in a template formas may be reasonably specified by Party B."

(j) LIMITATIONS. Article Seven is amended as follows:

(1) Add a new Section 7.2, "The obligations hereunder of Party A shall be solely those of Party A and Guarantor, if any, and no other person or entity."

(k) GRANT OF SECURITY INTEREST/REMEDIES. In Section 8.3 the phrase "or deemed occurrence" is deleted from the beginning of the second sentence.

(l) GOVERNMENTAL CHARGES. Add the following to Section 9.2 after the second sentence in that section: "Party A shall be entitled to pass through to Party B any liability, loss, cost, damage and expense, including gross-up, arising out of a tax or other imposition enacted by the California state legislature after the date of this Agreement that is not

of general applicability and is instead directed at the assets or activities involved in the generation, sale, purchase, ownership and/or transmission of electric power, natural gas and/or other utility or energy goods and services, but only insofar as such liability, loss, cost, damage or expense relates to a Transaction hereunder and reflects an increase in Party A's cost of service in connection therewith. Party B shall be entitled to the benefit or reduction of or credit with respect to any such tax or other imposition enacted by the California state legislature after the date of this Agreement, but only insofar as such benefit relates to a Transaction hereunder and results in a decrease in Party A's cost of service for such Transaction."

(m) TERM OF MASTER AGREEMENT. Add the following sentence to Section 10.1: "The Products A, B, C Transaction shall terminate on the day following the last day of the Delivery Period, unless terminated sooner pursuant to the express provisions of this Agreement or as a result of an Event of Default".

(n) REPRESENTATIONS AND WARRANTIES.

(1) the phrase "...and is qualified to conduct its business in each jurisdiction in which it will perform a Transaction" is added to the end of Section 10.2(i);

(2) the phrase ", except as would not have a material and adverse affect on the other Party" is added to the end of Section 10.2(iii);

(3) the phrase "or any of its Affiliates" is deleted from Section 10.2(vi);

(4) the phrase ", and are reasonable in all respects, including rates and allocation of risk" is added to the end of Section 10.2(xii);

(5) clauses (ix) and (xi) of Section 10.2 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]", provided, that such clauses shall be included in any Buyer Replacement Agreement as defined herein.

(o) INDEMNITY. The phrase "To the extent permitted by law" is added at the beginning of the first two sentences of Section 10.4. Add the following to the end of Section 10.4: "To the extent Party A and Party B are named as defendants by a third party in any action arising with respect to delivery of Product and Party B receives any amount from a third party as indemnification or reimbursement with respect to such action, Party A and Party B agree to equitably divide such amount."

(p) ASSIGNMENT. In Section 10.5, the existing paragraph shall be replaced in its entirety with the following:

"(a) Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion.

(b) Notwithstanding the foregoing, Party A may, without the consent of Party B, (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an affiliate of Party A which affiliate's creditworthiness is equal to or higher than that of Party A, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose creditworthiness is equal to or higher than that of Party A; provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, so long as the Party A delivers such tax and enforceability assurances together with such assurances as to the sufficiency of creditworthiness of such assignee to perform its obligations hereunder, as Party B may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party A, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof unless and until the bond trustee or any successor or assign shall foreclose on such collateral in which case such bond trustee or its successor or assign shall be bound by each of the provisions hereof, including the immediately preceding proviso.

(c) Notwithstanding the foregoing, Party B, without the consent of Party A, may (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer and assign all of its right, title and interest to this

Agreement and the Fund to another Governmental Entity created or designated by law solely to carry out the rights, powers, duties and obligations of the Department under the Act, provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, in each such case, so long as the transferring Party delivers such tax and enforceability assurances together with such assurances as to the sufficiency of creditworthiness of such assignee to perform its obligations hereunder, as the non-transferring Party may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party B, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof unless and until the bond trustee or any successor or assign shall foreclose on such collateral in which case such bond trustee or its successor or assign shall be bound by each of the provisions hereof, including the immediately preceding proviso."

(q) GOVERNING LAW. In Section 10.6, "New York" shall be replaced with "California."

(r) GENERAL.

(1) The phrase "Except to the extent herein provided for," shall be deleted from the fourth sentence of Section 10.8, and the phrase "and this agreement may not be orally amended or modified, including by Recording pursuant to Section 2.5" shall be added to the end of such fourth sentence.

(2) In the ninth sentence of Section 10.8, insert "materially affected or" after the phrase "Any provision," and insert "and materially affected by or" after the phrase "or regulatory agency."

(s) ADDITIONAL PROVISIONS. New Sections 10.12 through 10.18 are added to Article 10 as follows:

10.12. No Retail Services; No Agency. (a) Nothing contained in this Agreement shall grant any rights to or obligate Party A to provide any services hereunder directly to or for retail customers of any person.

(b) In performing their respective obligations hereunder, neither Party is acting, or is authorized to act, as agent of the other Party.

10.13 Dispute Resolution. (a) If a dispute shall arise between the Parties relating to the interpretation of this Agreement or to performance by a Party hereunder or under any Transaction, the Party desiring resolution of the dispute shall notify the other Party in writing. The notice shall set forth the matter in dispute in reasonable detail and a proposed solution.

(b) The Parties shall attempt to resolve any dispute within 15 calendar days after delivery of the written notice referred to above. Any disputes not so resolved shall be referred by each Party to an officer (or the officer's designee) for resolution. If the Parties fail to reach an agreement within 15 days after such referral, each Party shall have the right to pursue any and all remedies provided in this Agreement and as afforded by applicable law.

(c) The existence of any dispute or controversy under this Agreement or the pendency of the dispute settlement or resolution procedures set forth herein shall not in and of itself relieve or excuse either Party from its ongoing duties and obligations under this Agreement.

10.14 WAIVER OF JURY TRIAL. THE PARTIES HEREBY EXPRESSLY WAIVE ALL RIGHTS TO TRIAL BY JURY ON ANY CAUSE OF ACTION, SUIT OR PROCEEDING DIRECTLY OR INDIRECTLY INVOLVING OR RELATED TO THE TERMS, COVENANTS OR CONDITIONS OF THIS AGREEMENT OR ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH OR RELATED TO THIS AGREEMENT. EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY OR ANY CREDIT SUPPORT PROVIDER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF SUCH A SUIT, ACTION OR PROCEEDING, SEEK TO

ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND PROVIDE FOR ANY CREDIT SUPPORT DOCUMENTS, AS APPLICABLE, BY AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. THE PROVISIONS OF THIS AGREEMENT RELATING TO WAIVER OF JURY TRIAL SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS AGREEMENT.

10.15 No Third Party Beneficiaries.

The provisions of this Agreement are for the benefit of the Parties hereto, and as to any other person or entity, this Agreement shall not be construed as a third party beneficiary contract.

10.16 CAISO Imbalance Markets; Scheduling. Party A shall not intentionally (a) use the CAISO uninstructed imbalance energy markets to deliver the Contract Quantity to Party B, or (b) for economic reasons fail to schedule by the time delivery is due the Contract Quantity to Party B during any CAISO stage alert; provided in no event shall Party A be precluded from bidding or providing "regulation down" or similar services recognized by the CAISO.

From time to time (but not more frequently than monthly) upon Party B's request, Party A shall provide Party B scheduling information reasonably satisfactory to Party B in sufficient detail to enable Party B to verify compliance with this Section 10.16.

10.17 Fixed Rate Contract; Mobile-Sierra Clause. The Parties hereby stipulate and agree that, under the facts and circumstances known to them at this time, this Agreement was entered into as a result of arms'-length negotiations between the Parties. Further, the Parties believe that the rates, terms and conditions of this Agreement are just and reasonable within the meaning of Sections 205 and 206 of the Federal Power Act, 16 U.S.C. Sections 824d and 824e, and that the rates, terms and conditions of this Agreement will remain so over the life of the Agreement. The Parties waive all rights to challenge the validity of this Agreement or whether it is just and reasonable for and with respect to the entire term thereof, including any rights under Sections 205 and 206 of the Federal Power Act to request the FERC to revise the terms and conditions and the rates or services specified in this Agreement, and hereby agree to make no filings at the FERC or with any other state or federal agency, board, court or tribunal challenging the rates, terms and conditions of this Agreement as to whether they are just and reasonable or in the public interest under the Federal Power Act. The Parties hereby further stipulate and agree that neither Party may bring any action, proceeding or complaint under Section 205 or 206 of the Federal Power Act, 16 U.S.C. 824d or 824e, seeking to modify, cancel, suspend, or abrogate the rates, terms and conditions of this Agreement or any Transaction hereunder, or to prevent this Agreement or any Transaction hereunder from taking effect. It is further agreed that, in the event any of the Parties challenges this Agreement for any other reason, they will not dispute the applicability of the public interest standard as that term has been defined and interpreted under the Federal Power Act and the cases of United Gas Pipe Line Co. v. Mobile Gas Corp., 350 U.S. 332 (1956), and FPC v. Sierra Pacific Power Co., 350 U.S. 348 (1956), and subsequent cases.

10.18 Novation. Notwithstanding the foregoing limitations on assignment, at any time after January 1, 2003, the Seller shall, upon the written request of Department, enter into one or more Buyer Replacement Agreements as may be agreed to by one or more Qualified Electric Corporations. This Agreement shall terminate upon effective date of a Buyer Replacement Agreement. The effectiveness of the Buyer Replacement Agreement shall constitute a novation that shall relieve Department of any liability or obligation arising after the date of termination of the Agreement. Such Buyer Replacement Agreement shall state that it is a Buyer Replacement Agreement within the meaning of this Agreement and that it constitutes a novation for which there is adequate consideration. The effectiveness of such Buyer Replacement Agreement shall be subject to the condition precedent that the California Public Utilities Commission shall have conducted a just and reasonable review under Section 451 of the Public Utilities Code with respect to such Buyer Replacement Agreement and shall have issued an order determining that the charges under such Buyer Replacement Agreement are just and reasonable.

(t) SCHEDULE M. Schedule M shall be amended as follows:

(1) In Section A, "Act" will mean Sections 80000, 80002, 80002.5, 80003, 80004, 80010, 80012, 80014, 80016, 80100, 80102, 80104, 80106, 80108, 80110, 80112, 80116, 80120, 80122, 80130, 80132, 80134, 80200, 80250, 80260 and 80270 of the Water Code, as amended.

(2) "Special Fund" will mean the Fund.

(3) In Section A, the defined term "Governmental Entity or Public Power System" shall be replaced with the term "Governmental Entity" using the following definition "`Governmental Entity' means the State of California, any State governmental board, public power authority, public utility district, joint action agency, or other similar political subdivision or public entity of the State of California, the State of California Department of Water Resources, or any combination thereof"; and all references to (A) "Governmental Entity or Public Power System" (and cognates) and (B) "Public Power System" (and cognates) in Schedule M shall be replaced with the new defined term "Governmental Entity" (using the applicable cognate).

(4) In Section B, the sentence to be added to the end of the definition of "Force Majeure" in Article One shall be replaced with the following: "If the Claiming Party is a Governmental Entity, Force Majeure does not include any act or omission of a Governmental Entity (or any branch, subdivision, agency, officer or representative thereof) in its governmental capacity or any other act or omission of any Governmental Entity (including judicial action or inaction) and such act or omission shall be deemed to be an action of Party B.

(5) In Section C add the following representations and warranties:

(i) "Party B represents and warrants that a Rate Agreement By and Between State of California Department of Water Resources and State of California Public Utilities Commission adopted by the California Public Utilities Commission on February 21, 2001 in Decision 02-02-051 (the "rate Agreement") is binding and in effect."

(ii) Party B represents and warrants each of this Amended and Restated Master Power Purchase and Sale Agreement and the Products A, B, C Transaction is a "Priority Long Term Power Contract" as that term is defined in the Rate Agreement.

(6) In Section D, delete Section 3.5 and replace it with the following:

"Section 3.5 No Immunity Claim. California law authorizes suits based on contract against the State or its agencies, and Party B agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in California state court."

(7) In Section G, specify that the laws of the State of California will apply.

(8) Add a new Section H, which shall read as follows:

Section 3.6. Payments Under Agreement an Operating Expense. Payments under this Agreement shall constitute an operating expense of the Fund payable prior to all bonds, notes or other indebtedness secured by a pledge or assignment of the Trust Estate or payments to the general fund.

(9) Add a new Section I, which shall read as follows:

Section 3.7. Rate Covenant; No Impairment. Party B covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Party B pursuant to this Agreement. While any obligations of Party B pursuant this Agreement remain outstanding and not fully performed or discharged, the rights, powers, duties

and existence of Party B and the Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of Party A under this Agreement.

(10) Add a new Section J, which shall read as follows:

Section 3.8. Sources of Payment; No Debt of State. Party B's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of Party B arising in connection with this Agreement or any claim based thereon or with respect thereto, including, but not limited to, any Termination Payment arising as the result of any breach or Potential Event of Default or Event of Default under this Agreement, and any other payment obligation or liability of or judgment against Party B hereunder, shall be satisfied solely from the Special Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS AGREEMENT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Agreement.

(11) Add a new Section K, which shall read as follows:

"Section 3.9 No More Favorable Terms. Party B shall not provide in any power purchase agreement payable from the Trust Estate for (i) collateral or other security or credit support with respect thereto, (ii) a pledge or assignment of the Trust Estate for the payment thereof, or (iii) payment priority with respect thereto superior to that of Party A, without in each case offering such arrangements to Party A."

(12) Add a new Section L, which shall read as follows:

"Section 3.10. Application of Government Code and the Public Contracts Code. Party A has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Agreement if the provisions of the Government Code and the Public Contracts Code applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Agreement. Accordingly, pursuant to Section 80014(b) of the Water Code, Party B has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Agreement and that such provisions and requirements are therefore not applicable to or incorporated in this Agreement."

(13) Add a new Section M, which shall read as follows:

"Section 3.11. Electric Corporations as Agents. Party B shall establish or cause to be established the terms and conditions for the segregation of moneys received by electrical corporations pursuant to Section 80106 pending their transfer to Party B in accordance with Section 80112 of the Water Code."

(13) Add a new Section N, which shall read as follows:

"Section 3.12. Deposit of Proceeds of Bonds. The proceeds of any bonds issued by Party B shall be deposited and applied in accordance with the resolution or indenture providing for the issuance thereof."

(14) Add a new Section O, which shall read as follows:

"Section 3.13. Transfers of Power Charge Revenues and Bond Charge Revenues. The indenture providing for the issuance of any bonds or other indebtedness by Party B will provide for the application of Power Charge Revenues and Bond Charge Revenues in accordance with the document entitled "California Department of Water Resources Summary of Material Terms of Financing Documents (Submitted in connection with Section 7.10 of a proposed Rate Agreement between California Department of Water Resources and the California Public Utilities Commission)" under the captions "III. Flow of Funds - Power Charge Revenues; Bond Charge Revenues as modified and amended by the Amended and Restated Addendum to Summary of Material Terms of Financing Documents dated as of August 8, 2002, as further

amended or supplemented, and according to Section 7.10 of the Rate Agreement as adopted by the California Public Utilities Commission in Decision No. 02-02-051."

(u) CONDITIONS PRECEDENT. The effectiveness of this Agreement (including the Products A, B, C Transaction) is subject to and conditioned upon:

(1) delivery to Party A of a legal opinion from the General Counsel of the California Department of Water Resources in the form attached hereto as Exhibit A; and

(2) delivery to Party A of a legal opinion from the Attorney General of the State of California in the form attached hereto as Exhibit B.

[THE BALANCE OF THIS PAGE INTENTIONALLY LEFT BLANK]

THIS PRODUCTS A, B, C MASTER AGREEMENT AMENDS AND SUPERSEDES THAT CERTAIN MASTER POWER PURCHASE AND SALE AGREEMENT DATED FEBRUARY 16, 2001 (THE "PRIOR AGREEMENT") BY AND BETWEEN THE PARTIES. AS OF THE EFFECTIVE DATE OF THIS MASTER AGREEMENT, THE PRIOR AGREEMENT, TOGETHER WITH ANY TRANSACTION THEREUNDER, SHALL BE OF NO FORCE OR EFFECT.

IN WITNESS WHEREOF, the Parties have caused this Master Agreement to be duly executed as of the date first above written.

WILLIAMS ENERGY MARKETING & TRADING COMPANY	CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____

DISCLAIMER: THIS AMENDED AND RESTATED MASTER POWER PURCHASE AND SALE AGREEMENT WAS PREPARED BY A COMMITTEE OF REPRESENTATIVES OF EDISON ELECTRIC INSTITUTE ("EEI") AND NATIONAL ENERGY MARKETERS ASSOCIATION ("NEM") MEMBER COMPANIES TO FACILITATE ORDERLY TRADING IN AND DEVELOPMENT OF WHOLESALE POWER MARKETS. NEITHER EEI NOR NEM NOR ANY MEMBER COMPANY NOR ANY OF THEIR AGENTS, REPRESENTATIVES OR ATTORNEYS SHALL BE RESPONSIBLE FOR ITS USE, OR ANY DAMAGES RESULTING THEREFROM. BY PROVIDING THIS AGREEMENT EEI AND NEM DO NOT OFFER LEGAL ADVICE AND ALL USERS ARE URGED TO CONSULT THEIR OWN LEGAL COUNSEL TO ENSURE THAT THEIR COMMERCIAL OBJECTIVES WILL BE ACHIEVED AND THEIR LEGAL INTERESTS ARE ADEQUATELY PROTECTED.

ACKNOWLEDGMENTS

State of Oklahoma)
) SS
County of Tulsa)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of Williams Energy Marketing & Trading Company, a Delaware corporation, known to me that he executed this Amended and Restated Master Power Purchase And Sale Agreement Cover Sheet for the purposes and consideration herein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

[S E A L]

State of California)
) SS
County of _____)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of the California Department of Water Resources, a _____, known to me that he executed this Amended and Restated Master Power Purchase And Sale Agreement Cover Sheet for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said _____.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

[S E A L]

MASTER POWER PURCHASE AND SALE AGREEMENT
AMENDED AND RESTATED CONFIRMATION LETTER

PRODUCTS A, B, C TRANSACTION

This amended and restated confirmation letter shall confirm the Transaction agreed to on November 11, 2002 between WILLIAMS ENERGY MARKETING & TRADING COMPANY ("Party A") and CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("Party B") regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: Party A

Buyer: Party B

Product:

[ ] Into _____, Seller's Daily Choice

[ ] Firm (LD)

[ ] Firm (No Force Majeure)

[ ] System Firm

(Specify System:_____)

[ ] Unit Firm

(Specify Unit(s):_____)

[X] Other

Product A: Firm (LD) 7x24 (hour ending 0100 through the hour ending 2400, Monday through Sunday).

Product B: Firm (LD) 6x16 (hour ending 0700 through the hour ending 2200, Monday through Saturday (except for official NERC holidays)).

Product C: Firm (LD) 6x16 (hour ending 0700 through the hour ending 2200, Monday through Saturday (except for official NERC holidays)).

[ ] Transmission Contingency (If not marked, no transmission contingency)

[ ] FT-Contract Path Contingency [ ] Seller [ ] Buyer

[ ] FT-Delivery Point Contingency [ ] Seller [ ] Buyer

[ ] Transmission Contingent [ ] Seller [ ] Buyer

[X] Other transmission contingency

(Specify: Buyer shall be responsible for transmission contingencies at and after the Delivery Point and Seller shall be responsible for transmission contingencies prior to the Delivery Point.)

Contract Quantity:

Product A:	Start Date - June 30, 2003:	40 MW
	July 1, 2003 - Dec. 31, 2007:	200 MW
Product B:	Start Date - Jun. 30, 2003:	175 MW
	July 1, 2003 - Dec. 31, 2007:	450 MW
	Jan. 1, 2008 - Dec. 31, 2010:	275 MW
Product C:	July 1, 2003 - Dec. 31, 2010:	50 MW

Delivery Point: Product A, B and C: SP 15

Energy Price:	Product A:		$62.50 per MWh
	Product B:	2003-2005	$87.00 per MWh
		2006	$78.07 per MWh
		2007	$77.07 per MWh
		2008	$76.07 per MWh
		2009	$75.07 per MWh
		2010	$74.07 per MWh
	Product C:		$70.00 per MWh

Delivery Period:	Product A:	Start Date - Dec. 31, 2007
	Product B:	Start Date - Dec. 31, 2010
	Product C:	July 1, 2003 - Dec. 31, 2010

Special Conditions:

(1) "Start Date" means January 1, 2003.

(2) Material Modification or Elimination of Delivery Point. In the event that the California Independent System Operator ("CAISO") or its successor eliminates or materially modifies the characteristics of the Delivery Point such that either Seller or Buyer is adversely affected thereby, Seller shall, upon such elimination or modification, deliver the Product to a delivery point reasonably determined by it to approximate the location and characteristics of the Delivery Point on the date of the execution of this Confirmation Letter ("Modified Delivery Point"). If Seller reasonably determines that no Modified Delivery Point exists, the parties shall negotiate a mutually agreeable replacement delivery point ("Replacement Delivery Point") for such delivery. Once Seller or Buyer determines that the Delivery Point will be modified or eliminated such that it will be adversely affected thereby, it will notify the other party as soon as practicable.

(3) The Product B Energy Price shall be subject to adjustment as provided in that certain Settlement Agreement, among the parties hereto in addition to other parties, dated November 11, 2002.

Scheduling: _____

Option Buyer: N/A

Option Seller: N/A

Type of Option: _____

Strike Price: _____

Premium: _____

Exercise Period: _____

This amended and restated confirmation letter is being provided pursuant to and in accordance with the Amended and Restated Master Power Purchase and Sale Agreement dated November 11, 2002 (the "Products A, B, C Master Agreement") between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Products A, B, C Master Agreement. This amended and restated confirmation letter supersedes the amended and restated confirmation dated February 21, 2001. Terms used but not defined herein shall have the meanings ascribed to them in the Products A, B, C Master Agreement.

WILLIAMS ENERGY MARKETING & TRADING COMPANY	CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System
Name: _____	Name: _____
Title: _____	Title:_____
Phone No: _____	Phone No: _____
Fax: _____	Fax: _____

Acknowledgments

State of Oklahoma)
) SS
County of Tulsa)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of Williams Energy Marketing & Trading Company, a Delaware corporation, known to me that he executed this Master Power Purchase And Sale Agreement Amended And Restated Confirmation Letter for the purposes and consideration herein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

[S E A L]

State of California)
) SS
County of _____)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of the California Department of Water Resources, a _____, known to me that he executed this Master Power Purchase And Sale Agreement Amended And Restated Confirmation Letter for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said _____.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

[S E A L]

AMENDED AND RESTATED MASTER POWER PURCHASE
AND SALE AGREEMENT

COVER SHEET

PRODUCT D

This Amended and Restated Master Power Purchase and Sale Agreement (Version 2.1; modified 4/25/00) ("Product D Master Agreement") is made as of the following date: November 11, 2002 ("Effective Date"). The Product D Master Agreement, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the "Agreement." The Parties to this Product D Master Agreement are the following:

Name: WILLIAMS ENERGY MARKETING & TRADING COMPANY ("Williams" or\ "Party A")	Name: STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("California Department of Water Resources" or "Department" or "Party B")
All Notices:	All Notices: California Department of Water Resources/CERS
Street: One Williams Center	Street: 3310 El Camino Avenue, Suite 120
City: Tulsa, OK Zip: 74172	City: Sacramento, California Zip: 95821
Attn: Contract Administration Phone: 918-573-4188 Facsimile: 918-732-0269 Duns: 82-467-8478 Federal Tax ID Number: 73-142-3657	Attn: Executive Manager Power Systems Phone: (916) 574-0339 Facsimile: (916) 574-2152 Duns: Federal Tax ID Number: 52-1692634
INVOICES: Attn: Power Accounting Phone: 918-573-8337 Facsimile: 918-561-6893	INVOICES: DWR/CERS SETTLEMENTS UNIT Attn: Doreen Singh Phone: (916) 574-0309 Facsimile: (916) 574-1239
SCHEDULING: Attn: Cherry Smith Phone: 918-573-4835 Facsimile: 918-573-1534	SCHEDULING: Attn: Chief Water and Power Dispatcher Phone: (916) 574-0161 Facsimile: (916) 574-2569
PAYMENTS: Attn: Power Accounting Phone: 918-573-8337 Facsimile: 918-561-6893	PAYMENTS: Attn: Cash Receipts Section Phone: (916) 653-6892 Facsimile: (916) 654-9882

WIRE TRANSFER: BNK: Bank One, N.A. ABA: 071000013 ACCT: 55-27554	WIRE TRANSFER: BNK: Bank of America (Sacramento main branch) for: Department of Water Resources ABA: Routing # 121000358 ACCT: # 14365-80598
CREDIT AND COLLECTIONS: Attn: Tim Neuman Phone: 918-573-4880 Facsimile: 918-561-6987	CREDIT AND COLLECTIONS: Attn: Deputy Controller Phone: (916) 653-6148 Facsimile: (916) 653-8230
With additional Notices of an Event of Default to: Attn: Contrsact Administration Phone: 918-573-3059 Facsimile: 918-573-1935	With additional Notices of an Event of Default or Potential Event of Default to: Attn: Deputy Controller Phone: (916) 653-6148 Facsimile: (916) 653-8230

The Parties hereby agree that the General Terms and Conditions are incorporated herein, and to the following provisions as provided for in the General Terms and Conditions:

Party A Tariff Tariff n/a Dated _____ Docket Number _____

Party B Tariff Tariff n/a Dated _____ Docket Number _____

ARTICLE TWO
Transaction Terms and Conditions [x] Optional provision in Section 2.4. If not checked, inapplicable.

ARTICLE FOUR
Remedies for Failure to Deliver or Receive [ ] Accelerated Payment of Damages. If not checked, inapplicable.

ARTICLE FIVE
- ------------
Events of Default; Remedies

[ ] Cross Default for Party A:

[ ] Party A:_____ Cross Default Amount $_____

[ ] Other Entity:_____ Cross Default Amount $_____

[ ] Cross Default for Party B:

[ ] Party B:_____ Cross Default Amount $_____

[ ] Other Entity:_____ Cross Default Amount $_____

5.6 Closeout Setoff

[ ] Option A (Applicable if no other selection is made.)

[ ] Option B - Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows:
_____

[x] Option C (No Setoff)

ARTICLE 8
Credit and Collateral Requirements

8.1 Party A Credit Protection:
(a) Financial Information:

[ ] Option A
[ ] Option B Specify:_____
[x] Option C Specify: (1) Annual audit, annual budget and all financial information sent to any seller under a power purchase agreement; Party B shall use reasonable commercial efforts to periodically prepare and make available to all sellers under power sales agreements, but not more frequently than quarterly, financial information reasonably intended to apprise all such sellers of the financial conditions of the Fund.) (2) Under any Replacement Agreement (defined below), or if Party B is an entity other than the California Department of Water Resources, financial statements, audited if available, no less frequently than quarterly. Notwithstanding anything in this Agreement to the contrary, any non-public financial statements provided pursuant to this section shall be kept confidential.

(b) Credit Assurances:

[x] Not Applicable
[ ] Applicable

(c) Collateral Threshold:

[x] Not Applicable
[ ]

If applicable, complete the following:

Party B Collateral Threshold:; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.

Party B Independent Amount: [$_____]

Party B Rounding Amount: [$_____]

(d) Downgrade Event:

[x] Not Applicable
[ ] Applicable

If applicable, complete the following:

[ ] It shall be a Downgrade Event for Party B if Party B's Credit Rating falls below [_____] from S&P or _____ from Moody's or if Party B is not rated by either S&P or Moody's

[ ] Other:
Specify:_____

(e) Guarantor for Party B:_____

Guarantee Amount:_____

8.2 Party B Credit Protection:

(a) Financial Information:

[ ] Option A
[ ] Option B Specify:_____
[x] Option C Specify: Party A to provide annual 10k filings of its parent and financial statements of Party A, audited if available, together with an officer's certificate relating to same, no less frequently than quarterly. Notwithstanding anything in this Agreement to the contrary, non-public financial statements provided pursuant to this Section shall be kept confidential.

(b) Credit Assurances:

[x] Not Applicable
[ ] Applicable

(c) Collateral Threshold:

[x] Not Applicable
[ ]

If applicable, complete the following:

Party A Collateral Threshold:; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing.

Party A Independent Amount: $_____

Party A Rounding Amount: $_____

(d) Downgrade Event
[x] Not Applicable
[ ] Applicable
If applicable, complete the following:

[ ] It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party A is not rated by either S&P or Moody's

[ ] Other:

(e) Guarantor for Party A:_____
_____

ARTICLE 10
Confidentiality

[ ] Confidentiality Applicable — If not checked, inapplicable.

SCHEDULE M

[ ] Party A is a Governmental Entity or Public Power System
[x] Party B is a Governmental Entity or Public Power System
[ ] Add Section 3.6. If not checked, inapplicable
[ ] Add Section 8.4. If not checked, inapplicable

OTHER CHANGES Specify, if any:_____

(a) DEFINITIONS.

(1) Section 1.11 is amended by adding the following sentence at the end of the current definition: "The Non-defaulting Party shall use commercially reasonable efforts to mitigate or eliminate these Costs."

(2) Section 1.23 is replaced in its entirety by the following:

1.23 "Force Majeure" means any cause beyond the control of the Party affected, including but not restricted to failure of or threat of failure of facilities, flood, drought, earthquake, storm, lightning, fire, epidemic, war, riot, civil disturbance or disobedience, labor dispute, labor or material shortage, sabotage, restraint by court order or public authority and action or nonaction by or failure to obtain the necessary authorizations or approvals from any governmental agency or authority which by exercise of due diligence such Party could not reasonably have been expected to avoid, and which, by the exercise of due diligence, it has been unable to overcome.

(3) Section 1.51, "Replacement Price" is amended on the fifth line by deleting the phrase "at Buyer's option" and inserting the following phrase: "absent a purchase."

(4) Section 1.53, "Sales Price" is amended on the fifth line of by deleting the phrase "at Seller's option" and inserting the following phrase: "absent a sale."

(5) Sections 1.6, 1.24, 1.28, 1.33, 1.34, 1.35, 1.36, 1.43, 1.44, 1.46, 1.48 and 1.56 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(6) Section 1.59 is amended by changing "Section 5.3" to "Section 5.2."

(7) Sections 1.62 through 1.76 are added to Article One as follows:

1.62 "AES Agreement" means that certain Capacity Sale and Tolling Agreement dated May 1, 1998, as amended May 15, 1998, by and among the AES Subsidiaries and Williams Energy Marketing & Trading Company (f/k/a Williams Energy Services Company) and their respective successors and assigns and any amendments or modifications thereto.

1.63 "AES Agreement Default" means the occurrence of an Event of Default described in Section 18.1 of the AES Agreement that materially and adversely affects Party B's rights under the Product D Transaction or, if a cure period is provided for in Section 18.2(a) of the AES Agreement, the occurrence of such an Event of Default and the failure of a Defaulting Party (as defined in the AES Agreement) to cure such default within the applicable cure period.

1.64 "AES Subsidiaries" means any one or more of AES Alamitos, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, AES Huntington Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, and AES Redondo Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware.

1.65 "Bonds" means the bonds offered by the Department of Water Resources pursuant to AB 1X, codified at California Water Code Section 80100 et seq (the "Act") with recourse only to the Trust Estate, and shall include any financing pursuant to Executive Order D-42-01 and a Credit and Security Agreement, dated as of June 26, 2001, by and among the Department of Water Resources, various lenders and Morgan Guaranty Trust Company of New York, as agent on behalf of such lenders.

1.66 "Fund" means the Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code.

1.67 "Market Quotation Average Price" means the average of the good faith quotations solicited from not less than three (3) Reference Market-makers; provided, however, that the Party soliciting such quotations shall use commercially reasonable efforts to obtain good faith quotations from at least five (5) Reference Market-makers and, if at least five (5) such quotations are obtained, the Market Quotation Average Price shall be determined disregarding the highest and lowest quotations.

1.68 "Market Value" has the meaning set forth in Section 5.3.

1.69 "Per Unit Market Price" means the applicable price per kW-month determined in accordance with Section 5.3.

1.70 "Product D Transaction" means the Transaction described in the attached Confirmation dated November 11, 2002.

1.71 "Qualified Electric Corporation" means an electrical corporation as defined by the Act, whose long-term unsecured senior debt on the effective date of any Replacement Agreement is rated BBB or better by S&P and Baa2 or better by Moody's and is not on negative outlook or Credit Watch from either rating agency; provided that with the exception of San Diego Gas and Electric Company, Southern California Edison Company and Pacific gas and Electric Company, no electrical corporation shall be a Qualified Electrical Corporation without the prior written agreement of Party A.

1.72 "Qualified Power Seller" means any entity (a) engaged in the selling of electricity whose long-term unsecured senior debt on the effective date of any Assignment and Assumption Agreement is rated BBB or better by Standard & Poor's and Baa2 or better by Moody's and is not on negative outlook or Credit Watch from either rating agency, and (b) approved by Party B, such approval not to be unreasonably withheld.

1.73 "Reference Market-maker" means any marketer, trader or seller of or dealer in firm energy products whose long-term unsecured senior debt is rated BBB- or better by Standard & Poor's and Baa3 or better by Moody's Investor Services.

1.74 "Replacement Agreement" means any agreement identical to this Agreement and the Product D Transaction between Party A and a Qualified Electrical Corporation, excluding provisions relating to Party B's status as a governmental agency or to the original start date(s) of the Agreement (including the Product D Transaction), and together with such changes as Party A and such Qualified Electrical Corporation may agree.

1.75 "Replacement Contract" means a contract having a term, quantity, delivery rate, delivery point and product substantially similar to the remaining Term, quantity, delivery rate, Delivery Point and Product to be provided under this Agreement.

1.76 "Trust Estate" means all revenues received by Party B under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof.

(b) TRANSACTIONS. The Transaction shall be in writing and this Agreement may not be amended or modified except in writing signed by the Parties' respective duly authorized representatives. For purposes of this requirement, a Recording pursuant to Section 2.5 shall not constitute a writing.

(c) GOVERNING TERMS. Section 2.2 is amended by adding the following sentence at the end of the current section:

"Notwithstanding the foregoing, the Product D Transaction shall be treated as a stand-alone Transaction and accordingly, (a) provisions in the Product D Master Agreement referring to offsetting or netting multiple Transactions shall not be applicable to the Product D Transaction, and (b) an Event of Default or Potential Event of Default with respect to any Transaction other than the Product D Transaction shall not affect the Product D Transaction. No provision of any other Confirmation entered into pursuant to Section 2.4 shall affect the Product D Transaction."

(d) CONFIRMATION. Section 2.3, Confirmation, the term "Seller" (and cognates) is deleted and is replaced with "Party A" in each place where it occurs; and the term "Buyer" (and cognates) is deleted and is replaced with "Party B" in each place where it occurs. And insert the words "or other electronic transmission," after the word "facsimile."

(e) RECORDING. Section 2.5, Recording, the phrase "of all telephone conversations between the Parties to this Product D Master Agreement" is deleted and replaced with the phrase "of all telephone conversations between the energy scheduling and/or trading personnel of the Parties to this Product D Master Agreement related to scheduling of energy to be delivered pursuant to this Agreement."

(f) TRANSMISSION AND SCHEDULING. Section 3.2 is amended by renaming it "Transmission, Scheduling and Imbalance Charges" and inserting the following sentences at the end thereof:

"In addition to the remedies provided under Article 4, Buyer shall assume all liability for and reimburse Seller within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Buyer's failure to (i) notify Seller of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. Seller shall assume all liability for and reimburse Buyer within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Seller's failure to (i) notify Buyer of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. The Parties shall notify each other as soon as possible of any imbalance that is occurring or has occurred and shall cooperate to eliminate imbalances and minimize Penalties. Penalties shall be defined as any fees, liabilities, assessments or similar charges assessed by a Transmission Provider."

(g) FORCE MAJEURE. Section 3.3 is replaced in its entirety as follows:

Force Majeure. (a) No Party shall be considered to be in default in performance of any of its obligations under this Agreement, except to make payment as specified herein, to the extent such failure in performance shall be due to a Force Majeure. No Party shall, however, be relieved of liability for failure of performance to the extent such failure shall be due to causes arising out of its own negligence or due to removable or remediable causes which it fails to remove or remedy within a reasonable time period. Any Party rendered unable to fulfill any of its obligations under the Agreement by reason of a Force Majeure shall give prompt notice of such fact to the other Party and shall exercise due diligence to remove such inability within a reasonable time period.

(b) Notwithstanding anything to the contrary contained in this Agreement, except as may expressly be provided herein, the term Force Majeure shall not include or excuse the loss by Party A or its Affiliates of FERC-approved marketer status (if any), unless such loss is itself caused by a Force Majeure.

(c) Notwithstanding anything to the contrary in this Agreement, failure to achieve the Guaranteed Availability of any Unit or to deliver the Dependable Capacity, Net Electric Energy or Ancillary Services, as the case may be, from a Designated Unit shall not be excused due to a Force Majeure.

(d) Notwithstanding anything contained in this Article Three to the contrary, neither Party shall be required to settle any strike, walkout, lockout or other labor dispute on terms which, in the sole judgment of the Party involved in the dispute, are contrary to its interest, it being understood and agreed that the settlement of strikes, walkouts, lockouts or other labor disputes shall be entirely within the discretion of the Party having such dispute.

(h) EVENTS OF DEFAULT. Section 5.1 is replaced in its entirety by the following:

"(c) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default and other than the failure of a Designated Unit to Dispatch in accordance with Article VIII of the AES Agreement or the failure to achieve Guaranteed Availability pursuant to Section 4.2 of the AES Agreement, if the Non-Defaulting Party is able to recover fully all amounts due it pursuant to Section 8(a) or (b) as a result of either such failure through the exercise of its right of or reduction of capacity payments provided for in Section 8(a) and its right of set off provided for in Section 8(b), in which case, notwithstanding any provision of this Article V, such right of capacity payment reduction and set-off shall be the Non-Defaulting Party's exclusive remedy; provided, however, nothing herein shall affect Party B's rights under Section 5.8 hereof) if such failure is not remedied within thirty (30) Business Days after written notice;"

(2) Add a new subsection (i) as follows:

(i) for Party B, any amendment or repeal of the Water Code subsequent to the date hereof, that adversely affects the ability of Party B to perform its obligations under this Agreement or otherwise adversely affects the rights of Party A hereunder, in which event Party B shall be the Defaulting Party.

(4) Add a new subsection (j) as follows:

(j) With respect to Party A, the occurrence of an AES Agreement Default. Party A shall give Party B written notice of any AES Agreement Default one Business Day following the occurrence thereof.

(I) DECLARATION OF AN EARLY TERMINATION DATE AND CALCULATION OF TERMINATION PAYMENT.

(1) The last sentence of Section 5.2 is replaced in its entirety by the following: "Upon termination of this Agreement as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be the aggregate of the Market Value and Costs calculated as of the Early Termination Date in accordance with Section 5.3. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination Payment to be made no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(2) The following shall be added to the end of Section 5.2 (as amended by clause (1) immediately above): "Notwithstanding the other provisions of this Agreement, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Agreement under the provisions of this Article 5 because the Defaulting Party or its Guarantor either (a) is the subject of a bankruptcy, insolvency, or similar proceeding, or (b) applies for, seeks, consents to, or acquiesces in the appointment of a receiver, custodian, trustee, liquidator, or similar official for all or a substantial portion of its assets, then this Agreement and the Transaction shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 5.1."

(3) Section 5.3 is replaced in its entirety by the following:

"5.3. Termination Payment Calculations. The Non-Defaulting Party shall calculate the Termination Payment as follows:

(e) Market Value shall be (i) in the case Party B is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under a Replacement Contract based on the Per Unit Market Price, and (B) payments under this Agreement, or (ii) in the case Party A is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under this Agreement, and (B) payments under a Replacement Contract based on the Per Unit Market Price, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement. It is expressly agreed that the Non-Defaulting Party shall not be required to enter into a Replacement Contract in order to determine the Termination Payment.

(f) To ascertain the Per Unit Market Price of a Replacement Contract with a term of less than one year, the Non-Defaulting Party may consider, among other valuations, quotations from leading dealers in energy contracts, the settlement prices on established, actively traded power exchanges, other bona fide third party offers and other commercially reasonable market information.

(g) To ascertain the Per Unit Market Price of a Replacement Contract with a term of one year or more, the Non-Defaulting Party shall use the Market Quotation Average Price; provided, however, that if there is not an actively traded market for such Replacement Contract or if the Non-Defaulting Party is unable to obtain reliable quotations from at least three (3) Reference Market-makers, the Non-Defaulting Party shall use the methodology set forth in paragraph (b).

(h) In no event, however, shall a party's Market Value or Costs include any penalties, ratcheted demand charges or similar charges imposed by the Non-Defaulting Party.

If the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, the calculation issue shall be submitted to dispute resolution as provided in Section 10.12 of this Agreement. Pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(5) Section 5.4 is replaced in its entirety by the following:

(l) Notwithstanding any other provision of this Agreement, Party A and Party B acknowledge and agree that if an order for relief under Chapter 11 of the United States Bankruptcy Code (11 U.S.C. sec. 101 et seq.), as the same may be amended from time to time (the "Bankruptcy Code"), is entered against Party A at any time during the term of this Agreement, then, if this Agreement has not been terminated, adequate assurances of future performance will not be provided to Party B by Party A within the meaning of section 365(b)(1) of the Bankruptcy Code unless Party A affirmatively establishes the following:

i. Party A demonstrates that it has the financial resources necessary to maintain the AES Agreement; and

ii. Party A demonstrates that it has the required financial or other resources necessary to operate and perform under this Agreement.

Party A and Party B further acknowledge and agree that if an order for relief under Chapter 11 of the Bankruptcy Code is at any time entered against Party A during the term hereof, then Party A must be able to cure (a) all non-monetary defaults hereunder within one hundred eighty (180) days of the date on which

Party A proposes to assume this Agreement; and (b) all monetary defaults hereunder within one (1) year of the date on which Party A proposes to assume this Agreement.

(5) Sections 5.5, 6.7 and 6.8 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(6) Add a new Section 5.8 as follows:

"Notwithstanding anything to the contrary herein, any Force Majeure which interrupts Party A's performance of its obligations under this Agreement, with respect to a Designated Unit, for a continuous period of more than twelve (12) months shall be considered an event upon which Buyer may terminate this Agreement with respect to such Designated Unit. In the event of early termination under this Section 5.8, neither Party shall be liable to the other for the payment of damages related to such early termination.

(j) TIMELINESS OF PAYMENT. Add the following to Section 6.2 before the first sentence in that section: "Party A shall provide invoice data, disaggregated by transaction components, in a template formas may be reasonably specified by Party B."

(k) LIMITATIONS. Article Seven is amended as follows:

(1) Add a new Section 7.2, "The obligations hereunder of Party A shall be solely those of Party A and Guarantor, if any, and of no other person or entity."

(l) GRANT OF SECURITY INTEREST/REMEDIES. In Section 8.3 the phrase "or deemed occurrence" is deleted from the beginning of the second sentence.

(m) GOVERNMENTAL CHARGES. Add the following to Section 9.2 after the second sentence in that section: "Party A shall be entitled to pass through to Party B any liability, loss, cost, damage and expense, including gross-up, arising out of a tax or other imposition enacted by the California state legislature after the date of this Agreement that is not of general applicability and is instead directed at the assets or activities involved in the generation, sale, purchase, ownership and/or transmission of electric power, natural gas and/or other utility or energy goods and services, but only insofar as such liability, loss, cost, damage or expense relates to a Transaction hereunder and reflects an increase in Party A's cost of service in connection therewith. Party B shall be entitled to the benefit or reduction of or credit with respect to any such tax or other imposition enacted by the California state legislature after the date of this Agreement, but only insofar as such benefit relates to a Transaction hereunder and results in a decrease in Party A's cost of service for such Transaction.

Should the United States or any agency thereof, including FERC, impose a tax or other imposition that is not of general applicability and is instead directed at the generation, sale, purchase, ownership and/or transmission of electric power, Gas and/or other utility or energy goods and services ("Regulatory Change") that adversely affects Party A's costs of providing Capacity or Energy (or any other product or service hereunder) and the aggregate adverse effect on Party A's cost (taking into account all such Regulatory Changes and all Designated Units) is in the aggregate at least $2.5 million in any calendar year, then: (a) Party A shall provide notice to Party B of such occurrence together with a proposal to adjust the payments hereunder, and work papers that demonstrate that such adjustment is reasonably calculated to collect no more than the amount of such increased costs and shall request, by such notice, that Party B respond to such proposed adjustment within thirty (30) days; and (b) if after a period of seventy-five (75) days after delivery by Party A of the aforesaid notice, Party B and Party A have not reached agreement as to an adjustment to the amounts payable by Party B that is satisfactory to Party A, in its commercially reasonable discretion, Party A shall have the option to terminate the agreement upon ten (10) Business Days notice and neither Party shall have any further liability to the other, including with respect to a Termination Payment, other than such obligations as survive the termination of the Agreement with respect to obligations incurred prior to termination."

(n) TERM OF PRODUCT D MASTER AGREEMENT. Add the following sentence to Section 10.1: "The Product D Transaction shall terminate on the day following the last day of the Delivery Period, unless terminated sooner pursuant to the express provisions of this Agreement or as a result of an Event of Default".

(O) REPRESENTATIONS AND WARRANTIES.

(1) the phrase "...and is qualified to conduct its business in each jurisdiction in which it will perform a Transaction" is added to the end of Section 10.2(i);

(2) the phrase ", except as would not have a material and adverse affect on the other Party" is added to the end of Section 10.2(iii);

(3) the phrase "or any of its Affiliates" is deleted from Section 10.2(vi);

(4) the phrase ", and are reasonable in all respects, including rates and allocation of risk" is added to the end of Section 10.2(xii);

(5) clauses (ix) and (xi) of Section 10.2 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]", provided, that such clauses shall be included in any Replacement Agreement as defined herein.

(6) Add a new Section 10.2.1 as follows:

10.2.1 On the Effective Date and the date of entering into each Transaction, Party A represents and warrants to Party B that it has obtained from the AES Subsidiaries all consents necessary for the performance of its obligations under this Agreement.

(p) INDEMNITY. The phrase "To the extent permitted by law" is added at the beginning of the first two sentences of Section 10.4. Add the following to the end of Section 10.4: "To the extent Party A and Party B are named as defendants by a third party in any action arising with respect to delivery of Product and Party B receives any amount from a third party as indemnification or reimbursement with respect to such action, Party A and Party B agree to equitably divide such amount."

(q) ASSIGNMENT. In Section 10.5, the existing paragraph shall be replaced in its entirety with the following:

"(a) Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion.

(b) Notwithstanding the foregoing, Party A may, without the consent of Party B, (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an affiliate of Party A which affiliate's creditworthiness is equal to or higher than that of Party A, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose creditworthiness is equal to or higher than that of Party A; provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, so long as Party A delivers such tax and enforceability assurances together with such assurances as to the sufficiency of creditworthiness of such assignee to perform its obligations hereunder, as Party B may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party A, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof unless and until the bond trustee or any successor or assign shall foreclose on such collateral in which case such bond trustee or its successor or assign shall be bound by each of the provisions hereof, including the immediately preceding proviso.

(c) Notwithstanding the foregoing, Party B, without the consent of Party A, may (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer and assign all of its right, title and interest to this Agreement and the Fund to another Governmental Entity created or designated by law solely to carry out the rights, powers, duties and obligations of the Department under the Act, provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, in each

such case, so long as the transferring Party delivers such tax and enforceability assurances together with such assurances as to the sufficiency of creditworthiness of such assignee to perform its obligations hereunder, as the non-transferring Party may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party B, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof unless and until the bond trustee or any successor or assign shall foreclose on such collateral in which case such bond trustee or its successor or assign shall be bound by each of the provisions hereof, including the immediately preceding proviso."

(r) GOVERNING LAW. In Section 10.6, "New York" shall be replaced with "California."

(s) GENERAL.

(1) The phrase "Except to the extent herein provided for," shall be deleted from the fourth sentence of Section 10.8, and the phrase "and this agreement may not be orally amended or modified, including by Recording pursuant to Section 2.5" shall be added to the end of such fourth sentence.

(2) In the ninth sentence of Section 10.8, insert "materially affected or" after the phrase "Any provision," and insert "and materially affected by or" after the phrase "or regulatory agency."

(t) ADDITIONAL PROVISIONS. New Sections 10.12 through 10.18 are added to Article 10 as follows:

10.12. No Retail Services; No Agency. (a) Nothing contained in this Agreement shall grant any rights to or obligate Party A to provide any services hereunder directly to or for retail customers of any person.

(b) In performing their respective obligations hereunder, neither Party is acting, or is authorized to act, as agent of the other Party.

10.13 No Interference; No Adverse Actions.

Party B agrees to assist Party A in good faith to resolve acts or omissions (other than as otherwise required to be done by a public agency pursuant to the legal exercise of such public agency's mandate) which Party A believes would have a significant effect on (a) Party A's right or ability to (x) sell and deliver, or cause to be delivered, Product to Party B or (y) otherwise satisfy its obligations under this Agreement or (b) Party B's right or ability to (x) purchase and receive, or cause to be received Product from Party A or (y) otherwise satisfy its obligations under this Agreement.

10.14 Dispute Resolution. (a) If a dispute shall arise between the Parties relating to the interpretation of this Agreement or to performance by a Party hereunder or under any Transaction, the Party desiring resolution of the dispute shall notify the other Party in writing. The notice shall set forth the matter in dispute in reasonable detail and a proposed solution.

(b) The Parties shall attempt to resolve any dispute within 15 calendar days after delivery of the written notice referred to above. Any disputes not so resolved shall be referred by each Party to an officer (or the officer's designee) for resolution. If the Parties fail to reach an agreement within 15 days after such referral, each Party shall have the right to pursue any and all remedies provided in this Agreement and as afforded by applicable law.

(c) The existence of any dispute or controversy under this Agreement or the pendency of the dispute settlement or resolution procedures set forth herein shall not in and of itself relieve or excuse either Party from its ongoing duties and obligations under this Agreement.

10.15 WAIVER OF JURY TRIAL. THE PARTIES HEREBY EXPRESSLY WAIVE ALL RIGHTS TO TRIAL BY JURY ON ANY CAUSE OF ACTION, SUIT OR PROCEEDING DIRECTLY OR INDIRECTLY INVOLVING OR RELATED TO THE TERMS, COVENANTS OR CONDITIONS

OF THIS AGREEMENT OR ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH OR RELATED TO THIS AGREEMENT. EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY OR ANY CREDIT SUPPORT PROVIDER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF SUCH A SUIT, ACTION OR PROCEEDING, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND PROVIDE FOR ANY CREDIT SUPPORT DOCUMENTS, AS APPLICABLE, BY AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. THE PROVISIONS OF THIS AGREEMENT RELATING TO WAIVER OF JURY TRIAL SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS AGREEMENT.

10.16 No Third Party Beneficiaries. The provisions of this Agreement are for the benefit of the Parties hereto, and as to any other person or entity, this Agreement shall not be construed as a third party beneficiary contract.

10.17.Fixed Rate Contract; Mobile-Sierra Clause. The Parties hereby stipulate and agree that, under the facts and circumstances known to them at this time, this Agreement was entered into as a result of arms'-length negotiations between the Parties. Further, the Parties believe that the rates, terms and conditions of this Agreement are just and reasonable within the meaning of Sections 205 and 206 of the Federal Power Act, 16 U.S.C. Sections 824d and 824e, and that the rates, terms and conditions of this Agreement will remain so over the life of the Agreement. The Parties waive all rights to challenge the validity of this Agreement or whether it is just and reasonable for and with respect to the entire term thereof, including any rights under Sections 205 and 206 of the Federal Power Act to request the FERC to revise the terms and conditions and the rates or services specified in this Agreement, and hereby agree to make no filings at the FERC or with any other state or federal agency, board, court or tribunal challenging the rates, terms and conditions of this Agreement as to whether they are just and reasonable or in the public interest under the Federal Power Act. The Parties hereby further stipulate and agree that neither Party may bring any action, proceeding or complaint under Section 205 or 206 of the Federal Power Act, 16 U.S.C. 824d or 824e, seeking to modify, cancel, suspend, or abrogate the rates, terms and conditions of this Agreement or any Transaction hereunder, or to prevent this Agreement or any Transaction hereunder from taking effect. It is further agreed that, in the event any of the Parties challenges this Agreement for any other reason, they will not dispute the applicability of the public interest standard as that term has been defined and interpreted under the Federal Power Act and the cases of United Gas Pipe Line Co. v. Mobile Gas Corp., 350 U.S. 332 (1956), and FPC v. Sierra Pacific Power Co., 350 U.S. 348 (1956), and subsequent cases.

10.18 Novation. Notwithstanding the foregoing limitations on assignment, at any time after January 1, 2003, the Seller shall, upon the written request of Department, enter into one or more Replacement Agreements as may be agreed to by one or more Qualified Electric Corporations. This Agreement shall terminate upon effective date of a Replacement Agreement. The effectiveness of the Replacement Agreement shall constitute a novation that shall relieve Department of any liability or obligation arising after the date of termination of the Agreement. Such Replacement Agreement shall state that it is a Replacement Agreement within the meaning of the Agreement and that it constitutes a novation for which there is adequate consideration. The effectiveness of such Replacement Agreement shall be subject to the condition precedent that the California Public Utilities Commission shall have conducted a just and reasonable review under Section 451 of the Public Utilities Code with respect to such Replacement Agreement and shall have issued an order determining that the charges under such Replacement Agreement are just and reasonable.

(u) SCHEDULE M. Schedule M shall be amended as follows:

(1) In Section A, "Act" will mean Sections 80000, 80002, 80002.5, 80003, 80004, 80010, 80012, 80014, 80016, 80100, 80102, 80104, 80106, 80108, 80110, 80112, 80116, 80120, 80122, 80130, 80132, 80134, 80200, 80250, 80260 and 80270 of the Water Code, as amended.

(2) "Special Fund" will mean the Fund.

(3) In Section A, the defined term "Governmental Entity or Public Power System" shall be replaced with the term "Governmental Entity" using the following definition "`Governmental Entity' means the State of California, any State governmental board, public power authority, public utility district, joint action agency, or other similar political subdivision or public entity of the State of California, the State of California Department of Water Resources, or any combination thereof"; and all references to (A) "Governmental Entity or Public Power System" (and cognates) and (B) "Public Power System" (and cognates) in Schedule M shall be replaced with the new defined term "Governmental Entity" (using the applicable cognate).

(4) In Section B, the sentence to be added to the end of the definition of "Force Majeure" in Article One shall be replaced with the following: "If the Claiming Party is a Governmental Entity, Force Majeure does not include any act or omission of a Governmental Entity (or any branch, subdivision, agency, officer or representative thereof) in its governmental capacity or any other act or omission of any Governmental Entity (including judicial action or inaction) and such act or omission shall be deemed to be an action of Party B.

(5) In Section C add the following representations and warranties:

(i) "Party B represents and warrants that a Rate Agreement By and Between State of California Department of Water Resources and State of California Public Utilities Commission adopted by the California Public Utilities Commission on February 21, 2001 in Decision 02-02-051 (the "rate Agreement") is binding and in effect."

(ii) Party B represents and warrants that, unless determined otherwise by a court or body of appropriate jurisdiction, each of this Amended and Restated Master Power Purchase and Sale Agreement and the Product D Transaction is a "Priority Long-Term Power Contract" as that term is defined in the Rate Agreement.

(6) In Section D, delete Section 3.5 and replace it with the following:

"Section 3.5 No Immunity Claim. California law authorizes suits based on contract against the State or its agencies, and Party B agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in California state court."

(7) In Section G, specify that the laws of the State of California will apply.

(8) Add a new Section H, which shall read as follows:

Section 3.6. Payments Under Agreement an Operating Expense. To the extent that this Transaction shall constitute a "Priority Long Term Power Contract" as that term is defined in the Rate Agreement between Party B and State of California Public Utilities Commission ("CPUC") adopted by the CPUC on February 21, 2001 in Decision 02-02-051, payments under this Agreement shall constitute an operating expense of the Fund payable prior to all bonds, notes or other indebtedness secured by a pledge or assignment of the Trust Estate or payments to the general fund."

(9) Add a new Section I, which shall read as follows:

Section 3.7. Rate Covenant; No Impairment. Party B covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Party B pursuant to this Agreement. While any obligations of Party B pursuant this Agreement remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Party B and the Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of Party A under this Agreement.

(10) Add a new Section J, which shall read as follows:

Section 3.8. Sources of Payment; No Debt of State. Party B's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of Party B arising in connection with this Agreement or any claim based thereon or with respect thereto, including, but not limited to, any Termination Payment arising as the result of any breach or Potential Event of Default or Event of Default under this Agreement, and any other payment obligation or liability of or judgment against Party B hereunder, shall be satisfied solely from the Special Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS AGREEMENT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Agreement.

(11) Section 3.9. No More Favorable Terms. Party B shall not provide in any power purchase agreement payable from the Trust Estate for (i) collateral or other security or credit support with respect thereto, (ii) a pledge or assignment of the Trust Estate for the payment thereof, or (iii) payment priority with respect thereto superior to that of Party A, without in each case offering such arrangements to Party A; provided, however, that Party B shall not be deemed to be in violation of this Section 3.9, and Party B shall not be required to offer Party A payment priority equal to that of the Priority Long Term Power Contracts, to the extent that this Transaction shall not constitute a "Priority Long Term Power Contract" as that term is defined in the Rate Agreement.

(12) Add a new Section L, which shall read as follows:

"Section 3.10. Application of Government Code and the Public Contracts Code. Party A has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Agreement if the provisions of the Government Code and the Public Contracts Code applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Agreement. Accordingly, pursuant to Section 80014(b) of the Water Code, Party B has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Agreement and that such provisions and requirements are therefore not applicable to or incorporated in this Agreement."

(13) Add a new Section M, which shall read as follows:

"Section 3.11. Deposit of Proceeds of Bonds. The proceeds of any bonds issued by Party B shall be deposited and applied in accordance with the resolution or indenture providing for the issuance thereof."

(14) Add a new Section N, which shall read as follows:

"Section 3.12. Transfers of Power Charge Revenues and Bond Charge Revenues. The indenture providing for the issuance of any bonds or other indebtedness by Party B will provide for the application of Power Charge Revenues and Bond Charge Revenues in accordance with the document entitled "California Department of Water Resources Summary of Material Terms of Financing Documents (Submitted in connection with Section 7.10 of a proposed Rate Agreement between California Department of Water Resources and the California Public Utilities Commission)" under the captions "III. Flow of Funds - Power Charge Revenues; Bond Charge Revenues as modified and amended by the Amended and Restated Addendum to Summary of Material Terms of Financing Documents dated as of August 8, 2002, as further amended or supplemented, and according to Section 7.10 of the Rate Agreement as adopted by the California Public Utilities Commission in Decision No. 02-02-051"

(w) CONDITIONS PRECEDENT. The effectiveness of this Agreement (including the Product D Transaction) is subject to and conditioned upon:

(1) delivery to Party A of a legal opinion from the General Counsel of the California Department of Water Resources in the form attached hereto as Exhibit A; and

(2) delivery to Party A of a legal opinion from the Attorney General of the State of California in the form attached hereto as Exhibit B.

(3) unless waived by Party A, receipt by Party A of consents and agreements from the AES Subsidiaries as Party A deems necessary or beneficial in its sole discretion, such consents and agreements to be received on or prior to December 31, 2002; and

(4) unless waived by Party A, receipt by Party A of required consents and agreements from the California Independent System Operator Corporation, such consents and agreements to be received on or prior to December 31, 2002.

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Unless otherwise determined by a court or other body of appropriate jurisdiction, this Product D Master Agreement amends and supercedes that certain Master Power Purchase and Sale Agreement dated February 16, 2001 (the "Prior Agreement") by and between the Parties. As of the effective date of this Product D Master Agreement, the Prior Agreement, together with any transaction thereunder, shall be of no force or effect.

IN WITNESS WHEREOF, the Parties have caused this Product D Master Agreement to be duly executed as of the date first above written.

WILLIAMS ENERGY MARKETING & TRADING COMPANY	CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System
By:_____	By: _____
Name:_____	Name:_____
Title:_____	Title:_____

ACKNOWLEDGMENTS

State of Oklahoma)
)SS
County of Tulsa)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of Williams Energy Marketing & Trading Company, a Delaware corporation, known to me that he executed this Master Power Purchase And Sale Agreement Cover Sheet for the purposes and consideration herein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires:_____

[S E A L]

State of California)
)SS
County of _____)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of the California Department of Water Resources, a _____, known to me that he executed this Master Power Purchase And Sale Agreement Cover Sheet for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said _____.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires:_____

[S E A L]

MASTER POWER PURCHASE AND SALE AGREEMENT
CONFIRMATION LETTER
PRODUCT D TRANSACTION

This confirmation letter shall confirm the Product D Transaction agreed to on November 11, 2002 between WILLIAMS ENERGY MARKETING & TRADING COMPANY ("Party A") and CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("Party B") regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: Party A

Buyer: Party B

Product:

[ ] Into _____, Seller's Daily Choice

[ ] Firm (LD)

[ ] Firm (No Force Majeure)

[ ] System Firm

(Specify System:_____)

[ ] Unit Firm

(Specify Unit(s):_____)

[X] Other

All capacity and energy from the Designated Units as provided in the AES Agreement and Schedule 1 hereto, subject to Force Majeure as provided in the Product D Master Agreement (defined below). All capitalized terms not otherwise defined herein shall have the meanings set forth in Schedule 1.

[ ] Transmission Contingency (If not marked, no transmission contingency)

[ ] FT-Contract Path Contingency [ ] Seller [ ] Buyer

[ ] FT-Delivery Point Contingency [ ] Seller [ ] Buyer

[ ] Transmission Contingent [ ] Seller [ ] Buyer

[x] Other transmission contingency

(Specify: Buyer shall be responsible for transmission contingencies at and after the Delivery Point and Seller shall be responsible for transmission contingencies prior to the Delivery Point.)

Contract Quantity:

All Dependable Capacity of the Designated Units and associated energy during the periods as provided in Schedule 1 as follows, subject to adjustment pursuant to the Settlement Agreement:

Start Date through June 30, 2003 from HB 1 and HB 2

July 1, 2003 through December 31, 2007 from AL 5, AL 6 and HB 1

January 1, 2008 through Dec. 31, 2010 from AL 1, AL 5, HB 1 and RB6

Delivery Point: As specified as in the AES Agreement.

Contract Price: As provided in Schedule 1, subject to adjustment pursuant to the Settlement Agreement.

Energy Price: As provided in Schedule 1.

Other Charges: As provided in Schedule 1.

Delivery Period: Start Date through Dec. 31, 2010

Special Conditions: See Schedule 1 hereto.

Option Buyer: N/A

Option Seller: N/A

Type of Option: _____

Strike Price: _____

Premium: _____

Exercise Period: _____

This Product D confirmation letter is being provided pursuant to and in accordance with the Amended and Restated Master Power Purchase and Sale Agreement, dated November 11, 2002 (the "Product D Master Agreement") between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Product D Master Agreement.

This Product D confirmation letter, together with the Product D Master Agreement and the Amended and Restated Master Power Purchase and Sale Agreement and related amended and restated Product A, B, and C confirmation letter (both of even date herewith), collectively supersedes the Amended and Restated Master Power Purchase and Sale Agreement dated February 16, 2001, and related amended and restated confirmation dated February 21, 2001. Terms used but not defined herein shall have the meanings ascribed to them in the Product D Master Agreement or in Schedule 1 hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

WILLIAMS ENERGY MARKETING & TRADING COMPANY	CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System
Name: /s/ William E. Hobbs	Name: Signature Illegible
Title: William E. Hobbs, President & CEO	Title: Deputy Director
Phone No: 918/573-4608	Phone No: 916 574 2733
Fax: 918/573-1717	Fax: 916 574 2512

Section 1. Definitions. All capitalized terms in this Schedule 1 not otherwise defined herein shall have the meanings set forth in the Capacity and Tolling Agreement (the "AES Agreement"), dated as of May 1, 1998, among AES Alamitos, L.L.C., AES Huntington Beach, L.L.C., AES Redondo Beach L.L.C. and Party A, (f/k/a Williams Energy Services Company), as amended by Amendment No. 1, dated May 1, 1998, and Amendment No. 2, dated March 5, 2002, a copy of which is attached hereto as Appendix A and any other amendments.

"AL 1" means Alamitos Unit No. 1.

"AL 5" means Alamitos Unit No. 5.

"AL 6" means Alamitos Unit No. 6.

"AL 7" means Alamitos Unit No. 7.

"ADC" means

with respect to AL 1, the Dependable Capacity in excess of 175 MW;

with respect to AL 5, the Dependable Capacity in excess of 480 MW;

with respect to AL 6, the Dependable Capacity in excess of 480 MW;

with respect to HB 1, the Dependable Capacity in excess of 215 MW;

with respect to HB 2, the Dependable Capacity in excess of 215 MW;

with respect to RB 6, the Dependable Capacity in excess of 175 MW;

"Additional Capacity Payment" means for the period from the Start Date to Dec. 31, 2010, with respect to a given month, the sum of the Fixed Payments for the Designated Unit(s) for such month attributable to the ADC.

"Adjustment Factor" means, when used with respect to any particular "nth" Contract Year, shall be determined as follows:

AF = 1 + [(CPI(n-1) - CPI(n-2)) / CPI(n-2)]

Where,

CPI(n-1) = The average of the 12 monthly CPI values occurring in the Contract Year preceding the Contract Year with respect to which a calculation is to be made hereunder.

CPI(n-2) = The average of the 12 monthly CPI values for the Contract Year two years preceding the Contract Year for which a determination is to be made.

"Base Capacity Payment" means:

For the period from the Start Date to December 31, 2007, a monthly capacity payment, payable in arrears, of $11.67/kW-month times the total Base Dependable Capacity of the Designated Units.

For the period from January 1, 2008- Dec. 31, 2010, a monthly capacity payment, payable in arrears, of $9.75/kW-month times the total Base Dependable Capacity of the Designated Units.

"Base Dependable Capacity" shall mean the Dependable Capacity as defined in the AES Agreement with respect to each Designated Unit, minus such Unit's ADC.

"Capacity Payment" means the Base Capacity Payment and the Additional Capacity Payment.

"Contract Year" means any period of June 1 to May 31 during the Delivery Period.

"CPI" means the Consumer Price Index as defined in the AES Agreement.

"Default Fuel Supply Plan" means the Gas supply plan attached hereto as Appendix B.

"Designated Unit(s)" means any of AL 1, AL 5, AL 6, HB 1, HB 2, and RB 6, but only to the extent such Units are obligated to provide Contract Quantity hereunder, subject to change as provided in Section 8(f).

"Extended-Term Obligations" means obligations provided by either Party that extend beyond the then current Fuel Supply Period.

"Event of Default" means, with respect to this Transaction, any Event of Default as set forth in Section 5.1 of the Product D Master Agreement; provided, however, that Event of Default shall not include any determination by any court or regulatory authority that this Transaction is not a Priority Long Term Power Contract.

"Fuel Payment" means (a) a fuel management fee of one cent (1cent) per decatherm of Hourly Fuel Consumption for all hours during such month, plus (b) in the event Party A is responsible for supplying Gas to the Designated Units, the amount payable by Party B to Party A pursuant to a Fuel Supply Plan pursuant to Section 6, or, in the absence of a Fuel Supply Plan, the amount payable to Party A pursuant to the Default Fuel Supply Plan.

"Fuel Supply Period" means the twelve-month period commencing on the termination of the Initial Fuel Supply Period and the anniversary thereof.

"HB 1" means Huntington Beach No. 1.

"HB 2" means Huntington Beach No. 2.

"HB 5" means Huntington Beach No. 5.

"Hourly Fuel Consumption" means with respect to a Designated Unit the hourly fuel consumption as metered at such Designated Unit adjusted back on a pro rata basis to the total quantity metered at the revenue meter of Southern California Gas Company or its successor ("RMT"), calculated as follows:

Hourly Fuel Consumption = RMT * (DM/FMT)

Where:

"DM" means with respect to a Designated Unit the hourly fuel consumption as metered at such Designated Unit; and

"FMT" means the sum of the hourly fuel consumption quantities at each Unit at a Facility connected to the same revenue meter as the Designated Unit.

"Initial Fuel Supply Period" means the period commencing on the Start Date and continuing until June 30, 2003.

"Initial Fuel Supply Plan" means the Gas supply plan attached hereto as Appendix C.

"MRA" means Must Run Agreement between Party A or Party B and CAISO for a generating unit on an individual unit basis.

"RB 6" means Redondo Beach No. 6.

"Scheduling Coordinator Fee" means $16,667 per month payable in arrears as adjusted annually by the Adjustment Factor each June commencing June, 2004.

"Settlement Agreement" means the Settlement Agreement, dated as of November 11, 2002, among the parties thereto, including the parties hereto.

"Start Date" means January 1, 2003.

Section 2. Intent of the Parties. Party A and Party B acknowledge and agree that (i) this Transaction has resulted from and is a part of the renegotiation of the Master Power Purchase and Sale Agreement, dated as of February 16, 2001, between Party A and Party B and the related Amended and Restated Confirmation Letter dated February 21, 2001 referred to in the Rate Agreement ("Rate Agreement") between Party B and State of California Public Utilities Commission ("CPUC") adopted by the CPUC on February 21, 2001 in Decision 02-02-051 (such Amended and Restated Master Power Purchase and Sale Agreement and related amended and restated confirmation being referred to as the "Existing Transaction"), and (ii) because of certain benefits to be derived by Party A, constituting part of the consideration for the renegotiation of the Existing Transaction, Party A and Party B have determined to set forth the agreements resulting from the renegotiation of the Existing Transaction as two separate Transactions, including this Transaction. It is further the intent of Party A and Party B that both resulting Transactions, including this Transaction, each constitute a "Priority Long Term Power Contract" as that term is defined in the Rate Agreement.

Section 3. Scheduling and Dispatch. (a) Subject only to the limitations set forth herein and in the AES Agreement, Party B shall have (i) all of Party A's rights to Dispatch the Designated Units, utilize the Net Electric Energy and Ancillary Services associated with the Dependable Capacity of the Designated Units and market the Dependable Capacity of the Designated Units, the associated Net Electric Energy and the associated Ancillary Services as set forth in Section 8.2 of the AES Agreement and Party A shall Dispatch the Designated Units as directed by Party B except to the extent a Designated Unit is dispatched by the CAISO or any successor entity, and (ii) subject to the provisions of subsection 3(d), any and all related and ancillary rights of Party A under the AES Agreement that in any way bear on, affect or relate to the Dispatch and scheduling of the Designated Units or otherwise affect the value thereof to Party B.

(b) Party A shall Dispatch the Designated Units as directed by Party B, subject to the limitations set forth in the AES Agreement and except as otherwise required in applicable laws or regulations, or any requirements of the CAISO or any successor entity.

(c) Party B will not Dispatch or cause Party A to Dispatch the Designated Units in violation of the limitations set forth in the AES Agreement or of any applicable laws, regulations or any requirements of the CAISO or any successor entity.

(d) (i) Party A shall not change June, July, August, September, and October as Designated Months for any Facility which includes a Designated Unit without the written approval of Party B. Party A shall consult with Party B before selecting the remaining two Designated Months for any Facility which includes a Designated Unit as permitted by the AES Agreement (which as of the Start Date is a single selected month: May).

(ii) Party A shall consult with Party B before agreeing to any alternative index or method for determining the Hourly Gas Price with respect to a Designated Unit pursuant to Section 1.54 of the AES Agreement.

(iii) Except as specifically provided for in Section 3(d)(i) or (ii), if at any time the exercise of any rights by Party B pursuant to Section 3(a)(ii) interferes with or adversely affects Party A's rights with respect to any Units which are not Designated Units, Party A shall notify Party B thereof in writing. If the Parties are unable to establish mutually agreeable procedures for the exercise of such rights, the Parties shall submit the question of the reasonable and equitable apportionment of Party B's ancillary rights pursuant to Section 3(a)(ii) and Party A rights with respect to any Units which are not Designated Units to binding arbitration pursuant to Section 15.

Section 4. Notices, Information and Other Documentation. (a) Party A shall provide to Party B any all notices, information and other documentation and material provided to Party A by the AES Subsidiaries under the AES Agreement, pertaining to the Designated Units, including, but not limited to, any (i) Availability Notices for the Designated Units received by Party A pursuant to Sections 8.1 or 8.2(a) of the AES Agreement, (ii) each weekly Unit status Notice for each Designated Unit, (iii) any monthly reports of outage hours (Maintenance Outage Notice, Force Outage Notice), Start-ups, commodities consumed, actual Net Electric Energy delivered and actual MVARs, (iv) all availability and status notices, including Unit Status Change Notice for each Designated Unit, (v) any notice of inability to meet scheduled dispatch of a Designated Unit, (vi) any certificate of compliance delivered pursuant to Section 9.7 of the AES Agreement, (vii) any certificates of insurance pursuant to Section 16.3 of the AES

Agreement, (viii) any forecasts of Planned Outages or Planned Outage Schedules for the Designated Units and updates thereof, any notice of Maintenance Outages and Maintenance Deratings, (ix) notice of any other event which could result in the inability of a Designated Unit to return to schedule service, (x) notice of any Forced Outages or Forced Deratings or any change thereto, (xi) any outage request, (xii) response rates received pursuant to Section 9.4 of the AES Agreement, (xiii) all other notices, requests and information delivered pursuant to Schedule 8.2 of the AES Agreement, and (xiv) any Notice of an Event of Default pursuant to Section 18.2(a) of the AES Agreement.

(b) To the extent any notices, information and other documentation and material are not provided, but may be requested by Party A under the AES Agreement with respect to the Designated Units, Party A shall, upon the request of Party B, request any such notices, information and other documentation and material under the AES Agreement and deliver any such notices, information and other documentation and material received under the AES Agreement to Party B, including, but not limited to, all Planned Outage and operation and maintenance records pertaining to the Designated Units pursuant to the AES Agreement.

(c) Party B shall be responsible for all incremental out of pocket costs and expenses incurred by Party A with respect to requests made by Party B pursuant to subsections 4(a) and (b) above, including but not limited to, costs of additional meters, communications software and equipment, and other equipment required to provide gas and electric meter data. Party B shall not be responsible for any of Party A's personnel or general overhead costs allocable to complying with subsections 4(a) and 4(b) above.

(d) The time period for the delivery of notices, information or other material hereunder shall be established by the Operating Committee established pursuant to Section 14 hereof. To the extent that a specific time or time period is not expressly specified by the Operating Committee with respect to any particular notice, action, consent or right hereunder, Party A shall provide to Party B all notices, or afford Party B the opportunity to take actions, give consents, or otherwise exercise the rights of Party A contracted to Party B hereunder as soon as reasonably possible.

Section 5. Exercise of Rights and Performance of Obligations. (a) In order to accomplish the purpose of Section 3 hereof, Party A shall not exercise any of the rights referred to in Section 3 hereof, including in cases where Party B does not Dispatch any Designated Unit, without the approval of Party B (which shall be in writing except with respect to subsection 5(a)(v), which may be an oral approval), including, but not limited to, the rights to (i) agree to any amendment of Schedule 8.2 of the AES Agreement with respect to or affecting the Designated Units in accordance with Section 8.2(a) thereof, or (ii) give consent pursuant to Section 8.2(d) of the AES Agreement with respect to or affecting the Designated Units, (iii) agree to the operation of any Designated Unit using any fuel other than Gas pursuant to Section 8.9 of the AES Agreement, (iv) designate an alternate or additional Delivery Point with respect to any Designated Unit pursuant to Section 8.10 of the AES Agreement, (v) approve or change any dispatch request with respect to the Designated Units, (vi) consent to the reduction of Dependable Capacity of the Designated Units pursuant to Section 4.5 of the AES Agreement, (vii) approve the schedule of Planned Outages for the Designated Units, any proposed 15-month Planned Outage Schedule, any request for 24-hour approval and confirmation of a Planned Outage, or any preferred outage dates, with respect to the Designated Units, (viii) waive any right or remedy with respect to an Event of Default by any AES Subsidiary with respect to a Designated Unit other that Party A's right to terminate the AES Agreement which Party A may waive at any time without the

approval of Party B, (ix) use of the maximum ramp rate in bidding spinning reserve as provided in Section 9.4(b) of the AES Agreement with respect to the Designated Units, (x) change or modify any performance standards such as heat rate guarantees and availability guarantees of the Designated Units, and (xi) exercise any other or similar right to approve, consent, agree, direct or cause an AES Subsidiary to act with respect to the Designated Units.

(b) In order to accomplish the purpose of Section 3 hereof, Party B may direct or cause Party A to exercise such rights, take such actions or otherwise perform under the AES Agreement with respect to the Designated Units, including but not limited to, the rights to direct Party A to (i) provide written consent pursuant to Section 8.2(d) of the AES Agreement, (ii) agree to the operation of any Designated Unit using any fuel other than Gas pursuant to Section 8.9 of the AES Agreement (provided, however, Party A shall not be required to incur any additional expense as a result), (iii) designate an alternate or additional Delivery Point with respect to any Designated Unit pursuant to Section 8.10 of the AES Agreement (provided, however, Party A shall not be required to incur any additional expense as a result), (iv) provide the AES Subsidiaries with any anticipated daily Unit forecast for each Designated Unit received from Party B, (v) approve or change any dispatch request with respect to the Designated Units, (vi) approve the schedule of Planned Outages for the Designated Units, any proposed 15-month Planned Outage Schedule for the Designated Units, any request for 24-hour approval and confirmation of a Planned Outage for the Designated Units, or any preferred outage dates for the Designated Units, (vii) direct Party A to make use of the maximum ramp rate in bidding spinning reserve as provided in Section 9.4(b) of the AES Agreement with respect to the Designated Units, (viii) direct Party A regarding operation of Designated Units with automatic generating control equipment in service pursuant to the last sentence of Section 9.3 of the AES Agreement, and (ix) take any other or similar actions under the AES Agreement to approve, consent, agree, direct or cause an AES Subsidiary to act with respect to the Designated Units. Notwithstanding the foregoing provisions or any other provision herein, in no event shall Party B have the right to direct Party A to amend the AES Agreement.

(c) In addition to obligations specified elsewhere herein, Party B shall with respect to the Designated Units: (i) provide to Party A a three-year unit forecast (or such shorter forecast if the remaining time in the Deliver Period is less than three (3) years) for run hours, megawatt hours, and starts, and (ii) to the extent applicable to Party B, comply with all CAISO and other regulatory requirements related to dispatch and bidding, including without limitation any "must offer requirements".

(d) Party B shall treat as confidential any information provided by Party A to Party B hereunder with respect to the Designated Units to the extent that such information would be treated as confidential pursuant to Section 23.5 of the AES Agreement. If any person requests the disclosure of any such confidential information, Party B shall provide notice thereof to Party A as soon as reasonably possible after receipt by Party B of such request and if Party B is not California Department of Water Resources, Party B shall defend against any such request. If Party B is California Department of Water Resources, upon Party A's request, California Department of Water Resources shall use its reasonable efforts to assist Party A in defending against any such request, provided Party A shall reimburse Party B for its reasonable out of pocket expenses for such assistance.

Section 6. Gas. As further set forth in this Section 6, either Party A or Party B shall provide all Gas with respect to the Dispatch of any of the Designated Units as required by and in accordance with Article VI and Section 8.4 of the AES Agreement; provided, in no event shall

Party A be deemed obligated to install additional Gas meters. Party A shall act as fuel manager hereunder for the Delivery Period.

(a) Initial Fuel Supply Period. During the Initial Fuel Supply Period, Party A will supply Gas to the Designated Units pursuant to the Initial Fuel Supply Plan. The Initial Fuel Supply Plan will provide information such that Party B can evaluate the expected cost of Gas needed to generate energy provided under this Schedule 1. Party A shall act in accordance with the Initial Fuel Supply Plan.

(b) Subsequent Fuel Supply Periods. At least ninety (90) Days prior to the commencement of each succeeding Fuel Supply Period, Party A shall provide for Party B's approval a proposed Fuel Supply Plan for the next succeeding Fuel Supply Period.

(c) Parties' Failure to Execute Fuel Supply Plan.

(i) In the event the Parties do not agree to a Fuel Supply Plan by sixty (60) Days prior to the next succeeding Fuel Supply Period, Party B may elect, at Party B's sole option, to provide, or cause to be provided, for the next succeeding Fuel Supply Period, as appropriate, Gas necessary to supply the Designated Units hereunder from Party B's own Gas purchases. Party B's election to provide, or cause to be provided, Gas to the Designated Units under this Section 6(c)(i) shall be expressed in writing to Party A no later than thirty (30) Days prior to the commencement of the next succeeding Fuel Supply Period.

(ii) If the Parties do not agree on a Fuel Supply Plan and Party B does not timely elect to provide Gas to the Designated Units from Party B's own Gas purchases pursuant to Section 6(c)(i), Party A will provide, pursuant to the Default Fuel Supply Plan, Gas necessary to supply the Designated Units hereunder during the next succeeding Fuel Supply Period, or until the Parties have agreed to and executed a Fuel Supply Plan for such Fuel Supply Period. However, in the event that the Parties are involved in good faith negotiations with respect to a Fuel Supply Plan for a Fuel Supply Period, then Party B may elect to, and upon making such election Party B shall, provide Gas necessary to supply the Designated Units hereunder until (x) the Parties have agreed to and executed a Fuel Supply Plan for such Fuel Supply Period, (y) the Parties have discontinued negotiations with respect to the Fuel Supply Plan for such Fuel Supply Period, or (z) Party B has elected pursuant to Section 6(c)(i) to provide Gas to the Designated Units from Party B's own Gas purchases.

(iii) In the event the Parties have not agreed to and executed a Fuel Supply Plan, Party B has not elected to provide Gas to the Designated Units from Party B's own Gas purchases for the entire Fuel Supply Period pursuant to Section 6(c)(i), Party B has not elected to supply Gas from its own Gas purchases during continuing negotiations with respect to a Fuel Supply Plan pursuant to Section 6(c)(ii), and Party A is unable, using commercially reasonable efforts, at any time during the Fuel Supply Period, to provide Gas necessary to supply the Designated Units hereunder, then Party B will provide Gas necessary to supply the Designated Units hereunder. In the event Party A is unable to provide Gas necessary to supply the Designated Units hereunder, and Party B is unable to provide Gas necessary to supply the Designated Units hereunder, such inability to provide Gas shall constitute a Force Majeure.

(d) Party B Delivery of Gas Notwithstanding Agreed Fuel Supply Plan. If Party A is unable to provide Gas to the Designated Units during any Fuel Supply Period for which the Parties have executed a Fuel Supply Plan, Party B may provide Gas to the Designated Units.

(e) Extended-Term Obligations. The Parties acknowledge that any Fuel Supply Plan may include Extended-Term Obligations. Extended-Term Obligations may include, but are not limited to, long-term commitments for pipeline capacity, storage rights, or financial risk products pertaining to the commodity price (such as fixed prices, costless collars, basis purchases, caps, or other price management mechanisms). Any Extended-Term Obligation that the Parties specifically approve in a separate binding agreement shall be deemed effective and approved for the duration of the period to which it applies, regardless of whether such period extends beyond the term of any Fuel Supply Plan.

(f) Fuel Cost Responsibility. Party B shall be solely responsible, without reimbursement from Party A, for any costs or charges imposed on or associated with Gas it provides the Designated Units pursuant to Sections 6(c) or 6(d). In no event shall Party B pay more than one cent per decatherm for fuel manager's services. Party A shall cause AES to maintain all gas meters in good working order and in compliance with the requirements of the AES Agreement; provided, to the extent Party A is responsible for metering costs under the AES Agreement, Party B shall pay Party A for all such metering costs associated with the Designated Units and a pro rata share of costs associated with shared meters at the Facilities.

(g) Fuel Imbalances. The Parties shall use commercially reasonable efforts to avoid imposition of any Imbalance Charges. If Party A or Party B receives an invoice from a Transporter that includes Imbalance Charges, the Parties shall determine the validity as well as the cause of such Imbalance Charges. If the Imbalance Charges were incurred as a result of Party A's actions or inactions (which shall include, but not be limited to, Party A's failure to accept scheduled quantities of Gas), then Party A shall pay for such Imbalance Charges, or reimburse Party B for such Imbalance Charges paid by the Party B to the Transporter. If the Imbalance Charges were incurred as a result of Party B's actions or inactions (which shall include, but shall not be limited to, Party B's failure to deliver scheduled quantities of Gas), then Party B shall pay for such Imbalance Charges, or reimburse Party A for such Imbalance Charges paid by the Party A to the Transporter. Any imbalance penalties require documentation of penalty assessment by a non-related third party applicable to the imbalance determination. Party B may direct Party A to use Party B's gas storage to minimize imbalances. Party B shall have the right to direct the fuel manager to use Party B's gas buying pool (including storage) to minimize imbalance charges to Party B. It is the Parties' intent that services provided by the fuel manager shall include balancing provisions within each month that offer no less benefit than the then-effective applicable local natural gas distribution utility tariff would provide for the same period for the Designated Units. Party A shall allow Party B to nominate through the fuel manager all Gas volumes required for Energy Dispatched by Party B and fuel manager shall be available to Party B to coordinate Party B's Gas activity for all four gas nomination cycles each Day. If a transporter curtailment is in existence during any period during which Party B is supplying Gas to the Designated Units, the available gas volumes under the transporter curtailment shall be apportioned between Party B and Party A in proportion to Party B's Energy Dispatched for that period and Party A's scheduled dispatch for that period.

(h) Curtailments. To the extent there is a curtailment of gas deliveries on the applicable transporters, the available gas volumes under the transporter curtailment shall be apportioned between Party B and Party A in proportion to the Party's respective dispatch schedules for the curtailment period.

(i) Authorization and Effectiveness of Fuel Plan as to Party B; Conflicts. Party B's acceptance of a Fuel Plan shall be evidenced by written acceptance thereof an authorized representative of Party B and upon acceptance thereof by such authorized representative Party B shall be bound by the terms of such Fuel Plan; provided, however, that such authorized representative of Party B shall not have any authority to agree to any terms and provisions of a Fuel Plan that conflict with the provisions of this Section 6 and in the event any Fuel Plan contains terms and provisions that conflict with this Section 6, such terms and provisions shall be void and the provisions of this Section 6 shall govern such Fuel Plan.

Section 7. Payments. (a) Each month of the Delivery Period of this Transaction, Party B shall, subject to the provisions of subsection (c) of this Section 7, pay to Party A, the following:

(i) the Capacity Payment, as adjusted pursuant to Section 8 and Section 12.

(ii) any Variable Payment applicable to the Designated Units payable in such month pursuant to Section 5.2 of the AES Agreement;

(iii) any Startup Payment applicable to the Designated Units payable in such month pursuant to Section 5.4 of the AES Agreement;

(iv) the Fuel Payment;

(v) any Additional Ancillary Services Payment applicable to the Designated Units payable in such month pursuant to Section 5.3 of the AES Agreement;

(vi) any amount payable in such month pursuant to Article VI of the AES Agreement, associated with the Designated Unit(s); and

(vii) the Scheduling Coordinator Fee.

(b) amounts payable pursuant to subsection (a) of this Section 7 shall be in addition to amounts payable by Party B to Party A pursuant to the Product D Master Agreement.

(c) Amounts payable in such month by Party B to Party A pursuant to subsection (a) of this Section 7 in each month shall be reduced by the following amounts:

(i) any amount paid or payable in such month by the AES Subsidiaries to Party A pursuant to Article VI of the AES Agreement, associated with the Designated Unit(s).

(ii) where Party A is serving as scheduling coordinator, an amount equal to [A + B] - C

Where,

A = Amounts paid or payable in such month to Party A by the CAISO for such month as a result of Party A acting as scheduling coordinator for the Designated Unit(s) in accordance with tariffs established by CAISO.

B = Amounts not otherwise already reflected in "A" above, paid or payable in such month to CAISO or withheld by CAISO from payments due Party

A or Party B due to the negligence or willful misconduct of Party A or the breach by Party A of its scheduling coordinator agreement with respect to the Designated Unit(s).

C = Amounts paid or payable in such month by Party A as a result of Party A acting as scheduling coordinator for the Designated Unit(s) in accordance with tariffs established by CAISO.

(iii) where a MRA entered into pursuant to Section 8(f) with respect to the Designated Unit(s) is in effect, an amount equal to [A + B + C] - [D+ E + F]

Where:

A = Amounts paid or payable in such month to Party A by the CAISO under the terms of any MRA with respect to the Designated Unit(s).

B = Amounts not otherwise already reflected in "A" above, paid or payable in such month by Party A to the CAISO with respect to the Designated Unit(s) under the terms of an MRA to the extent such amounts paid or payable in such month are due to the negligence or willful misconduct of Party A or the breach by Party A of such MRA.

C = Amounts not otherwise already reflected in "A" above, paid or payable in such month by the CAISO for Gas under such MRA with respect to such Designated Unit(s) to the extent that such Gas has been has paid for by Party B or provided from storage by Party B or Party B is otherwise economically obligated with respect thereto.

D = Amounts paid or payable in such month by Party A to the CAISO with respect to the Designated Unit(s) under the terms of such MRA.

E = Amounts not otherwise already reflected in "D" above, paid or payable in such month to the AES Subsidiaries for capital improvements to such Designated Unit(s) to the extent such improvements were made with the approval of CAISO and added to the cost recovery formulae.

F = Amounts not otherwise already reflected in "D" above, paid or payable in such month by the CAISO for Gas under such MRA with respect to such Designated Unit(s) to the extent that such Gas has been has paid for by Party A or provided from storage by Party A or Party A is otherwise economically obligated with respect thereto.

(d) If in any month the amounts payable by Party B in a month is less than an amount of aggregate of reductions permitted to Party B under this Transaction, any portion of such reductions not made in such month shall be made in the following month(s); provided, however, that any reductions permitted to Party B which are not made in full by the month following the final month of the Delivery Period shall be settled in such month by a payment in the amount of the reduction not made from Party A to Party B.

Section 8. Reliability Provisions. (a) Non-Dispatch. Any amounts received (through payment or netting) from the AES Subsidiaries pursuant to Section 8.6 of the AES Agreement as

the result of the Non-Dispatch of any Designated Unit shall be automatically netted against amounts payable by Party B to Party A pursuant to Section 7(a). Such pass through shall be in lieu of any liability of Party A to Party B pursuant to Article Four of the Product D Master Agreement with respect to delivery of energy hereunder by Party A. Party A shall not, without the approval of Party B, which shall not be unreasonable withheld, waive its right to receive any amounts from the AES Subsidiaries pursuant to Section 8.6 of the AES Agreement. To the extent required by the provisions of Section 8.6 of the AES Agreement to receive payment thereunder, Party B may, but shall not be obligated to, make such purchases and Party A shall not be required to make any purchases pursuant to said section with respect to any Dispatch Notice provided by Party B. Any amounts that Party A shall be obligated to pass through to Party B shall be net of (i) any amounts payable by Party A to CAISO which are the direct result of the failure of Party B to make any purchase required by Section 8.6 of the AES Agreement and which are not otherwise paid by the AES Subsidiaries, provided, however, in no event shall Party B be required to make a payment to Party A pursuant to this Section 8(a) and (ii), to the extent that Party A and the AES Subsidiaries apply the provisions of Section 8.6 of the AES Agreement to require actual purchases to be made in order for the AES Subsidiaries to be obligated to make a payment to Party A thereunder, any portion of a purchase price of a purchase made by Party B in excess of the price of a purchase made in a commercially reasonable manner.

(b) Capacity Payment Adjustments. (i) The Capacity Payment payable by Party B shall be adjusted pursuant to the provisions of Section 4.3 of the AES Agreement, except that Section 1.79 of the AES Agreement shall be replaced by the following with respect to the Designated Units:

"Non-Availability Discount" means, as of the end of each month, if a Unit's Year-to-Date Availability shall be less than its Guaranteed Availability, the amount computed in accordance with the following formula:

(GA-YTDA)/GA x ((FP/12) x ADC + BCP x BDC) x M x Shortfall Factor

where: "GA" is Guaranteed Availability; "YTDA" is Year-to-Date Availability (except for periods prior to June 1, 2003, it shall be measured from the Start Date); "FP" is the Fixed Payment for such Unit ($/kWyr.); "BCP" is the relevant dollar per kW-month rate for the Base Capacity Payment; "M" is the number of months elapsed in the then-current Contract Year (except for periods prior to June 1, 2003, it shall be measured from the Start Date); "ADC" is the additional capacity made available as defined in Section 1; "BDC" is Base Dependable Capacity; and the Shortfall Factor applicable to the amount of Availability Shortfall is determined from Schedule 4.3 of the AES Agreement. The term "Availability Shortfall" refers to (i) GA minus YTDA, divided by (ii) GA. For this formula, a negative numeric value (i.e., when YTDA is greater than GA) shall be treated as zero.

(ii) In the event of an Availability Shortfall under the AES Agreement with respect to a Designated Unit of less than 50 percent (50%) resulting in amounts payable by the AES Subsidiaries to Party A with respect to the Designated Units, Party A shall be obligated only to pass through to Party B (through payment or netting) any such amounts received (through payment or netting) from the AES Subsidiaries as the result of the application of Section 4.3 of the AES Agreement to the Designated Units, and in no event shall Party A be liable to Party B for an amount in excess of ten percent (10%) of the Fixed Payment for such Designated Unit.

(iii) Party A shall not otherwise be obligated to make payments or adjustments to Party B as the result of the operation of this subsection 8(b) related to such Capacity Payment. Adjustment of the Capacity Payment pursuant to this subsection 8(b) shall be in lieu of any liability of Party A to Party B pursuant to Article Four of the Product D Master Agreement with respect to Party A's providing capacity and ancillary services hereunder. Party A shall not, without the approval of Party B, which shall not be unreasonable withheld, waive its right to receive any amounts from the AES Subsidiaries pursuant to Section 4.3 of the AES Agreement.

(c) Availability Bonus.

(i) The Capacity Payment payable by Party B shall be increased by an amount (the "Availability Bonus") calculated as follows: if the Availability of any Designated Unit during Peak Times of any Designated Month (each, in respect of the relevant Designated Unit, the "Peak Time Unit Availability") is greater than 86%, then, subject to Section 8(c)(ii), the Availability Bonus for such Designated Unit in respect of such Designated Month shall equal:

For AL 1	$4,039 multiplied by (Peak Time Unit Availability minus 86%),
For AL 5	$11,077 multiplied by (Peak Time Unit Availability minus 86%),
For AL 6	$11,077 multiplied by (Peak Time Unit Availability minus 86%),
For HB 1	$5,000 multiplied by (Peak Time Unit Availability minus 86%),
For HB 2	$5,000 multiplied by (Peak Time Unit Availability minus 86%), and
For RB 6	$4,008 multiplied by (Peak Time Unit Availability minus 86%).

If the Peak Time Unit Availability is less than 86%for a Designated Unit, then the Availability Bonus for such Designated Unit for such Designated Month shall be zero.

(ii) From the Start Date through calendar year 2004, Availability Bonus amounts calculated pursuant to Section 8(c)(i) shall be reduced by 50%.

(d) Contract Quantity Adjustments. In the event of (i) the exercise by AES Subsidiaries of the buyout rights with respect to a Designated Unit pursuant to Section 18.3 of the AES Agreement, or (ii) termination of all or a portion of the AES Agreement with respect to a Designated Unit(s) pursuant to Article XVIII of the AES Agreement, or (iii) termination of this Agreement with respect to a Designated Unit pursuant to Section 5.8 of the Product D Master Agreement or Section 12(a) of this Transaction, such Designated Units shall be deleted from the Contract Quantity and Party B's obligations hereunder with respect to such Contract Quantity correspondingly reduced. Party B shall not be entitled to receive any payment payable by the AES Subsidiaries to Party A pursuant to Section 18.3 of the AES Agreement.

(e) CAISO Stage Emergencies. For any hour in which a CAISO stage emergency alert has been issued or remains in effect, if, after the close of the CAISO hour-ahead scheduling window for such hour, Party A has uncommitted energy and/or capacity available from its Facilities other than the Designated Units, unless otherwise required by the CAISO or the FERC, Party A shall bid such uncommitted energy and capacity from all such Facilities into the CAISO imbalance energy market or shall otherwise make such capacity or energy available to CAISO

pursuant to any applicable CAISO tariff provisions, provided, the foregoing shall not be construed to prohibit Party A from also bidding Ancillary Services into the CAISO market. From time to time (but not more frequently than monthly) at Party B's request, for the purposes of determining compliance with this subsection 8(e), Party A shall provide Party B information reasonably satisfactory to Party B in sufficient detail to enable Party B to verify that undelivered energy and/or capacity from such Facilities was previously sold, scheduled, and/or bid into the CAISO imbalance energy market or has otherwise been made available to CAISO pursuant to any applicable CAISO tariff provisions.

(f) Reliability Must-Run Agreements. (i) Notwithstanding any provision herein, Party B's rights and obligations shall at all times be subject to any MRA applicable to any Designated Unit.

(ii) (A) For any calendar year after 2003, to the extent that any Designated Unit may be subject to any MRA (a "MRA Designated Unit"), Party A may, subject to the limitations set forth in this subsection (f), designate alternate Unit(s) with Dependable Capacity approximately equal to the Base Dependable Capacity for such calendar year, at least sixth (60) days prior to the date established for entering into the MRA for such MRA Designated Unit. If Party A in fact designates such alternate Unit(s) and the Designated Unit in question in fact become subject to a MRA for such calendar year, the alternate Unit(s) designated by Party A pursuant to this subsection (f)(ii) shall be the Designated Unit for all purposes of this Transaction for such calendar year and the MRA Designated Unit shall not be treated as a Designated Unit for the purposes of this Transaction for such calendar year. For the purposes of this Transaction, the Dependable Capacity as set forth in Schedule 4.1 to the AES Agreement for any alternate Unit(s) designated pursuant to this subsection (f)(ii) shall be the Base Dependable Capacity and ADC shall be the Dependable Capacity in excess thereof.

(B) Any alternate Unit designated pursuant to this subsection (f)(ii) must be an entire alternate Unit.

(C) Any alternate Unit designated pursuant to this subsection (f)(ii) shall not be subject to a Force Majeure claim at the time designated or any other Unit specific encumbrance to which the MRA Designated Unit is not subject that would prevent Party B from realizing the benefits of this Transaction.

(D) Any designation of a alternate Unit(s) pursuant to this subsection (f)(ii) shall be subject to Party B's reasonable approval; provided, however, that Party A shall not designate AL 7 or HB 5. It is the intention of the Parties that any alternate Unit designated shall be of at least equal performance as the MRA Designated Unit.

(iii) In the event alternate Unit(s) are not designated by Party A with respect to a MRA Designated Unit pursuant to subsection (f)(ii) for any reason, Party A may, but shall not be obligated to enter into a MRA with respect to such MRA Designated Unit. Party A shall notify Party B of its intention to enter into such MRA with respect to a MRA Designated Unit at least thirty (30) days prior to the date established for entering into such MRA for such MRA Designated Unit. The terms and provisions of any such MRA shall be subject to Party B's reasonable approval. Party B acknowledges and agrees that even if a Designated Unit at a Facility is not under an MRA, Party A may have a alternate Unit which is not a Designated Unit under MRA at that Facility.

(iv) In the event that Party A does not either designate alternate Unit(s) with respect to a MRA Designated Unit pursuant to subsection (f)(ii) or elect to enter into a MRA with respect to a MRA Designated Unit pursuant to subsection (f)(iii) for any reason, Party B may directly enter into any MRA with respect to a Designated Unit. Party B shall not propose any Discretionary Capital Expenditures to the CAISO pursuant to the MRA unless (1) the Party A shall be reasonably compensated for such Discretionary Capital Expenditures, and (2) in Party A's reasonable judgment, the implementation of such Discretionary Capital Expenditure shall not have a material adverse effect on Party A. Party B shall comply with the terms and provisions of any MRA.

Section 9. Inspection Rights. Upon request of Party B, Party A will exercise all inspection rights under the AES Agreement on behalf of Party B and with such personnel as Party B may reasonably designate.

Section 10. Scheduling Coordinator. Party A shall serve as scheduling coordinator for the Designated Units. Party B shall be required to pay the Scheduling Coordinator Fee only so long as Party A is the scheduling coordinator. Party B may become scheduling coordinator for the Designated Units upon not less than sixty (60) days prior written notice to Party A, at no additional cost to Party B; provided that Party B shall negotiate reasonable provisions to protect Party A while Party B serves as scheduling coordinator. In the event Party A and Party B cannot agree on such provisions within thirty (30) days of the notice referred to above, the Party A and Party B shall resolve any disagreement by binding arbitration pursuant to Section 15. It is the intent of the Parties that Party B acting in the capacity of scheduling coordinator hereunder not be able to cause Party A to be in default under the AES Agreement with respect to the Designated Units.

Section 11. Amendment, Assignment of the AES Agreement. Party A shall provide a copy of any proposed amendment or waiver of the provisions of the AES Agreement to Party B and (except with respect to waivers under Section 8(a) or 8(b)) not fewer than thirty (30) days prior to the effective date of such amendment or waiver. Except as provided in Section 8(a) or 8(b), Party A shall not agree to any amendment of, or waiver of any of Party A's rights pursuant to, the AES Agreement with respect to the Designated Units or any Unit that may become a Designated Unit during the Delivery Period without the written approval of Party B, which shall not be unreasonably withheld. Party B shall provide written approval or specify the reason for the withholding thereof as soon as reasonably possible after receipt of notice of any proposed amendment or waiver. Party A shall not assign the AES Agreement without simultaneously assigning this Agreement to the same party in accordance with the provisions of Section 10.5 of the Product D Master Agreement.

Section 12. Additional Termination Right; Event of Default.

(a) Termination for Availability Shortfall. If, after June 1, 2003, the average Availability of all Designated Units shall be below 70% for any two consecutive six month periods of May through October, (i) the relevant dollar per kW-month rate for the Capacity Payment for Designated Unit with the lowest availability shall be divided by two for the one (1) year period immediately following such shortfall, and (ii) Party B shall be entitled to terminate this Product D Transaction with respect to such Designated Unit if the average Availability of such Designated Unit is below its Guaranteed Availability during such one (1) year period following such shortfall. In the event of early termination under this Section 12, the MW allocable to such

Designated Unit shall be deleted from the Contract Quantity for Product D and neither Party shall be liable to the other for the payment of damages related to such early termination.

(b) Additional Event of Default. Except as provided in Section 3(a), Party A shall not for economic reasons intentionally and without reasonable belief that such action was excused or otherwise permitted:

(i) dispatch any of the Designated Units for sale or delivery of energy to any Person other than Party B, including in cases where Party B does not Dispatch a Designated Unit; or

(ii) enter into sale or commitment of capacity of a Designated Unit during the Delivery Period to any Person other than Party B.

Upon the first or second violation of this subsection 12(b), other than during a CAISO stage emergency alert, Party A shall terminate any transaction resulting in such violation and shall pay to Party B as liquidated damages and not as a penalty 5 times the amount payable to Party A under any such transaction.

A third violation of this subsection 12(b) or any violation during a CAISO stage emergency alert, shall constitute an Event of Default and Party B shall be entitled to damages set forth in Article V of the Product D Master Agreement.

Section 13. Confidential Information. The Parties agree, as soon as is practicable, but no later than twelve (12) months after the effective date of this Agreement, to take such action as is necessary to ensure the protection of confidential business information from one another and shall establish protective barriers and procedures to ensure that sensitive non-public operational and bidding information is shielded from the Parties respective marketing and trading personnel.

Section 14. Operations Committee. (a) Party A and Party B shall each designate a person to address implementation of this Transaction. The Operations Committee may adopt such procedures it considers necessary or appropriate for its operations. The Operations Committee shall meet from time to time as it deems necessary.

(b) Issues the Operations Committee will address include:

COMMUNICATION PROTOCOLS

- Contact lists
- Job responsibilities
- Fax numbers
- Emergency communications
- Dispatch Notices

DATA EXCHANGE

- Gas
- Power
- Real-time (instantaneous) data
- Telemetry issues

SCHEDULING AND DISPATCH PROCEDURES

- Format

- Notifications (schedule changes, unit status)

(c) The responsibilities and authority of the Operations Committee shall be limited to the development of operating procedures and shall not include altering any terms of this Agreement. Failure of the Operations Committee to reach agreement shall in no event excuse either Party A or Party B of its obligations hereunder.

Section 15. Arbitration. The Parties agree to resolve the specific matters set forth in Section 3(d)(iii) or Section 10 by binding arbitration. Arbitration shall be conducted in accordance with the Complex Commercial Arbitration Rules of the American Arbitration Association. The validity, construction, and interpretation of this agreement to arbitrate, and all procedural aspects of the arbitration conducted pursuant hereto shall be decided by the arbitrators. In deciding the substance of the Parties' claims, the arbitrators shall refer to California law. It is agreed that the arbitrators shall be limited solely to resolving the matters specifically set for in either Section 3(d)(iii) or Section 10. The arbitrators shall have no authority to take any other action or provide any remedy, including, but limited to, the award of damages, under either Section 3(d)(iii) or Section 10 or to consider any matter or dispute hereunder not specifically referred to in said Section 3(d)(iii) or Section 10. The arbitration proceeding shall be conducted in Los Angeles, California. Within twenty (20) days of the notice of initiation of the arbitration procedure, the respondent shall file a response in writing. Within thirty (30) days after the response, each party shall select one arbitrator. Within twenty (20) days thereafter, the two (2) arbitrators shall select a third arbitrator. All three arbitrators are required to be neutral and impartial and shall take an oath at the first session of the arbitration affirming same. None of the three arbitrators shall have business, professional or social relationships with any of the parties. However, upon full disclosure of such relationships, all parties may agree that the arbitrator may serve as an arbitrator. The arbitration shall proceed within sixty (60) days after the appointment of the last of the three arbitrators. The arbitrators shall render their decision (by majority rule) within twenty (20) days after the conclusion of the arbitration. California law shall apply to the subject matter of the arbitration.

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BASE CONTRACT FOR SALE AND PURCHASE OF NATURAL GAS

This Base Contract is entered into as of the following date: November 11, 2002. The parties to this Base Contract are the following:

STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its powers and responsibilities with respect to the State Water Resources Development System	and	WILLIAMS ENERGY MARKETING & TRADING COMPANY
Duns Number: 02-480-6957		Duns Number: 82-467-8478
Contract Number: _____		Contract Number: _____
U.S. Federal Tax ID Number: 52-1692634		U.S. Federal Tax ID Number: 73-1423657
Notices:		
California Department of water Resources/CERS		Williams Energy Marketing & Trading Company
3310 El Camino Avenue, Suite 120, Sacramento CA 95821		P.O. Box 2848, MD WRC 2-6, Tulsa, OK 74101-2848
Attn: Executive Manager Power Systems_____		Attn: Contract Management
Phone: (916) 574-0339 Fax: (916) 574-2512		Phone: (918) 573-4188 Fax: (918) 732-0269
		* and *
		Williams Energy Marketing & Trading Company
		P.O. Box 2848, MD 41-3, Tulsa, OK 74101-2848
		Attn: Assistant General Counsel
		Phone: (918) 573-2459 Fax: (918) 573-6928
Confirmations:		
		Williams Energy Marketing & Trading Company
_____		
Attn: _____		Attn: Natural Gas Confirmations Analyst
Phone: _____ Fax: _____		Phone: (918) 573-1409 Fax: (918) 732-0247
Invoices and Payments:		
DWR/CERS SETTLEMENTS UNIT		
Attn: Doreen Singh		Williams Energy Marketing & Trading Company
Phone: (916) 574-0309 Fax: (916) 574-1239		Attn: EMT Gas & Power Operations Accounting
		Phone: (918) 573-6242 Fax: (918) 573-1965
Wire Transfer or ACH Numbers (if applicable):		
BANK: Bank of America (Sacramento main branch)		BANK: Bank One, NA, Chicago, Illinois
ABA: Routing # 121000358		ABA: 071-0000-13
ACCT: # 14365-80598		ACCT: as invoiced
Other Details: for Dept. of Water Resources		Other Details:_____

This Base Contract incorporates by reference for all purposes the General Terms and Conditions for Sale and Purchase of Natural Gas published by the North American Energy Standards Board. The parties hereby agree to the following provisions offered in said General Terms and Conditions. In the event the parties fail to check a box, the specified default provision shall apply. Select only one box from each section:

SECTION 1.2 Transaction Procedure	[ ] x	Oral (default) Written	SECTION 7.2 Payment Date	x [ ] _	25th Day of Month following Month of delivery. Day of Month following Month of delivery
SECTION 2.5 Confirm Deadline	x [ ]	2 Business Days after receipt (default) 5 Business Days after receipt	SECTION 7.2 Method of Payment	x [ ] [ ]	Wire transfer (default) Automated Clearinghouse Credit (ACH) Check
SECTION 2.6 Confirming Party	[ ] [ ] x	Seller (default) Buyer Both	SECTION 7.7 Netting	x [ ]	Netting applies (default) Netting does not apply
SECTION 3.2 Performance Obligation	x	Cover Standard (default) Spot Price Standard	SECTION 10.3.1 Early Termination Damages	x [ ]	Early Termination Damages Apply (default) Early Termination Damages Do Not Apply
NOTE: THE FOLLOWING SPOT PRICE PUBLICATION APPLIES TO BOTH OF THE IMMEDIATELY PRECEDING.			SECTION 10.3.2 Other Agreement Setoffs	[ ] x	Other Agreement Setoffs Apply (default) Other Agreement Setoffs Do Not Apply

SECTION 2.26 Spot Price Publication	x [ ]	Gas Daily Midpoint (default) _____	SECTION 14.5 Choice Of Law	California	
SECTION 6 Taxes	x (default) [ ]	Buyer Pays At and After Delivery Point Seller Pays Before and At Delivery Point	SECTION 14.10 Confidentiality	[ ] x	Confidentiality applies (default) Confidentiality does not apply

x SPECIAL PROVISIONS Number of sheets attached: 7
[ ] ADDENDUM(S):_____

IN WITNESS WHEREOF, the parties hereto have executed this Base Contract in duplicate.

_____	_____
Party Name	Party Name
By _____	By _____
Name:	Name:
Title:	Title:

GENERAL TERMS AND CONDITIONS

BASE CONTRACT FOR SALE AND PURCHASE OF NATURAL GAS

Section 1. PURPOSE AND PROCEDURES

1.1 These General Terms and Conditions are intended to facilitate purchase and sale transactions of Gas on a Firm or Interruptible basis. "Buyer" refers to the party receiving Gas and "Seller" refers to the party delivering Gas. The entire agreement between the parties shall be the Contract as defined in Section 2.7.

THE PARTIES HAVE SELECTED EITHER THE "ORAL TRANSACTION PROCEDURE" OR THE "WRITTEN TRANSACTION PROCEDURE" AS INDICATED ON THE BASE CONTRACT.

ORAL TRANSACTION PROCEDURE:

1.2 The parties will use the following Transaction Confirmation procedure. Any Gas purchase and sale transaction may be effectuated in an EDI transmission or telephone conversation with the offer and acceptance constituting the agreement of the parties. The parties shall be legally bound from the time they so agree to transaction terms and may each rely thereon. Any such transaction shall be considered a "writing" and to have been "signed". Notwithstanding the foregoing sentence, the parties agree that Confirming Party shall, and the other party may, confirm a telephonic transaction by sending the other party a Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means within three Business Days of a transaction covered by this Section 1.2 (Oral Transaction Procedure) provided that the failure to send a Transaction Confirmation shall not invalidate the oral agreement of the parties. Confirming Party adopts its confirming letterhead, or the like, as its signature on any Transaction Confirmation as the identification and authentication of Confirming Party. If the Transaction Confirmation contains any provisions other than those relating to the commercial terms of the transaction (i.e., price, quantity, performance obligation, delivery point, period of delivery and/or transportation conditions), which modify or supplement the Base Contract or General Terms and Conditions of this Contract (e.g., arbitration or additional representations and warranties), such provisions shall not be deemed to be accepted pursuant to Section 1.3 but must be expressly agreed to by both parties; provided that the foregoing shall not invalidate any transaction agreed to by the parties.

WRITTEN TRANSACTION PROCEDURE:

1.2. The parties will use the following Transaction Confirmation procedure. Should the parties come to an agreement regarding a Gas purchase and sale transaction for a particular Delivery Period, the Confirming Party shall, and the other party may, record that agreement on a Transaction Confirmation and communicate such Transaction Confirmation by facsimile, EDI or mutually agreeable electronic means, to the other party by the close of the Business Day following the date of agreement. The parties acknowledge that their agreement will not be binding until the exchange of nonconflicting Transaction Confirmations or the passage of the Confirm Deadline without objection from the receiving party, as provided in Section 1.3.

1.3 If a sending party's Transaction Confirmation is materially different from the receiving party's understanding of the agreement referred to in Section 1.2, such receiving party shall notify the sending party via facsimile, EDI or mutually agreeable electronic means by the Confirm Deadline, unless such receiving party has previously sent a Transaction Confirmation to the sending party. The failure of the receiving party to so notify the sending party in writing by the Confirm Deadline constitutes the receiving party's agreement to the terms of the transaction described in the sending party's Transaction Confirmation. If there are any material differences between timely sent Transaction Confirmations governing the same transaction, then neither Transaction Confirmation shall be binding until or unless such differences are resolved including the use of any evidence that clearly resolves the differences in the Transaction Confirmations. In the event of a conflict among the terms of (i) a binding Transaction Confirmation pursuant to Section 1.2, (ii) the oral agreement of the parties which may be evidenced by a recorded conversation, where the parties have selected the Oral Transaction Procedure of the Base Contract, (iii) the Base Contract, and (iv) these General Terms and Conditions, the terms of the documents shall govern in the priority listed in this sentence.

1.4 The parties agree that each party may electronically record all telephone conversations with respect to this Contract between their respective employees, without any special or further notice to the other party. Each party shall obtain any necessary consent of its agents and employees to such recording. Where the parties have selected the Oral Transaction Procedure in Section 1.2 of the Base Contract, the parties agree not to contest the validity or enforceability of telephonic recordings entered into in accordance with the requirements of this Base Contract. However, nothing herein shall be construed as a waiver of any objection to the admissibility of such evidence.

Section 2. DEFINITIONS

The terms set forth below shall have the meaning ascribed to them below. Other terms are also defined elsewhere in the Contract and shall have the meanings ascribed to them herein.

2.1 "Alternative Damages" shall mean such damages, expressed in dollars or dollars per MMBtu, as the parties shall agree upon in the Transaction Confirmation, in the event either Seller or Buyer fails to perform a Firm obligation to deliver Gas in the case of Seller or to receive Gas in the case of Buyer.

2.2 "Base Contract" shall mean a contract executed by the parties that incorporates these General Terms and Conditions by reference; that specifies the agreed selections of provisions contained herein; and that sets forth other information required herein and any Special Provisions and addendum(s) as identified on page one.

2.3 "British thermal unit" or "Btu" shall mean the International BTU, which is also called the Btu (IT).

2.4 "Business Day" shall mean any day except Saturday, Sunday or Federal Reserve Bank holidays.

2.5 "Confirm Deadline" shall mean 5:00 p.m. in the receiving party's time zone on the second Business Day following the Day a Transaction Confirmation is received or, if applicable, on the Business Day agreed to by the parties in the Base Contract; provided, if the Transaction Confirmation is time stamped after 5:00 p.m. in the receiving party's time zone, it shall be deemed received at the opening of the next Business Day.

2.6 "Confirming Party" shall mean the party designated in the Base Contract to prepare and forward Transaction Confirmations to the other party.

2.7 "Contract" shall mean the legally-binding relationship established by (i) the Base Contract, (ii) any and all binding Transaction Confirmations and (iii) where the parties have selected the Oral Transaction Procedure in Section 1.2 of the Base Contract, any and all transactions that the parties have entered into through an EDI transmission or by telephone, but that have not been confirmed in a binding Transaction Confirmation.

2.8 "Contract Price" shall mean the amount expressed in U.S. Dollars per MMBtu to be paid by Buyer to Seller for the purchase of Gas as agreed to by the parties in a transaction.

2.9 "Contract Quantity" shall mean the quantity of Gas to be delivered and taken as agreed to by the parties in a transaction.

2.10 "Cover Standard", as referred to in Section 3.2, shall mean that if there is an unexcused failure to take or deliver any quantity of Gas pursuant to this Contract, then the performing party shall use commercially reasonable efforts to (i) if Buyer is the performing party, obtain Gas, (or an alternate fuel if elected by Buyer and replacement Gas is not available), or (ii) if Seller is the performing party, sell Gas, in either case, at a price reasonable for the delivery or production area, as applicable, consistent with: the amount of notice provided by the nonperforming party; the immediacy of the Buyer's Gas consumption needs or Seller's Gas sales requirements, as applicable; the quantities involved; and the anticipated length of failure by the nonperforming party.

2.11 "Credit Support Obligation(s)" shall mean any obligation(s) to provide or establish credit support for, or on behalf of, a party to this Contract such as an irrevocable standby letter of credit, a margin agreement, a prepayment, a security interest in an asset, a performance bond, guaranty, or other good and sufficient security of a continuing nature.

2.12 "Day" shall mean a period of 24 consecutive hours, coextensive with a "day" as defined by the Receiving Transporter in a particular transaction.

2.13 "Delivery Period" shall be the period during which deliveries are to be made as agreed to by the parties in a transaction.

2.14 "Delivery Point(s)" shall mean such point(s) as are agreed to by the parties in a transaction.

2.15 "EDI" shall mean an electronic data interchange pursuant to an agreement entered into by the parties, specifically relating to the communication of Transaction Confirmations under this Contract.

2.16 "EFP" shall mean the purchase, sale or exchange of natural Gas as the "physical" side of an exchange for physical transaction involving gas futures contracts. EFP shall incorporate the meaning and remedies of "Firm", provided that a party's excuse for nonperformance of its obligations to deliver or receive Gas will be governed by the rules of the relevant futures exchange regulated under the Commodity Exchange Act.

2.17 "Firm" shall mean that either party may interrupt its performance without liability only to the extent that such performance is prevented for reasons of Force Majeure; provided, however, that during Force Majeure interruptions, the party invoking Force Majeure may be responsible for any Imbalance Charges as set forth in Section 4.3 related to its interruption after the nomination is made to the Transporter and until the change in deliveries and/or receipts is confirmed by the Transporter.

2.18 "Gas" shall mean any mixture of hydrocarbons and noncombustible gases in a gaseous state consisting primarily of methane.

2.19 "Imbalance Charges" shall mean any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements.

2.20 "Interruptible" shall mean that either party may interrupt its performance at any time for any reason, whether or not caused by an event of Force Majeure, with no liability, except such interrupting party may be responsible for any Imbalance Charges as set forth in Section 4.3 related to its interruption after the nomination is made to the Transporter and until the change in deliveries and/or receipts is confirmed by Transporter.

2.21 "MMBtu" shall mean one million British thermal units, which is

equivalent to one dekatherm.

2.22 "Month" shall mean the period beginning on the first Day of the calendar month and ending immediately prior to the commencement of the first Day of the next calendar month.

2.23 "Payment Date" shall mean a date, as indicated on the Base Contract, on or before which payment is due Seller for Gas received by Buyer in the previous Month.

2.24 "Receiving Transporter" shall mean the Transporter receiving Gas at a Delivery Point, or absent such receiving Transporter, the Transporter delivering Gas at a Delivery Point.

2.25 "Scheduled Gas" shall mean the quantity of Gas confirmed by Transporter(s) for movement, transportation or management.

2.26 "Spot Price " as referred to in Section 3.2 shall mean the price listed in the publication indicated on the Base Contract, under the listing applicable to the geographic location closest in proximity to the Delivery Point(s) for the relevant Day; provided, if there is no single price published for such location for such Day, but there is published a range of prices, then the Spot Price shall be the average of such high and low prices. If no price or range of prices is published for such Day, then the Spot Price shall be the average of the following: (i) the price (determined as stated above) for the first Day for which a price or range of prices is published that next precedes the relevant Day; and (ii) the price (determined as stated above) for the first Day for which a price or range of prices is published that next follows the relevant Day.

2.27 "Transaction Confirmation" shall mean a document, similar to the form of Exhibit A, setting forth the terms of a transaction formed pursuant to Section 1 for a particular Delivery Period.

2.28 "Termination Option" shall mean the option of either party to terminate a transaction in the event that the other party fails to perform a Firm obligation to deliver Gas in the case of Seller or to receive Gas in the case of Buyer for a designated number of days during a period as specified on the applicable Transaction Confirmation.

2.29 "Transporter(s)" shall mean all Gas gathering or pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Seller or Buyer upstream or downstream, respectively, of the Delivery Point pursuant to a particular transaction.

Section 3. PERFORMANCE OBLIGATION

3.1 Seller agrees to sell and deliver, and Buyer agrees to receive and purchase, the Contract Quantity for a particular transaction in accordance with the terms of the Contract. Sales and purchases will be on a Firm or Interruptible basis, as agreed to by the parties in a transaction.

THE PARTIES HAVE SELECTED EITHER THE "COVER STANDARD" OR THE "SPOT PRICE STANDARD" AS INDICATED ON THE BASE CONTRACT.

COVER STANDARD:

3.2 The sole and exclusive remedy of the parties in the event of a breach of a Firm obligation to deliver or receive Gas shall be recovery of the following: (i) in the event of a breach by Seller on any Day(s), payment by Seller to Buyer in an amount equal to the positive difference, if any, between the purchase price paid by Buyer utilizing the Cover Standard and the Contract Price, adjusted for commercially reasonable differences in transportation costs to or from the Delivery Point(s), multiplied by the difference between the Contract Quantity and the quantity actually delivered by Seller for such Day(s); or (ii) in the event of a breach by Buyer on any Day(s), payment by Buyer to Seller in the amount equal to the positive difference, if any, between the Contract Price and the price received by Seller utilizing the Cover Standard for the resale of such Gas, adjusted for commercially reasonable differences in transportation costs to or from the Delivery Point(s), multiplied by the difference between the Contract Quantity and the quantity actually taken by Buyer for such Day(s); or (iii) in the event that Buyer has used commercially reasonable efforts to replace the Gas or Seller has used commercially reasonable efforts to sell the Gas to a third party, and no such replacement or sale is available, then the sole and exclusive remedy of the performing party shall be any unfavorable difference between the Contract Price and the Spot Price, adjusted for such transportation to the applicable Delivery Point, multiplied by the difference between the Contract Quantity and the quantity actually delivered by Seller and received by Buyer for such Day(s). Imbalance Charges shall not be recovered under this Section 3.2, but Seller and/or Buyer shall be responsible for Imbalance Charges, if any, as provided in Section 4.3. The amount of such unfavorable difference shall be payable five Business Days after presentation of the performing party's invoice, which shall set forth the basis upon which such amount was calculated.

SPOT PRICE STANDARD:

3.2. The sole and exclusive remedy of the parties in the event of a breach of a Firm obligation to deliver or receive Gas shall be recovery of the following: (i) in the event of a breach by Seller on any Day(s), payment by Seller to Buyer in an amount equal to the difference between the Contract Quantity and the actual quantity delivered by Seller and received by Buyer for such Day(s), multiplied by the positive difference, if any, obtained by subtracting the Contract Price from the Spot Price; or (ii) in the event of a breach by Buyer on any Day(s), payment by Buyer to Seller in an amount equal to the difference between the Contract Quantity and the actual quantity delivered by Seller and received by Buyer for such Day(s), multiplied by the positive difference, if any, obtained by subtracting the applicable Spot Price from the Contract Price. Imbalance Charges shall not be recovered under this Section 3.2, but Seller and/or Buyer shall be responsible for Imbalance Charges, if any, as provided in Section 4.3. The amount of such unfavorable difference shall be payable five Business Days after presentation of the performing party's invoice, which shall set forth the basis upon which such amount was calculated.

3.3 Notwithstanding Section 3.2, the parties may agree to Alternative Damages in a Transaction Confirmation executed in writing by both parties.

3.4 In addition to Sections 3.2 and 3.3, the parties may provide for a Termination Option in a Transaction Confirmation executed in writing by both parties. The Transaction Confirmation containing the Termination Option will designate the length of nonperformance triggering the Termination Option and the procedures for exercise thereof, how damages for nonperformance will be compensated, and how liquidation costs will be calculated.

Section 4. TRANSPORTATION, NOMINATIONS, AND IMBALANCES

4.1 Seller shall have the sole responsibility for transporting the Gas to the Delivery Point(s). Buyer shall have the sole responsibility for transporting the Gas from the Delivery Point(s).

4.2 The parties shall coordinate their nomination activities, giving sufficient time to meet the deadlines of the affected Transporter(s). Each party shall give the other party timely prior Notice, sufficient to meet the requirements of all Transporter(s) involved in the transaction, of the quantities of Gas to be delivered and purchased each Day. Should either party become aware that actual deliveries at the Delivery Point(s) are greater or lesser than the Scheduled Gas, such party shall promptly notify the other party.

4.3 The parties shall use commercially reasonable efforts to avoid imposition of any Imbalance Charges. If Buyer or Seller receives an invoice from a Transporter that includes Imbalance Charges, the parties shall determine the validity as well as the cause of such Imbalance Charges. If the Imbalance Charges were incurred as a result of Buyer's receipt of quantities of Gas greater than or less than the Scheduled Gas, then Buyer shall pay for such Imbalance Charges or reimburse Seller for such Imbalance Charges paid by Seller. If the Imbalance Charges were incurred as a result of Seller's delivery of quantities of Gas greater than or less than the Scheduled Gas, then Seller shall pay for such Imbalance Charges or reimburse Buyer for such Imbalance Charges paid by Buyer.

Section 5. QUALITY AND MEASUREMENT

All Gas delivered by Seller shall meet the pressure, quality and heat content requirements of the Receiving Transporter. The unit of quantity measurement for purposes of this Contract shall be one MMBtu dry. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the Receiving Transporter.

Section 6. TAXES

THE PARTIES HAVE SELECTED EITHER "BUYER PAYS AT AND AFTER DELIVERY POINT" OR "SELLER PAYS BEFORE AND AT DELIVERY POINT" AS INDICATED ON THE BASE CONTRACT.

BUYER PAYS AT AND AFTER DELIVERY POINT:

Seller shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas prior to the Delivery Point(s). Buyer shall pay or cause to be paid all Taxes on or with respect to the Gas at the Delivery Point(s) and all Taxes after the Delivery Point(s). If a party is required to remit or pay Taxes that are the other party's responsibility hereunder, the party responsible for such Taxes shall promptly reimburse the other party for such Taxes. Any party entitled to an exemption from any such Taxes or charges shall furnish the other party any necessary documentation thereof.

SELLER PAYS BEFORE AND AT DELIVERY POINT:

Seller shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas prior to the Delivery Point(s) and all Taxes at the Delivery Point(s). Buyer shall pay or cause to be paid all Taxes on or with respect to the Gas after the Delivery Point(s). If a party is required to remit or pay Taxes that are the other party's responsibility hereunder, the party responsible for such Taxes shall promptly reimburse the other party for such Taxes. Any party entitled to an exemption from any such Taxes or charges shall furnish the other party any necessary documentation thereof.

Section 7. BILLING, PAYMENT, AND AUDIT

7.1 Seller shall invoice Buyer for Gas delivered and received in the preceding Month and for any other applicable charges, providing supporting documentation acceptable in industry practice to support the amount charged. If the actual quantity delivered is not known by the billing date, billing will be prepared based on the quantity of Scheduled Gas. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available.

7.2 Buyer shall remit the amount due under Section 7.1 in the manner specified in the Base Contract, in immediately available funds, on or before the later of the Payment Date or 10 Days after receipt of the invoice by Buyer; provided that if the Payment Date is not a Business Day, payment is due on the next Business Day following that date. In the event any payments are due Buyer hereunder, payment to Buyer shall be made in accordance with this Section 7.2.

7.3 In the event payments become due pursuant to Sections 3.2 or 3.3, the performing party may submit an invoice to the nonperforming party for an accelerated payment setting forth the basis upon which the invoiced amount was calculated. Payment from the nonperforming party will be due five Business Days after receipt of invoice.

7.4 If the invoiced party, in good faith, disputes the amount of any such invoice or any part thereof, such invoiced party will pay such amount as it concedes to be correct; provided, however, if the invoiced party disputes the amount due, it must provide supporting documentation acceptable in industry practice to support the amount paid or disputed. In the event the parties are unable to resolve such dispute, either party may pursue any remedy available at law or in equity to enforce its rights pursuant to this Section.

7.5 If the invoiced party fails to remit the full amount payable when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

7.6 A party shall have the right, at its own expense, upon reasonable Notice and at reasonable times, to examine and audit and to obtain copies of the relevant portion of the books, records, and telephone recordings of the other

party only to the extent reasonably necessary to verify

the accuracy of any statement, charge, payment, or computation made under the Contract. This right to examine, audit, and to obtain copies shall not be available with respect to proprietary information not directly relevant to transactions under this Contract. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for under- or overpayments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two years after the Month of Gas delivery. All retroactive adjustments under Section 7 shall be paid in full by the party owing payment within 30 Days of Notice and substantiation of such inaccuracy.

7.7 Unless the parties have elected on the Base Contract not to make this Section 7.7 applicable to this Contract, the parties shall net all undisputed amounts due and owing, and/or past due, arising under the Contract such that the party owing the greater amount shall make a single payment of the net amount to the other party in accordance with Section 7; provided that no payment required to be made pursuant to the terms of any Credit Support Obligation or pursuant to Section 7.3 shall be subject to netting under this Section. If the parties have executed a separate netting agreement, the terms and conditions therein shall prevail to the extent inconsistent herewith.

Section 8. TITLE, WARRANTY, AND INDEMNITY

8.1 Unless otherwise specifically agreed, title to the Gas shall pass from Seller to Buyer at the Delivery Point(s). Seller shall have responsibility for and assume any liability with respect to the Gas prior to its delivery to Buyer at the specified Delivery Point(s). Buyer shall have responsibility for and any liability with respect to said Gas after its delivery to Buyer at the Delivery Point(s).

8.2 Seller warrants that it will have the right to convey and will transfer good and merchantable title to all Gas sold hereunder and delivered by it to Buyer, free and clear of all liens, encumbrances, and claims. EXCEPT AS PROVIDED IN THIS SECTION 8.2 AND IN SECTION 14.8, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE, ARE DISCLAIMED.

8.3 Seller agrees to indemnify Buyer and save it harmless from all losses, liabilities or claims including reasonable attorneys' fees and costs of court ("Claims"), from any and all persons, arising from or out of claims of title, personal injury or property damage from said Gas or other charges thereon which attach before title passes to Buyer. Buyer agrees to indemnify Seller and save it harmless from all Claims, from any and all persons, arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach after title passes to Buyer.

8.4 Notwithstanding the other provisions of this Section 8, as between Seller and Buyer, Seller will be liable for all Claims to the extent that such arise from the failure of Gas delivered by Seller to meet the quality requirements of Section 5.

Section 9. NOTICES

9.1 All Transaction Confirmations, invoices, payments and other communications made pursuant to the Base Contract ("Notices") shall be made to the addresses specified in writing by the respective parties from time to time.

9.2 All Notices required hereunder may be sent by facsimile or mutually acceptable electronic means, a nationally recognized overnight courier service, first class mail or hand delivered.

9.3 Notice shall be given when received on a Business Day by the addressee. In the absence of proof of the actual receipt date, the following presumptions will apply. Notices sent by facsimile shall be deemed to have been received upon the sending party's receipt of its facsimile machine's confirmation of successful transmission. If the day on which such facsimile is received is not a Business Day or is after five p.m. on a Business Day, then such facsimile shall be deemed to have been received on the next following Business Day. Notice by overnight mail or courier shall be deemed to have been received on the next Business Day after it was sent or such earlier time as is confirmed by the receiving party. Notice via first class mail shall be considered delivered five Business Days after mailing.

Section 10. FINANCIAL RESPONSIBILITY

10.1 If either party ("X") has reasonable grounds for insecurity regarding the performance of any obligation under this Contract (whether or not then due) by the other party ("Y") (including, without limitation, the occurrence of a material change in the creditworthiness of Y), X may demand Adequate Assurance of Performance. "Adequate Assurance of Performance" shall mean sufficient security in the form, amount and for the term reasonably acceptable to X, including, but not limited to, a standby irrevocable letter of credit, a prepayment, a security interest in an asset or a performance bond or guaranty (including the issuer of any such security).

10.2 In the event (each an "Event of Default") either party (the "Defaulting Party") or its guarantor shall: (i) make an assignment or any general arrangement for the benefit of creditors; (ii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of a proceeding or case under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it; (iii) otherwise become bankrupt or insolvent (however evidenced); (iv) be unable to pay its debts as they fall due; (v) have a receiver, provisional liquidator, conservator, custodian, trustee or other similar official appointed with respect to it or substantially all of its assets; (vi) fail to perform any obligation to the other party with respect to any Credit Support Obligations relating to the Contract; (vii) fail to give Adequate Assurance of Performance under Section

10.1 within 48 hours but at least one Business Day of a written request by the other party; or (viii) not have paid any amount due the other party hereunder on or before the second Business Day following written Notice that such payment is due; then the other party (the "Non-Defaulting Party") shall have the right, at its sole election, to immediately withhold and/or suspend deliveries or payments upon Notice and/or to terminate and liquidate

the transactions under the Contract, in the manner provided in Section 10.3, in addition to any and all other remedies available hereunder.

10.3 If an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right, by Notice to the Defaulting Party, to designate a Day, no earlier than the Day such Notice is given and no later than 20 Days after such Notice is given, as an early termination date (the "Early Termination Date") for the liquidation and termination pursuant to Section 10.3.1 of all transactions under the Contract, each a "Terminated Transaction". On the Early Termination Date, all transactions will terminate, other than those transactions, if any, that may not be liquidated and terminated under applicable law or that are, in the reasonable opinion of the Non-Defaulting Party, commercially impracticable to liquidate and terminate ("Excluded Transactions"), which Excluded Transactions must be liquidated and terminated as soon thereafter as is reasonably practicable, and upon termination shall be a Terminated Transaction and be valued consistent with Section 10.3.1 below. With respect to each Excluded Transaction, its actual termination date shall be the Early Termination Date for purposes of Section 10.3.1.

THE PARTIES HAVE SELECTED EITHER "EARLY TERMINATION DAMAGES APPLY" OR "EARLY TERMINATION DAMAGES DO NOT APPLY" AS INDICATED ON THE BASE CONTRACT.

EARLY TERMINATION DAMAGES APPLY:

10.3.1 As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, (i) the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract and (ii) the Market Value, as defined below, of each Terminated Transaction. The Non-Defaulting Party shall (x) liquidate and accelerate each Terminated Transaction at its Market Value, so that each amount equal to the difference between such Market Value and the Contract Value, as defined below, of such Terminated Transaction(s) shall be due to the Buyer under the Terminated Transaction(s) if such Market Value exceeds the Contract Value and to the Seller if the opposite is the case; and (y) where appropriate, discount each amount then due under clause (x) above to present value in a commercially reasonable manner as of the Early Termination Date (to take account of the period between the date of liquidation and the date on which such amount would have otherwise been due pursuant to the relevant Terminated Transactions).

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the market price for a similar transaction at the Delivery Point determined by the Non-Defaulting Party in a commercially reasonable manner. To ascertain the Market Value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any other bona fide third-party offers, all adjusted for the length of the term and differences in transportation costs. A party shall not be required to enter into a replacement transaction(s) in order to determine the Market Value. Any extension(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values. For the avoidance of doubt, any option pursuant to which one party has the right to extend the term of a transaction shall be considered in determining Contract Values and Market Values. The rate of interest used in calculating net present value shall be determined by the Non-Defaulting Party in a commercially reasonable manner.

EARLY TERMINATION DAMAGES DO NOT APPLY:

10.3.1. As of the Early Termination Date, the Non-Defaulting Party shall determine, in good faith and in a commercially reasonable manner, the amount owed (whether or not then due) by each party with respect to all Gas delivered and received between the parties under Terminated Transactions and Excluded Transactions on and before the Early Termination Date and all other applicable charges relating to such deliveries and receipts (including without limitation any amounts owed under Section 3.2), for which payment has not yet been made by the party that owes such payment under this Contract.

THE PARTIES HAVE SELECTED EITHER "OTHER AGREEMENT SETOFFS APPLY" OR "OTHER AGREEMENT SETOFFS DO NOT APPLY" AS INDICATED ON THE BASE CONTRACT.

OTHER AGREEMENT SETOFFS APPLY:

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party may setoff (i) any Net Settlement Amount owed to the Non-Defaulting Party against any margin or other collateral held by it in connection with any Credit Support Obligation relating to the Contract; or (ii) any Net Settlement Amount payable to the Defaulting Party against any amount(s) payable by the Defaulting Party to the Non-Defaulting Party under any other agreement or arrangement between the parties.

OTHER AGREEMENT SETOFFS DO NOT APPLY:

10.3.2. The Non-Defaulting Party shall net or aggregate, as appropriate, any and all amounts owing between the parties under Section 10.3.1, so that all such

amounts are netted or aggregated to a single liquidated amount payable by one party to the other (the "Net Settlement Amount"). At its sole option and without prior Notice to the Defaulting Party, the Non-Defaulting Party may setoff any Net Settlement Amount owed to the Non-Defaulting Party against any margin or other collateral held by it in connection with any Credit Support Obligation relating to the Contract.

10.3.3 If any obligation that is to be included in any netting, aggregation or setoff pursuant to Section 10.3.2 is unascertained, the Non-Defaulting Party may in good faith estimate that obligation and net, aggregate or setoff, as applicable, in respect of the estimate,

subject to the Non-Defaulting Party accounting to the Defaulting Party when the obligation is ascertained. Any amount not then due which is included in any netting, aggregation or setoff pursuant to Section 10.3.2 shall be discounted to net present value in a commercially reasonable manner determined by the Non-Defaulting Party.

10.4 As soon as practicable after a liquidation, Notice shall be given by the Non-Defaulting Party to the Defaulting Party of the Net Settlement Amount, and whether the Net Settlement Amount is due to or due from the Non-Defaulting Party. The Notice shall include a written statement explaining in reasonable detail the calculation of such amount, provided that failure to give such Notice shall not affect the validity or enforceability of the liquidation or give rise to any claim by the Defaulting Party against the Non-Defaulting Party. The Net Settlement Amount shall be paid by the close of business on the second Business Day following such Notice, which date shall not be earlier than the Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

10.5 The parties agree that the transactions hereunder constitute a "forward contract" within the meaning of the United States Bankruptcy Code and that Buyer and Seller are each "forward contract merchants" within the meaning of the United States Bankruptcy Code.

10.6 The Non-Defaulting Party's remedies under this Section 10 are the sole and exclusive remedies of the Non-Defaulting Party with respect to the occurrence of any Early Termination Date. Each party reserves to itself all other rights, setoffs, counterclaims and other defenses that it is or may be entitled to arising from the Contract.

10.7 With respect to this Section 10, if the parties have executed a separate netting agreement with close-out netting provisions, the terms and conditions therein shall prevail to the extent inconsistent herewith.

Section 11. FORCE MAJEURE

11.1 Except with regard to a party's obligation to make payment(s) due under Section 7, Section 10.4, and Imbalance Charges under Section 4, neither party shall be liable to the other for failure to perform a Firm obligation, to the extent such failure was caused by Force Majeure. The term "Force Majeure" as employed herein means any cause not reasonably within the control of the party claiming suspension, as further defined in Section 11.2.

11.2 Force Majeure shall include, but not be limited to, the following: (i) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe; (ii) weather related events affecting an entire geographic region, such as low temperatures which cause freezing or failure of wells or lines of pipe; (iii) interruption and/or curtailment of Firm transportation and/or storage by Transporters; (iv) acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; and (v) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, regulation, or policy having the effect of law promulgated by a governmental authority having jurisdiction. Seller and Buyer shall make reasonable efforts to avoid the adverse impacts of a Force Majeure and to resolve the event or occurrence once it has occurred in order to resume performance.

11.3 Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (i) the curtailment of interruptible or secondary Firm transportation unless primary, in-path, Firm transportation is also curtailed; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; or (iii) economic hardship, to include, without limitation, Seller's ability to sell Gas at a higher or more advantageous price than the Contract Price, Buyer's ability to purchase Gas at a lower or more advantageous price than the Contract Price, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from this Agreement; (iv) the loss of Buyer's market(s) or Buyer's inability to use or resell Gas purchased hereunder, except, in either case, as provided in Section 11.2; or (v) the loss or failure of Seller's gas supply or depletion of reserves, except, in either case, as provided in Section 11.2. The party claiming Force Majeure shall not be excused from its responsibility for Imbalance Charges.

11.4 Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be within the sole discretion of the party experiencing such disturbance.

11.5 The party whose performance is prevented by Force Majeure must provide Notice to the other party. Initial Notice may be given orally; however, written Notice with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written Notice of Force Majeure to the other party, the affected party will be relieved of its obligation, from the onset of the Force Majeure event, to make or accept delivery of Gas, as applicable, to the extent and for the duration of Force Majeure, and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event.

11.6 Notwithstanding Sections 11.2 and 11.3, the parties may agree to alternative Force Majeure provisions in a Transaction Confirmation executed in

writing by both parties.

Section 12. TERM

This Contract may be terminated on 30 Day's written Notice, but shall remain in effect until the expiration of the latest Delivery Period of any transaction(s). The rights of either party pursuant to Section 7.6 and Section 10, the obligations to make payment hereunder, and the obligation of either party to indemnify the other, pursuant hereto shall survive the termination of the Base Contract or any transaction.

Section 13. LIMITATIONS

FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A TRANSACTION, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

Section 14. MISCELLANEOUS

14.1 This Contract shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective parties hereto, and the covenants, conditions, rights and obligations of this Contract shall run for the full term of this Contract. No assignment of this Contract, in whole or in part, will be made without the prior written consent of the non-assigning party (and shall not relieve the assigning party from liability hereunder), which consent will not be unreasonably withheld or delayed; provided, either party may (i) transfer, sell, pledge, encumber, or assign this Contract or the accounts, revenues, or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer its interest to any parent or affiliate by assignment, merger or otherwise without the prior approval of the other party. Upon any such assignment, transfer and assumption, the transferor shall remain principally liable for and shall not be relieved of or discharged from any obligations hereunder.

14.2 If any provision in this Contract is determined to be invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other provision, agreement or covenant of this Contract.

14.3 No waiver of any breach of this Contract shall be held to be a waiver of any other or subsequent breach. 14.4 This Contract sets forth all understandings between the parties respecting each transaction subject hereto, and any prior contracts, understandings and representations, whether oral or written, relating to such transactions are merged into and superseded by this Contract and any effective transaction(s). This Contract may be amended only by a writing executed by both parties.

14.5 The interpretation and performance of this Contract shall be governed by the laws of the jurisdiction as indicated on the Base Contract, excluding, however, any conflict of laws rule which would apply the law of another jurisdiction.

14.6 This Contract and all provisions herein will be subject to all applicable and valid statutes, rules, orders and regulations of any governmental authority having jurisdiction over the parties, their facilities, or Gas supply, this Contract or transaction or any provisions thereof.

14.7 There is no third party beneficiary to this Contract.

14.8 Each party to this Contract represents and warrants that it has full and complete authority to enter into and perform this Contract. Each person who executes this Contract on behalf of either party represents and warrants that it has full and complete authority to do so and that such party will be bound thereby.

14.9 The headings and subheadings contained in this Contract are used solely for convenience and do not constitute a part of this Contract between the parties and shall not be used to construe or interpret the provisions of this Contract.

14.10 Unless the parties have elected on the Base Contract not to make this Section 14.10 applicable to this Contract, neither party shall disclose directly or indirectly without the prior written consent of the other party the terms of any transaction to a third party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except (i) in order to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary for the enforcement of this Contract , (iii) to the extent necessary to implement any transaction, or (iv) to the extent such information is delivered to such third party for the sole purpose of calculating a published index. Each party shall notify the other party of any proceeding of which it is aware which may result in disclosure of the terms of any transaction (other than as permitted hereunder) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. Subject to Section 13, the parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for one year from the expiration of the transaction.

In the event that disclosure is required by a governmental body or

applicable law, the party subject to such requirement may disclose the material terms of this Contract to the extent so required, but shall promptly notify the other party, prior to disclosure, and shall cooperate (consistent with the disclosing party's legal obligations) with the other party's efforts to obtain protective orders or similar restraints with respect to such disclosure at the expense of the other party.

14.11 The parties may agree to dispute resolution procedures in Special Provisions attached to the Base Contract or in a Transaction Confirmation executed in writing by both parties.

DISCLAIMER: The purposes of this Contract are to facilitate trade, avoid misunderstandings and make more definite the terms of contracts of purchase and sale of natural gas. Further, NAESB does not mandate the use of this Contract by any party. NAESB DISCLAIMS AND EXCLUDES, AND ANY USER OF THIS CONTRACT ACKNOWLEDGES AND AGREES TO NAESB'S DISCLAIMER OF, ANY AND ALL WARRANTIES, CONDITIONS OR REPRESENTATIONS, EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THIS CONTRACT OR ANY PART THEREOF, INCLUDING ANY AND ALL IMPLIED WARRANTIES OR CONDITIONS OF TITLE, NON-INFRINGEMENT, MERCHANTABILITY, OR FITNESS OR SUITABILITY FOR ANY PARTICULAR PURPOSE (WHETHER OR NOT NAESB KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING. EACH USER OF THIS CONTRACT ALSO AGREES THAT UNDER NO CIRCUMSTANCES WILL NAESB BE LIABLE FOR ANY DIRECT, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES ARISING OUT OF ANY USE OF THIS CONTRACT.

EXHIBIT A

TRANSACTION CONFIRMATION
FOR IMMEDIATE DELIVERY

Letterhead/Logo

Date:_____, _____
Transaction Confirmation #: _____

This Transaction Confirmation is subject to the Base Contract between Seller and Buyer dated _____. The terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt unless otherwise specified in the Base Contract.

SELLER:

_____
_____
_____
Attn: _____
Phone: _____
Fax: _____
Base Contract No. _____
Transporter: _____
Transporter Contract Number: _____

BUYER:

_____
_____
_____
Attn: _____
Phone: _____
Fax: _____
Base Contract No. _____
Transporter: _____
Transporter Contract Number: _____

Contract Price: $_____/MMBtu or _____

Delivery Period: Begin: _____ End:_____

PERFORMANCE OBLIGATION AND CONTRACT QUANTITY: (Select One)

FIRM (FIXED QUANTITY):
_____MMBtus/day
[ ] EFP

FIRM (VARIABLE QUANTITY):
_____MMBtus/day Minimum
_____MMBtus/day Maximum
subject to Section 4.2. at election of
[ ] Buyer or [ ] Seller

INTERRUPTIBLE:
Up to _____MMBtus/day

DELIVERY POINT(S): _____
(If a pooling point is used, list a specific geographic and pipeline location):

SPECIAL CONDITIONS:

Seller: _____ Buyer: _____

By: _____ By: _____

Title: _____ Title: _____

Date: _____ Date: _____

TRANSACTION CONFIRMATION

FOR IMMEDIATE DELIVERY

DWR(CERS) Date: November 11, 2002

Transaction Confirmation #: _____

This Transaction Confirmation is subject to the Base Contract between Seller and Buyer dated ___November 11, 2002_____. The terms of this Transaction Confirmation are binding unless disputed in writing within 2 Business Days of receipt unless otherwise specified in the Base Contract.

SELLER:
WILLIAMS ENERGY MARKETING &
TRADING COMPANY.

One Williams Center, Tulsa, OK 74172
Attn: Contract Administration

Phone: (918) 573-4188

Fax: (918) 732-0269

Base Contract No. _____
Transporter: _____
Transporter Contract Number:_____

BUYER:

CALIFORNIA DEPARTMENT OF WATER
RESOURCES, P. O. Box 219001
3310 El Camino Avenue Suite 120, Sacramento, CA 95821
Attn: Garney L. Hargan
Phone: 916-574-0290
Fax: 916-574-0301
Base Contract No._____
Transporter: _____
Transporter Contract Number:_____

Contract Price: As indicated in Special Conditions below.

Delivery Period: Begin: January 1, 2004 End: December 31, 2010

PERFORMANCE OBLIGATION AND CONTRACT QUANTITY:
FIRM

November through April: 1,200,000 MMBtu/month. Ratable daily takes; must take entire quantity, but allocable on a monthly basis for delivery to either or both of Southern California Border or point(s) on Kern River Pipeline pursuant to Special Conditions below.

May through October: 1,800,000 MMBtu/month. Ratable daily takes; must take entire quantity, but allocable on a monthly basis for delivery to either or both of Southern California Border or point(s) on Kern River Pipeline pursuant to Special Conditions below.

DELIVERY POINT(S): Southern California Border delivery points into Southern California Gas Pipeline (50 - 100% of Contract Quantity) and Kern River Pipeline delivery points (0 - 50% of Contract Quantity), as described in Special Conditions. (If a pooling point is used, list a specific geographic and pipeline location):

SPECIAL CONDITIONS:

1. Contract Price for each year ($/MMBtu) as follows:

2004	3.98	2008	4.21
2005	3.85	2009	4.32
2006	3.96	2010	4.39
2007	4.09		

3. Monthly Allocation. Not later than the earlier of monthly nominations deadline and 3 business days prior to the beginning of each month during the Term, Buyer shall provide Seller notice of Buyer's requested allocation of volumes of natural gas for delivery during such month to (i) the Southern California Border and (ii) delivery point(s) Kern River Pipeline; provided, Buyer shall not request allocation of more than 50% of the Contract Quantity to Kern River Pipeline. With respect to the volumes requested to be delivered on Kern River Pipeline, Buyer's notice shall also state Buyer's requested delivery points on Kern River Pipeline where, subject to available operational capacity and subject to Buyer's responsibility for any incremental cost

incurred by Seller, Buyer requests that Seller deliver such volumes during such month.

Gas nominated into Southern California Gas Company will be designated as the "Southern California Border" nomination.

4. Daily Delivery Point Option on Kern River Pipeline. Subject to available operational capacity and subject to Buyer's responsibility for any incremental cost incurred by Seller, to the extent Buyer shall have allocated all or a portion of the volumes purchased hereunder for delivery on Kern River Pipeline, Buyer will be allowed to change the volumes to other Kern River Pipeline delivery points on a day ahead basis as long as operational capacity at those points is available for that day. Buyer shall provide notice of such changes to Buyer's monthly nomination notice (previously provided to Seller pursuant to Special Provision #3, above) to Seller by not later than the earlier of day-ahead nominations deadline and 8:30 AM Central Standard Time the business day prior to the day of gas flow.

5. Limited Ability to Deliver Kern to SoCalBorder Intramonth. Changes of nominations from Kern River Pipeline to Southern California Border or Southern California Border to Kern River Pipeline during the month will not be allowed except where the original nominations on Kern River Pipeline can be delivered off Kern to a Southern California delivery point, including, but not limited to, Wheeler Ridge and Kramer Junction.

6. Limitations. Buyer's right to allocate between pipelines and delivery points as described in Special Conditions 3, 4, and 5 above shall also be subject to all of the terms and conditions of the applicable pipeline tariff(s).

Seller: WILLIAMS ENERGY MARKETING & TRADING COMPANY.	Buyer: CALIFORNIA DEPARTMENT OF WATER RESOURCES
By: _____	By: _____
Title: _____	Title: _____
Date: November 11, 2002	Date: November 11, 2002

SPECIAL PROVISIONS

to the BASE CONTRACT FOR

SALE AND PURCHASE OF NATURAL GAS

(NAESB Standard 6.3.1, Dated April 19, 2002)

between

CALIFORNIA DEPARTMENT OF WATER RESOURCES
P. O. Box 219001
3310 El Camino Avenue

Sacramento, CA 95821

("DWR")

and

WILLIAMS ENERGY MARKETING & TRADING COMPANY
One Williams Center

Tulsa, OK 74172

("Williams ")

Dated: November 11, 2002

The parties agree to amend the General Terms and Conditions of the Base Contract as follows:

1. The penultimate sentence of Section 1.2 WRITTEN TRANSACTION PROCEDURE shall be amended as follows:

"EDI" shall be deleted.

2. Section 2.15 shall be deleted.

3. The following shall be added immediately following Section 2.29:

2.30. "Buyer" shall mean the purchaser of Gas in a Transaction formed pursuant to this Base Contract.

2.31. "Buyer Replacement Agreement" means any agreement identical to this Base Contract (including any Transactions hereunder) between Williams and a Qualified Electrical Corporation, excluding provisions relating to DWR's status as a governmental agency or to the original start date(s) of this Base Contract, and together with such changes as Sellers and such Qualified Electrical Corporation may agree.

2.32. "Fund" shall mean Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code of the State of California (the "Water Code").

2.33. "Qualified Electric Corporation" means an electrical corporation as defined by AB 1X, codified at California Water Code Section 80100 et seq (the "Act"), whose long-term unsecured senior debt on the effective date of any Buyer Replacement Agreement is rated BBB or better by S&P and Baa2 or better by Moody's and is not on negative outlook or Credit Watch from either rating agency; provided that with the exception of San Diego Gas and Electric Company, Southern California Edison Company and Pacific gas and Electric Company, no electrical corporation shall be a Qualified Electrical Corporation without the prior written agreement of Williams.

2.34. "Seller" shall mean the seller of Gas in a Transaction formed pursuant to this Base Contract.

2.35 "Transaction" shall mean a purchase and sale transaction formed pursuant to Section 1 for a particular delivery period.

2.36 "Trust Estate" means all revenues received by Buyer under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof.

4. The following sentence shall be added immediately following the last sentence of Section 8.3:

However, DWR's obligation to indemnify Williams pursuant to the provisions of this Section 8.3 shall apply only to the extent expressly permitted by law.

5. Section 10.3.1 shall be deleted and replaced in its entirety with the following:

10.3.1 (a) Upon termination of this Base Contract and the Transactions hereunder as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be calculated as of the Early Termination Date in accordance with (b) below. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination

Payment is to be made no later than thirty (30) days after receipt of written notice of an Early Termination Date, except in the event that DWR is the Defaulting Party, in which case the Termination Payment is to be one hundred eighty (180) days after receipt of written notice of an Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then effective prime rate of interest published under "Money Rates" by the Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

Notwithstanding Section 7.4 hereof, if the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party in accordance with the timetable as provided above.

(b) The Non-Defaulting Party shall calculate the Termination Payment as follows:

The Termination Payment, if any, shall be (i) in the case Buyer is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Market Value, and (B) Contract Value, or (ii) in the case Seller is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Contract Value, and (B) Market Value, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement.

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased under a Transaction multiplied by the market price for a similar transaction at the Delivery Point determined by the Non-Defaulting Party in a commercially reasonable manner. To ascertain Market Value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any bona fide third party offers, all adjusted for the length of the term and the difference in transportation costs. A party shall not be required to enter into a replacement transaction (s) in order to determine "Market Value". Any extensions(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values.

(c) Notwithstanding the other provisions of this Base Contract, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Transaction under the provisions of this Section 10 because of the circumstances listed in items (i) through (v) of Section 10.2, then this Base Contract and the Transactions hereunder shall automatically

terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 10.2.

6. Section 10.4 shall be deleted.

7. For so long as DWR is a party to the Base Contract, Section 10.5 shall be deleted, provided, however that Section 10.5 shall be included in any Buyer Replacement Agreement as defined in Section 2.31.

8. The following shall be added immediately following Section 10.7:

10.8. DWR's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of DWR arising in connection with this Base Contract or any claim based thereon or with respect thereto, including, but not limited to, any payment pursuant to Section 3.2 hereof arising as the result of any breach or event of default under this Base Contract, and any other payment obligation or liability of or judgment against DWR hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS BASE CONTRACT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Base Contract.

9. The following shall be added immediately following Section 10.8:

10.9. In accordance with Section 80134 of the Water Code, DWR covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by DWR pursuant to this Base Contract. As provided in Section 80200 of the Water Code, while any obligations of DWR pursuant to this Base Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of DWR and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the Seller under this Base Contract.

10. The following shall be added immediately following Section 14.11:

14.12. Seller has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Base Contract if the provisions of the Government Code of California and the Public Contracts Code of California applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Base Contract. Accordingly, pursuant to Section 80014(b) of the Water Code, DWR has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make

such provisions applicable to this Base Contract and that such provisions and requirements are therefore not applicable to or incorporated in this Base Contract.

11. The following shall be added immediately following Section 14.12:

14.13. It is understood by the parties that, with respect to the DWR, only the following persons or such other persons as designated in writing by DWR shall be authorized to enter into any transaction, other than the 2002A Transaction, contemplated hereunder on behalf of DWR: (1) Garney Hargan; (2) Robert Grow; and (3) George Baldini.

12. The following shall be added immediately following Section 14.13:

14.14. It is understood by the parties that the California Department of Water Resources means the California Department of Water Resources, acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the Water Code of California, AS AMENDED, and not under its powers and responsibilities with respect to the State Water Resources Development System.

13. The following shall be added immediately following Section 14.14:

14.15. Notwithstanding the foregoing limitations on assignment, at any time after January 1, 2003, the Seller shall, upon the written request of DWR, enter into one or more Buyer Replacement Agreements as may be agreed to by one or more Qualified Electric Corporations. This Base Contract and any Transactions hereunder shall terminate upon execution of a Buyer Replacement Agreement. The execution of the Buyer Replacement Agreement shall constitute a novation that shall relieve DWR of any liability or obligation arising after the date of termination of this Base Contract and Transactions hereunder. Such Replacement Agreement shall state that it is a Replacement Agreement within the meaning of the Agreement. The effectiveness of such Buyer Replacement Agreement shall be subject to the condition precedent that the California Public Utilities Commission shall have conducted a just and reasonable review under Section 451 of the Public Utilities Code with respect to such Buyer Replacement Agreement and shall have issued an order determining that the charges under such Buyer Replacement Agreement are just and reasonable.

15. The following shall be added immediately following Section 14.15:

14.16. California law authorizes suits based on contract against the State or its agencies, and Buyer agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in California state court.

16. The following shall be added immediately following Section 14.16:

14.17. Payments by Buyer under this Base Contract shall constitute an operating expense of the Fund payable prior to all bonds, notes or other indebtedness secured by a pledge or assignment of the Trust Estate or payments to the general fund.

17. The following shall be added immediately following Section 14.17:

14.18. Buyer covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Buyer pursuant to this Base Contract. While any obligations of Buyer pursuant this Base Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Buyer and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of Seller under this Base Contract.

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IN WITNESS WHEREOF, the Parties have caused this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas to be duly executed as of the date first above written.

WILLIAMS ENERGY MARKETING & TRADING COMPANY	CALIFORNIA DEPARTMENT OF WATER RESOURCES separate and apart from its Powers and responsibilities with respect to the State Water Resources Development System
By:_____	By:_____
Name:_____	Name:_____
Title:_____	Title:_____

ACKNOWLEDGMENTS

State of Oklahoma)
) SS
County of Tulsa)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of Williams Energy Marketing & Trading Company, a Delaware corporation, known to me that he executed this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas for the purposes and consideration herein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

Commission Number: _____

[S E A L]

State of California)
) SS
County of _____)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared _____, _____ of the California Department of Water Resources, a _____, known to me that he executed this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said _____.

GIVEN UNDER MY HAND AND SEAL of office, this the _____ day of November, 2002.

_____
Notary Public

My Commission Expires: _____

Commission Number: _____

[S E A L]

Exhibit 10.80

ASSET PURCHASE AND SALE AGREEMENT

between

WILLIAMS REFINING & MARKETING, L.L.C.,
WILLIAMS GENERATING MEMPHIS, L.L.C., WILLIAMS MEMPHIS TERMINAL, INC.,
WILLIAMS PETROLEUM PIPELINE SYSTEMS, INC. AND
WILLIAMS MID-SOUTH PIPELINES, LLC

Sellers

and

THE WILLIAMS COMPANIES, INC.,

Sellers' Guarantor

and

THE PREMCOR REFINING GROUP, INC.

Purchaser

and

PREMCOR INC.

Purchaser's Guarantor

ASSET PURCHASE AND SALE AGREEMENT

This Asset Purchase and Sale Agreement (the "Agreement") is made and entered into as of the 25th day of November, 2002, by and among Williams Refining & Marketing, L.L.C. ("Refining"), Williams Generating Memphis, L.L.C. ("Generating"), Williams Memphis Terminal, Inc. ("Terminal"), Williams Petroleum Pipeline Systems, Inc. ("Pipeline"), Williams Mid-South Pipelines, LLC ("Mid-South"), and The Williams Companies ("Sellers' Guarantor") and Premcor Refining Group, Inc., a Delaware corporation ("Purchaser") and Premcor Inc., a Delaware corporation ("Purchaser's Guarantor"). Any reference in the Agreement to "Sellers" shall mean either all or each of Refining, Generating, Terminal, Pipeline and/or Mid-South, whichever currently owns the Assets referred to or relevant in the particular context.

RECITALS

A. Sellers own refining and marketing assets located in and around Memphis, Tennessee, which consist of a light sweet crude refinery, commonly known as the Memphis Refinery (the "Refinery"), and other related storage, terminal, pipeline, supply, distribution and logistics assets and include crude oil storage facilities at St. James and Sugarland, Louisiana and the peaking power plant owned by Sellers' Affiliate and located adjacent to the Refinery. The business and Operations conducted by the Sellers are sometimes referred to in this Agreement as the "Business."

B. Sellers desire to sell or cause the sale and Purchaser desires to buy the Assets, as hereinafter defined.

C. Purchaser, Sellers, Purchaser's Guarantor and Sellers' Guarantor (the "Parties") desire to evidence their agreement to the terms and conditions of the purchase and sale of the Assets as set forth in this Agreement.

In consideration of the recitals and the representations, warranties and covenants set forth in this Agreement and the agreements contemplated hereby, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Defined Terms. As used in this Agreement, each of the following terms has the meaning specified below:

"Affiliate" means, with respect to any Person, each other Person that directly or indirectly (through one or more intermediaries or otherwise) controls, is controlled by, or is under common control with such Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the actual power to direct or cause the direction of the management policies of a Person, whether through the ownership of stock, by contract, credit arrangement or otherwise.

"Agreement" means this Asset Purchase and Sale Agreement, as amended, supplemented or modified from time to time in accordance with the express terms hereof.

"Applicable Law" means any applicable statute, law, ordinance, rule or regulation, including Environmental Law.

"Assets" means the Improvements, the Contracts, the Equipment, the Real Property, the Williams Feedstock Inventory, the Williams Product Inventory, the Williams Other Inventory, Prepaid Expenses and Deposits, Records and the Williams Other Assets, but shall exclude (i) the Excluded Assets and (ii) all of those assets now owned by Sellers or hereafter acquired by Sellers and which are transferred, used or otherwise disposed of prior to Closing in the ordinary course of business.

"Base Purchase Price" has the meaning specified in Section 2.2.

"Base Rate" shall mean the lesser of (i) the per annum rate of interest calculated on a daily basis using the 3-month Treasury Bill rate published in the Wall Street Journal for the applicable day (with the rate for any day for which such rate is not published being the rate most recently published) plus two hundred (200) basis points; and (ii) the maximum nonusurious rate of interest permitted by Applicable Law, such Base Rate to be adjusted automatically as and to the extent that either (i) or (ii) immediately above changes from time to time.

"Business" has the meaning specified in the Recitals to this Agreement.

"Business Employee" has the meaning specified in Section 6.9(a) of this Agreement.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any successor statutes and any regulations promulgated thereunder.

"CERCLIS" means the Comprehensive Environmental Response, Compensation and Liability Information System List.

"Claim" has the meaning specified in Section 9.1.

"Closing" means the consummation of the purchase and sale of the Assets contemplated by this Agreement.

"Closing Date" has the meaning specified in Section 3.1.

"Closing Purchase Price" has the meaning specified in Section 2.2.

"Code" means the Internal Revenue Code of 1986, as amended.

"Contracts" means all commercial contracts and agreements (including Material Contracts) relating to the Assets, the Business or the Operations and to which a Seller is a party.

"Confidentiality Agreement" means the letter agreement dated July 10, 2002, between Purchaser or Purchaser's Affiliate and Sellers or Sellers' Affiliate relating to the furnishing of information to Purchaser in connection with Purchaser's evaluation of the possibility of the transactions contemplated in this Agreement.

"CPA Firm" has the meaning specified in Section 2.4(c).

"Deductible" has the meaning specified in Section 9.3(b).

"Disclosure Schedule" means the Disclosure Schedule attached hereto and any documents listed on such Disclosure Schedule and expressly incorporated therein by reference.

"Dispute" has the meaning specified in Section 11.1.

"Effective Time" means 12:0 1 a.m. Central time on the day of the Closing Date.

"Environmental Law" means any applicable federal, state, local or foreign statute, code, ordinance, rule, regulation, policy, guideline, permit, consent, approval, license, judgment, order, writ, decree, common law, injunction or other authorization in effect on the date hereof or at a previous time relating to (a) emissions, discharges, releases or threatened releases of Hazardous Materials into the natural environment, including into ambient air, soil, sediments, land surface or subsurface, buildings or facilities, surface water, groundwater, publicly-owned treatment works or land; (b) the generation, treatment, storage, disposal, use, handling, manufacturing, transportation or shipment of Hazardous Materials; or (c) otherwise relating to the pollution of the environment, solid waste handling treatment or disposal, protection of environmentally sensitive areas or protection of human health, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. Section 9601 et seq.; the Toxic Substance Control Act, 15 U.S.C. Section 2601 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1802 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq.; the Clean Water Act, 33 U.S ..C. Section 1251 et seq.; the Safe Drinking Water Act, 42 U.S .C. Section 300F et seq.; the Clean Air Act, 42 U.S.C. Section 7401 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. Section 2701 et seq., and any other federal, state and local legal requirements relating to: (i) a Release or the containment, removal, remediation, response, cleanup or abatement of a Hazardous Substance; (ii) the manufacture, generation, formulation, processing, labeling, distribution, introduction into commerce, use, treatment, handling, storage, or transportation of a Hazardous Substance; (iii) exposure of persons, including employees, to a Hazardous Substance; (iv) occupational safety or health matters; and (v) the physical structure or condition of a building, facility, fixture or other structure, including, without limitation, those relating to the management, use, storage, disposal, cleanup or removal of asbestos, asbestos-containing materials, polychlorinated biphenyls or any other Hazardous Substance.

"Environmental Permit" shall mean any approval, registration, authorization, certificate, certificate of occupancy, consent, license, order, permit, variance or other similar authorization of any government agency required by Environmental Laws in effect on or prior to the Closing for the ownership, use or operation of the Assets.

"Equipment" means all furniture, furnishings, fittings, equipment, machinery, apparatus, tanks, pumping stations, sewers, appliances, trucks, automobiles, other vehicles, signs and other articles of tangible personal property owned or leased by Sellers of every kind whatsoever and wherever located and used in the operation of the Assets, except all property owned by Sellers or their Affiliates located in Tulsa, Oklahoma.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Excluded Assets" means (i) all of the cash, deposits and bank accounts of Sellers; (ii) all accounts receivable owed to Sellers by reason of deliveries made by Sellers or their Affiliates or on account Of the Assets prior to the Effective Time; (iii) the financial books and records of Sellers and the personnel, employment and other records of Sellers as to their former employees other than the Refinery Records; (iv) any claims or other rights to receive monies arising prior to or after the date of execution hereof which Sellers or their Affiliates have or may have which are attributable to its ownership of the Assets prior to the Effective Time; (v) all Sellers minute books and similar materials related to maintenance of Sellers records other than the Refinery Records; (vi) all Williams Marks and all Intellectual Property not transferred as a Contract or by Article VI of this Agreement; and (vii) all of Sellers' or their Affiliates' assets and property not expressly included in the definition of Assets.

"Financing Commitments" has the meaning set forth in Section 5.1(i).

"GAAP" means generally accepted accounting principles, as recognized by the U.S. Financial Accounting Standards Board (or any generally recognized successor), consistently applied.

"Governmental Action" means any authorization, application, approval, consent, exemption, filing, license, notice, registration, permit or other requirement of, to or with any Governmental Authority.

"Governmental Authority" means any national, state, county or municipal government, domestic or foreign, any agency, board, bureau, commission, court, department or other instrumentality of any such government, or any arbitrator in any case that has jurisdiction over Sellers or Purchaser, as the case may be, or any of its properties or assets.

"Guarantor Common Stock" has the meaning specified in Section 2.5.

"Hazardous Material" means (a) any "hazardous substance," as defined by CERCLA; (b) any "hazardous waste" or "solid waste," in either case as defined by RCRA; (c) any solid, hazardous, dangerous or toxic chemical, material, waste or substance, within the meaning of and regulated by any Environmental Law; (d) any radioactive material, including any naturally

occurring radioactive material, and any source, special or byproduct material (as defined in 42 U.S.C. ss.ss. 2011 et seq., and any amendments or authorizations thereof); (e) any asbestos-containing materials in a friable condition; (f) any polychlorinated biphenyls in any form or condition; or (g) petroleum, petroleum hydrocarbons, or any fraction or byproducts thereof defined as hazardous materials under (a), (b) or (c) above.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Improvements" means any and all buildings, processing facilities, tanks, pipelines, utilities or other improvements attached or affixed to the Real Property.

"Indemnified Person" has the meaning specified in Section 9.1.

"Indemnifying Party" has the meaning specified in Section 9.1.

"Intellectual Property" means any and all patents and patent rights and any applications for same, trade secrets, trademarks (both registered and unregistered), trade names, copyrights (including software licenses), proprietary and technical information, supplier lists and other supplier information, customer lists and other customer information, price lists, advertising and promotional materials, field performance data, research materials, other proprietary intangibles, databases, processes, technical know-how, business and product know-how, engineering and other drawings, designs, plans, methods, engineering and manufacturing specifications, technology, inventions, processes, methods, formulas, procedures, sales history, model numbers, literature and phone numbers, and operating and quality control manuals and data directly relating to Sellers' assets and used exclusively in the Business and which are material thereto.

"Inventory" means the Williams Feedstock Inventory and the Williams Product Inventory.

"Knowledge" (whether or not capitalized) means (a) with respect to a natural Person, the actual knowledge of that Person, and (b) with respect to a Person which is a business entity, the actual knowledge of each of the executive officers of such entity, except in the case of the Sellers, with respect to which it means the actual knowledge of the following-named employees of Sellers or Sellers' Affiliates:. Ralph Hill, Randy Newcomer, Susan Krienen, Nelson Christian, Jeff Thompson, Thomas Germany, Dale Morris, Charles Sanders, Travis Thymes, Terry Fletcher, Dawn Shanahan, and John Yeager.

"Late Payment Rate" shall mean the lesser of (i) the Base Rate, plus five hundred (500) basis points per annum, or (ii) the maximum rate of interest permitted by Applicable Law, such rate to be adjusted automatically as and to the extent that either (i) or (ii) immediately above changes from time to time.

"Leases and Easements" shall mean, collectively, those real property leases and easements described on the Disclosure Schedule.

"Leased Real Property" means each parcel of real property leased or subleased to the Sellers.

"Lien" means any lien, mortgage, security interest, pledge, restriction, burden, encumbrance, rights of a vendor under any title retention, or conditional sale or lease agreement or other arrangement substantially equivalent thereto.

"Material Adverse Effect" means (a) when used with respect to Sellers, a result or consequence that (i) would materially adversely affect the condition (financial or otherwise) of the Assets, taken as a whole, or the Business, taken as a whole, (ii) would materially impair the ability of Sellers to own, hold, develop and operate their Assets, or (iii) would materially impair Sellers' ability to perform its obligations hereunder or consummate the transactions contemplated hereby; and (b) when used with respect to Purchaser, a result or consequence that would impair Purchaser's ability to perform its obligations hereunder or consummate the transactions contemplated hereby; provided, however with respect to both (a) and (b), a Material Adverse Effect shall not include an adverse effect arising from matters that generally affect the economy or the industry in which the relevant party is engaged.

"Material Contracts" means any written or oral agreement, contract, commitment or understanding to which Sellers is a party that either (a) involves in excess of $1,000,000 per year, or (b) is necessary for Sellers to carry on the Business as it is presently being conducted other than contracts relating to employee benefit plans.

"Operations" means those activities conducted by Sellers prior to the Closing Date utilizing the Assets.

"OSHA" means the Occupational Safety and Health Act of 1970, as amended.

"Owned Real Property" means each parcel of real property fee title to which is owned by Sellers.

"Parties" has the meaning specified in the Recitals of this Agreement.

"Permits" means the permits, licenses, variances, exemptions, orders, franchises, approvals, consents, registrations and authorizations of all Governmental Authorities necessary for the lawful conduct of the Business conducted by Sellers or the lawful ownership, use and operation of the Assets.

"Permitted Liens" means shall mean any Liens that (a) do not result in a Material Adverse Effect on Purchaser, (b) are listed on the Disclosure Schedule, or (c) that are of record provided, however, that unless Purchaser has expressly agreed herein to assume liability for a specific indebtedness, Permitted Liens shall not include any indebtedness, whether or not of record, which exists to Sellers' knowledge and is not disclosed to Purchaser.

"Person" (whether or not capitalized) means any natural person, corporation, company, limited or general partnership, joint stock company, joint venture, association, limited liability

company, trust, bank, trust company, business trust or other entity or organization, whether or not a Governmental Authority.

"Purchase Price" has the meaning specified in Section 2.2.

"Purchaser" has the meaning specified in the introductory paragraph of this Agreement.

"Purchaser Claims" has the meaning specified in Section 9.3(b).

"Purchaser's Employee" has the meaning specified in Section 6.9(c)(iii).

"Purchaser's Guarantor" has the meaning specified in the introductory paragraph of this Agreement.

"Purchaser Representative" means any director, officer, employee, agent,~ advisor (including legal, accounting and financial advisors), Affiliate or other representative or agent authorized to act on behalf of Purchaser.

"RCRA" means the Resource Conservation and Recovery Act, as amended, or any successor statutes or regulations promulgated thereunder.

"Real Property" shall mean the Owned Real Property and the Leased Real Property.

"Records" means Sellers' books and records, in any form or media, operational, maintenance, construction, environmental and technical records exclusively used in connection with the Business or Assets up to the Effective Time. For the avoidance of doubt, Records specifically excludes (i) any of the Sellers' business plans, strategies and financial records which address or reflect activities outside of the Business; (ii) any of Sellers' minute books and records, tax returns or other materials which do not pertain to the Assets or ongoing day-to-day operation of the Operations and (iii) medical or other records for which the Purchaser's Employee's written consent to the release of such record is not obtained.

"Refinery" has the meaning specified in the Recitals of this Agreement.

"Related Persons" (whether or not capitalized) has the meaning specified in Section 9.1.

"Release" shall mean any spilling, leaking, seeping, pumping, pouring, emitting, emptying, injecting, discharging, escaping, leaching, dumping, disposing or releasing of a Hazardous Substance into the environment (including the air, soil, surface water, groundwater, sewer, septic system, or waste treatment, storage, or disposal systems) of any kind whatsoever, including, but not limited to, the abandonment or discarding of barrels, containers, tanks or other receptacles containing or previously containing a Hazardous Substance. Migration after the Closing from a Release that occurred prior to the Closing shall not be considered a new Release for purposes of this Agreement.

"Responsible Officer" means, with respect to any Party, the Chairman, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer or any Vice President of such Party.

"Sellers" has the meaning specified in the introductory paragraph of this Agreement.

"Sellers' Employee" has the meaning specified in Section 6.9(d)(v).

"Sellers' Guarantor" has the meaning specified in the introductory paragraph of this Agreement.

"Sellers Representative" means any director, officer, employee, agent, advisor (including legal, accounting and financial advisors), Affiliate or other representative or agent authorized to act on behalf of Sellers.

"Taxes" means taxes of any kind, levies or other like assessments, customs, duties, or imposts, including income, gross receipts, ad valorem, value added, excise, real or personal property, asset, sales, use, federal royalty, license, payroll, transaction, capital, net worth and franchise taxes, estimated taxes, withholding, employment, social security, workers compensation, utility, severance, production, unemployment compensation, occupation, premium, windfall profits, transfer and gains taxes or other governmental taxes imposed or payable to the United States or any state, local or foreign governmental subdivision or agency thereof, and in each instance such term shall include any interest, penalties or additions to tax attributable to any such Tax, including penalties for the failure to file any Tax Return or report.

"Third-Party Consent" means the consent or approval of any Person other than Sellers, Purchaser, Purchaser's Guarantor, Sellers' Guarantor or any Governmental Authority.

"Transition Services Agreement" means the form of agreement attached as Exhibit A pursuant to which Sellers or their Affiliates agree to provide certain services to Purchaser subsequent to the Closing.

"Williams Feedstock Inventory" means crude oil and intermediate petroleum products (including gas-oil/FCC feed, alkylate, butanes, naphtha, iso-butanes, isomerates, FCC gasoline, reformate, slurry/No. 6 oil) owned and/or paid for (including pre-pays) by Sellers and located on Real Property and/or in pipelines, barges, terminals, tank cars or tank trucks of third parties or Sellers, including crude oil and intermediate petroleum products located in Refinery process units, piping located on Real Property, Leases and Easements, linefill, volumes in transit, positive net exchange volumes owed to Sellers and tank bottoms but excluding water, sediment and sludge.

"Williams Other Assets" shall mean any and all Intangible Property, Contracts which are transferred to Purchaser hereunder, Leases and Easements, Permits which are transferred to Purchaser hereunder, and Intellectual Property or licenses therefor, the membership interests in the peaking power plant entities of Williams Generating Memphis, L.L.C. and Williams Power Marketing, LLC, and all other assets owned by Sellers and located in or on the Real Property and not an Excluded Asset.

"Williams Other Inventory" means the catalysts, chemicals, additives, spare parts, store stocks and supplies owned by Sellers of every kind whatsoever located at the Refinery or on the Real Property.

"Williams Product Inventory" means refined petroleum products (including propane and propane/propylene mix) intended for sale which are owned and/or paid for (including pre-pays) by Sellers and located on Real Property and/or in pipelines, barges, terminals, tank cars or tank trucks of third parties or Sellers, including refined petroleum products located in Refinery process units, piping on Real Property, Leases and Easements, linefill, positive net exchange volumes owed to Sellers, volumes in transit and tank bottoms but excluding water, sediment and sludge.

"Williams Marks" has the meaning set forth in Section 6.12.

1.2 Other Definitional Provisions.

(a) All references in this Agreement to Exhibits, Articles, Sections, subsections and other subdivisions refer to the corresponding Exhibits, Articles, Sections, subsections and other subdivisions of or to this Agreement unless expressly provided otherwise. References in a Section of this Agreement to any Disclosure Schedule shall refer to (i) that section of the Disclosure Schedule which corresponds to the number of such Section, and (ii) any other section or schedule of the Disclosure Schedules which contains information or disclosures that reasonably relate to the substance of such Section. Titles appearing at the beginning of any Articles, Sections, subsections or other subdivisions of this Agreement are for convenience only, do not constitute any part of this Agreement, and shall be disregarded in construing the language hereof.

(b) Exhibits and Schedules to this Agreement are attached hereto and by this reference incorporated herein for all purposes.

(c) The words "this Agreement," "herein," "hereby," "hereunder" and "hereof," and words of similar import, refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The words "this Article," "this Section" and "this subsection," and words of similar import, refer only to the Article, Section or subsection hereof in which such words occur. The word "or" is not exclusive, and the word "including" (in its various forms) means including without limitation.

(d) Pronouns in masculine, feminine or neuter genders shall be construed to state and include any other gender, and words, terms and titles (including terms defined herein) in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

ARTICLE II
PURCHASE AND SALE OF ASSETS

2.1 Purchase and Sale of Assets. At the Closing, Purchaser shall purchase from Sellers, and Sellers shall sell to Purchaser, the Assets on the terms and subject to the conditions set forth in this Agreement.

2.2 Purchase Price.

(a) The consideration for the purchase of the Assets is the cash sum of U.S. $315,000,000 less the adjustment described in Section 2.3 (the "Base Purchase Price"), plus the value of the Inventory of Sellers at the Effective Time (not including that Inventory located in the Refinery process units and related piping) calculated as set forth in Section 2.4 below (together with the Base Purchase Price, the "Purchase Price").

(b) The amount to be paid by Purchaser at Closing shall be the Base Purchase Price plus an amount equal to an estimate of the value of the Inventory of Sellers (not including Inventory located in the Refinery process units and related piping) calculated as set forth in Section 2.4 (the "Closing Purchase Price").

2.3 Adjustment to Base Purchase Price. The Base Purchase Price shall be reduced by the actual reasonable out-of-pocket costs incurred by Purchaser in connection with obtaining the Financing Commitments, which costs shall include commitment fees, takedown fees, ticking fees and related expenses; provided, however, that in no event shall the adjustment to the Base Purchase Price described in this Section 2.3 exceed an aggregate of $5,000,000.

2.4 Inventory Estimate; Final Inventory Amounts.

(a) The value of the Inventory at the Effective Time to be included in the Closing Purchase Price ("Inventory Estimate") shall be estimated by Sellers and provided to Purchaser at least five (5) business days before the Closing Date using the method of determination as described on the Disclosure Schedule. Not later than 10 days after the Closing, the actual value of the Inventory at the Effective Time to be included as part of the Purchase Price shall be calculated pursuant to the method of determination as described on the Disclosure Schedule.

(b) Not later than 5 days after the Inventory adjustments have become the Final Inventory Amounts, Sellers or Purchaser, as the case may be, shall make a payment plus interest with respect to the Purchase Price based on any differences between the Inventory Estimate and the Final Inventory Amounts. The interest at the Late Payment Rate shall be calculated for the period from the Closing Date to the payment date.

(c) If Purchaser disagrees with the Sellers' proposed Inventory adjustment, it may, within ten (10) days after its receipt thereof, deliver a notice to the Sellers disagreeing with

such calculation and setting forth its calculation of such amount ("Objection"). If Purchaser does not timely deliver an Objection, the Sellers' proposed Inventory adjustment shall be deemed final (the "Final Inventory Amounts'). If the Purchaser timely delivers an Objection, the Sellers shall then have ten (10) days from the date of receipt to review and respond to the Objection (the "Review Period"). The Sellers and the Purchaser shall use their respective commercially reasonable best efforts to reach agreement on the disputed items or amounts.

If the Purchaser and Sellers are unable to resolve their disagreements over the Inventory adjustments within ten (10) days following the expiration of the Review Period, the dispute shall be resolved by the accounting firm of KPMG LLP ("CPA Firm"). The CPA Firm shall promptly review this Agreement and the disputed items or amounts subject to any scope that the Parties jointly agree upon. The Purchaser and Sellers shall make readily available to the CPA Firm all books and records relating to the Inventory volumes and price calculation and any other items reasonably requested by the CPA Firm. In resolving the dispute, the CPA Firm shall consider only those items or amounts on which the Parties have disagreed.

The CPA Firm shall deliver to the Parties, as promptly as practicable, a report resolving the disputed Inventory adjustments. Such report shall be final and binding upon each Party. When received by the Parties the Inventory adjustments determined in the report shall be deemed the Final Inventory Amounts. The cost of such review and report shall be borne equally by Sellers and Purchaser. Neither Purchaser nor Sellers has retained the CPA Firm during the past two years, and neither Party will retain the CPA Firm at any time while the CPA Firm is reviewing the disputed Inventory adjustments in accordance with this Section 2.4(c).

2.5 Method of Payment; Allocation of Purchase Price.

(a) All amounts to be disbursed at or, pursuant to the terms of this Agreement, prior to the Closing or paid after Closing based on adjustments, shall be made in immediately available U.S. funds, by wire transfer to a U.S. bank account designated by Sellers.

However, if Purchaser notifies Sellers that the condition to Purchaser's obligation to Close set forth in Section 7.2(e) of this Agreement has not been met to the extent necessary to finance the full amount of the Purchase Price in cash, Sellers may (but shall not be obligated to), within five (5) business days following receipt of such notice, elect to notify Purchaser in writing that Sellers will, in lieu of cash, accept shares of the common stock of Purchaser's Guarantor ("Guarantor Common Stock") valued, as set forth below, in the amount of up to $100,000,000 to be applied toward the Base Purchase Price.

If Sellers elect to accept shares of Guarantor Common Stock as part of the Purchase Price, such shares shall be valued at the lesser of (i) $15.00 per share less the amount of four and one-half percent (4.5%) representing a customary underwriting spread in a public offering of comparable equity securities, or (ii) the amount of the net proceeds per share (net of underwriting discounts) received by Purchaser's Guarantor in the event that it effects a public offering of Guarantor Common Stock prior to Closing of an amount less than the size contemplated by the Purchaser's Guarantor as necessary to enable Purchaser to pay the full amount of the Purchase Price entirely in cash. In such event, at Closing, Purchaser's Guarantor

will issue a certificate to Sellers or its designee evidencing such shares and the balance of the Purchase Price shall be paid in cash by wire transfer. In the event that such shares are issued to Sellers as part of the Purchase Price, Sellers or its designee, as the case may be, shall have the registration rights provided in Article X below with respect to such shares.

(b) The Parties agree that $18,750,000 of the Purchase Price shall be allocated to the Riverside Terminal located at 1237 Riverside Drive in Memphis, Tennessee and its related dock facilities.

2.6 Limited Assumption and Retention of Liabilities.

(a) Upon the condition that the Closing shall occur, Purchaser shall assume and agrees to discharge all liabilities relating to or arising from the ownership or operation of the Assets from and after the Effective Time and those additional liabilities and obligations specifically provided for herein including, but not limited to, all environmental liabilities and obligations covered by Purchaser's indemnity obligations under Article IX.

(b) Sellers shall retain and be liable for liabilities and obligations of Sellers related to or arising from the ownership or operation of the Assets prior to the Effective Time except:

(i) environmental and other liabilities and obligations expressly assumed by the Purchaser pursuant to this Agreement; and

(ii) obligations arising after the Effective Time to be performed after the Effective Time under Contracts, Leases and Easements and Permits that have been assigned to and assumed by Purchaser pursuant to this Agreement.

ARTICLE III
CLOSING

3.1 Closing. The Closing will take place at the offices of Sellers or their attorneys in Tulsa, Oklahoma on March 1, 2003, or, if the conditions to Closing set forth in this Agreement have not been satisfied by such date, on the earlier of the first business day following the day on which all such conditions have been satisfied or waived or March 31, 2003, or at such other time and place as the Parties may mutually agree (the "Closing Date").

3.2 Closing Obligations. At the Closing:

(a) Sellers shall deliver to Purchaser:

(i) a properly executed and acknowledged special warranty deed or deeds to the Owned Real Property, the Improvements thereon, and the appurtenances thereto, each such deed to be substantially in the form of Exhibit B, subject to any applicable requirements for a special warranty deed under applicable state law;

(ii) properly executed assignments of Leases and Easements, Contracts and Permits to the extent such can be assigned;

(iii) duly executed and recordable, if applicable, releases of all Liens (including those Permitted Liens set forth on Disclosure Schedule 4.6(c), but excluding all other Permitted Liens) affecting the Assets;

(iv) properly executed and acknowledged general conveyances of all of the Assets for which no specific conveyance is clearly applicable;

(v) copies of resolutions of Sellers, certified as being correct and complete and then in full force and effect, authorizing the execution of this Agreement and any other agreements and the consummation of the transactions contemplated under this Agreement and the other agreements contemplated hereby;

(vi) certificates of incumbency and specimen signatures of the signatory officers of Sellers;

(vii) a certificate of existence and good standing by the State of Delaware for each Sellers, and copies of Sellers' registration to do business in the State of Tennessee and any other states in which any Assets are located, as a foreign company;

(viii) such other certificates and documents as may be called for under this Agreement or as Purchaser shall reasonably request;

(ix) a Transition Services Agreement in the form of Exhibit A hereto executed on behalf of Sellers;

(x) the Environmental Insurance Policy described in Section 6.11;

(xi) written opinion of in-house counsel to Sellers, covering, in the aggregate, Sellers' due organization, valid existence and good standing as legal entities in Delaware, registration and good standing in Tennessee and any other states in which any Assets are located, and the due authorization, execution and delivery by Sellers of this Agreement, which opinion shall be substantially in the form attached hereto as Exhibit C; and

(xii) a certificate or certificates dated the Closing Date and executed on behalf of Sellers by one of each of their Responsible Officers to the effect that Sellers' representations, warranties and covenants contained herein are true and correct as of the Closing Date (except to the extent set forth in such certificate) as if made on and as of the Closing Date.

(b) Sellers' Guarantor shall deliver to Purchaser:

(i) a certificate or certificates dated the Closing Date and executed on behalf of Sellers' Guarantor by one of its Responsible Officers to the effect that Sellers' Guarantor's representations, warranties and covenants contained herein are true and correct as of the Closing Date (except to the extent set forth in such certificate) as if made on and as of the Closing Date;

(ii) copies of resolutions of Sellers' Guarantor's board of directors, certified as being correct and complete and then in full force and effect, authorizing the execution of this Agreement and the other agreements contemplated hereby, the Sellers' Guaranty, and the consummation of the transactions contemplated under this Agreement;

(iii) certificates of incumbency and specimen signatures of the signatory officers of Sellers' Guarantor;

(iv) a certificate of existence and good standing issued by the State of Delaware;

(v) such other certificates and documents as may be called for under this Agreement or as Sellers shall reasonably request; and

(vi) the performance guaranty in the form as specified in Exhibit D (the "Sellers' Guaranty").

(c) Purchaser shall deliver to Sellers:

(i) the Closing Purchase Price, plus payment for all costs related to the Audited Financial Statements as required by Section 6.24 and the actions taken by Sellers at Purchaser's request as described in Section 6.2(n) of this Agreement, by wire transfer to the account designated by Sellers, in immediately available funds;

(ii) a certificate or certificates dated the Closing Date and executed on behalf of Purchaser by one of its Responsible Officers to the effect that Purchaser's representations, warranties and covenants contained herein are true and correct as of the Closing Date (except to the extent set forth in such certificate) as if made on and as of the Closing Date;

(iii) copies of resolutions of the Purchaser, certified as being correct and complete and then in full force and effect, authorizing the execution of this Agreement and any other agreements contemplated hereby, and the consummation of the transactions contemplated under this Agreement and the other agreements contemplated hereby;

(iv) certificates of incumbency and specimen signatures of the signatory officers of Purchaser;

(v) certificate of existence and good standing issued by the State of Delaware and a copy of Purchaser's certificate of registration to do business in the State of Tennessee and any other states in which any Assets are located, as a foreign company;

(vi) such other certificates and documents as may be called for under this Agreement or as Sellers shall reasonably request;

(vii) written opinion of counsel to Purchaser, covering, in the aggregate, Purchaser's due organization, valid existence and good standing as a corporation in Delaware, registration and good standing in Tennessee and any other states in which any Assets are located and the due authorization, execution and delivery by Purchaser of this Agreement, which opinion shall be in substantially the form attached hereto as Exhibit E; and

(viii) a Transition Services Agreement in the form of Exhibit A hereto executed on behalf of Purchaser.

(d) Purchaser's Guarantor shall deliver to Sellers:

(i) a certificate or certificates dated the Closing Date and executed on behalf of Purchaser's Guarantor by one of its Responsible Officers to the effect that Purchaser's Guarantor's representations, warranties and covenants contained herein are true and correct as of the Closing Date (except to the extent set forth in such certificate) as if made on and as of the Closing Date;

(ii) copies of resolutions of Purchaser's Guarantor's board of directors, certified as being correct and complete and then in full force and effect, authorizing the execution of this Agreement, the Purchaser's Guaranty, and the consummation of the transactions contemplated under this Agreement and the Purchaser's Guaranty;

(iii) certificates of incumbency and specimen signatures of the signatory officers of Purchaser's Guarantor;

(iv) a certificate of existence and good standing issued by the State of Delaware;

(v) such other certificates and documents as may be called for under this Agreement or as Sellers shall reasonably request;

(vi) the guaranty as specified in Exhibit

F (the "Purchaser's Guaranty");

(vii) written opinion of counsel to Purchaser's Guarantor, covering, in the aggregate, Purchaser Guarantor's due organization, valid existence and good standing as a corporation in Delaware, and the due authorization, execution and delivery by Purchaser's Guarantor of this Agreement and the Purchaser's Guaranty, and that upon the

issuance of the Guarantor Common Stock, if any, in accordance with this Agreement, such Guarantor Common Stock will be duly authorized, validly issued, fully paid and non-assessable, which opinion shall be substantially in the form attached hereto as Exhibit G; and

(vii) a certificate for the Guarantor Common Stock, if any, to be issued pursuant to Section 2.5.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLERS AND SELLERS' GUARANTOR

Sellers represent and warrant (except with regards to Section 4.18, which Section is only applicable to Sellers' Guarantor) to Purchaser to the Knowledge of Sellers, except with respect to Sections 4.1, 4.2, and 4.13 which shall not be limited to the Knowledge of Sellers, as follows:

4.1 Organization and Standing. Each of the Sellers and Williams Power Marketing, LLC is a corporation or limited liability company, as indicated in the first paragraph of this Agreement, duly organized, validly existing and in good standing under the laws of the State of Delaware and is in good standing as a corporation or limited liability company, as the case may be, in all jurisdictions where the nature of its properties or business requires it.

4.2 Authority and Binding Obligations. Each of the Sellers has the power and authority to execute, deliver and perform its obligations under this Agreement and the other agreements contemplated hereby, as applicable. The execution, delivery, and performance of this Agreement and the other agreements contemplated hereby by Sellers:

(a) have been duly authorized by requisite company action; and

(b) do not conflict or result in a violation or breach of or result in the acceleration of rights, benefits or payments under the organizational documents of the Sellers.

Each of this Agreement and the other agreements contemplated hereby constitute a legal, valid and binding obligation of Sellers, enforceable against Sellers in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

4.3 Consent; Non-Contravention.

(a) Except as otherwise set forth in the Disclosure Schedule and for the filing of a pre-merger notification report by Sellers under the HSR Act and the expiration or termination of the applicable waiting period thereunder, no consent, waiver, approval, order, authorization or other action by or filings with any Governmental Authority or other Person is

required in connection with the execution, delivery and performance by Sellers of this Agreement or the other agreements contemplated hereby.

(b) Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the other agreements contemplated hereby by Sellers, nor the consummation of the transactions contemplated hereby or thereby will violate or conflict with or result in the acceleration of rights, or benefits or payments under any agreement, instrument, statute, regulation, rule, order, writ, judgment or decree to which the Sellers are directly or indirectly a party or are directly or indirectly subject, except for such violations, conflicts and accelerations which will not (i) prevent or materially delay consummation of the transactions contemplated by this Agreement or the other agreements contemplated hereby, (ii) prevent Sellers from performing their obligations under this Agreement or the other agreements contemplated hereby, or (iii) result in a Material Adverse Effect.

4.4 Litigation. Except as set forth in the Disclosure Schedule, there are no lawsuits or other proceedings pending or threatened against the Sellers, the Business or any of the Assets by or before any Governmental Authority which there is a reasonable probability of an adverse determination that would have a Material Adverse Effect.

4.5 Contracts and Commitments. The Disclosure Schedule contains an accurate and complete list of each Material Contract which is not otherwise listed in the Leases and Easements sections of the Disclosure Schedule (the "Commitments"). Each Commitment is a legal, valid and binding obligation of the Sellers enforceable against Sellers in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity). Except as specified in the Disclosure Schedule, no Seller is in default under any of the Commitments where such default would result in a Material Adverse Effect. Except as specified in the Disclosure Schedule since the date of this Agreement, Sellers has not received written notice of cancellation or termination of any Commitment from any party thereto.

4.6 Leases and Easements; Encumbrances.

(a) Except for Leases and Easements, the failure of which to possess or hold would not have a Material Adverse Effect, the Disclosure Schedule contains an accurate and complete list of Leases and Easements held by Sellers. All Leases and Easements are (i) legal, valid and binding obligations of the Sellers enforceable against the Sellers in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity), and (ii) in full force and effect except as would not have a Material Adverse Effect. Except for matters that do not materially interfere with Sellers' rights, Sellers have peaceful and undisturbed possession under the Easements and Leases.

(b) All pipelines, pipelines easements, utility lines, utility easements and other easements, leaseholds and rights of way burdening any of the Real Property, except for such which would not have a Material Adverse Effect, are set forth on the Disclosure Schedule.

(c) The Real Property is also encumbered by the terms set forth on the Disclosure Schedule.

4.7 Conditions of Improvements and Equipment. The Improvements, Equipment, Williams Other Inventory and other tangible property comprising the Assets are being sold "AS IS," "WHERE IS," WITHOUT WARRANTY OF ANY KIND) (EXCEPT AS TO TITLE) EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, CONDITION OR FITNESS, AND ALL SUCH WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. PURCHASER WAIVES THE UNIFORM COMMERCIAL CODE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO SUCH IMPROVEMENTS, EQUIPMENT AND INVENTORY.

4.8 Compliance with Laws. As of the date of this Agreement, Sellers are in compliance with all Applicable Laws, excluding Environmental Laws (which are subject to Section 4.12 below), relating to the Assets or the Business, except as set forth on the Disclosure Schedule or where the noncompliance with which would not result in a Material Adverse Effect.

4.9 Due Diligence.

(a) Sellers have or will (i) made or make available to Purchaser all books, records, financial statements, business plans, management appraisals, documents, Contracts, Leases and Easements, Permits and other material information requested in writing by Purchaser; (ii) instructed their and their Affiliates' employees, counsel, advisors and auditors to respond in writing to all written inquiries from Purchaser (subject to any confidentiality agreements, applicable legal restrictions and any applicable privileges); and (iii) to the extent requested in writing, provided full access to the Assets, except, with respect to (i), (ii) and (iii) above where Sellers have expressly declined in writing to comply with any such request with respect to identified items or categories of information; and

(b) No books, records, financial statements, documents, Contracts, Leases and Easements, Permits or other material information requested in writing by Purchaser that Sellers failed to fully disclose when so requested would have a Material Adverse Effect, provided that Sellers shall have no liability to Purchaser for the breach of this representation or warranty to the extent that the facts or circumstances that give rise to such breach were actually known to Purchaser on or prior to the Effective Time.

4.10 Permits. The Disclosure Schedule contains a true and complete list of the material Permits which Sellers have obtained and hold or, in the ordinary course of business have applied for, that are required by Sellers to conduct the Business as it has been conducted by Sellers. Sellers are in compliance in all material respects with the terms of its Permits.

4.11 Taxes. There are no tax liens open, pending against or, threatened against the Assets. Sellers have filed (or will cause to be filed) all tax returns that are required to be filed with respect to the Assets and Business through the Closing Date, and such tax returns are (and will be) true, correct and complete in all material respects and were (and will be) prepared in conformity with all Applicable Law, and Sellers have paid (or will pay when due) all Taxes due on such tax returns as owing which are attributable to any taxable period or portion thereof that ends on or before the Closing Date except for amounts being contested in good faith by appropriate proceedings.

4.12 Environmental Matters. Except as set forth in the Disclosure Schedule:

(a) Sellers have not been notified by any Governmental Authority that any of its Assets are the subject of any investigation or inquiry by any Governmental Authority evaluating whether any remedial action is needed to respond to a release of any Hazardous Material or to the improper storage or disposal (including storage or disposal at off-site locations) of any Hazardous Material;

(b) Neither Sellers nor any other Person have filed any notice under any federal, state or local law indicating that (i) Sellers are responsible for the improper release into the environment, or the improper storage or disposal, of any Hazardous Material, or (ii) any Hazardous Material is or has been improperly stored or disposed of upon any of the property of Sellers;

(c) Sellers have not received any claim, complaint, notice, letter of violation, inquiry or request for information involving any matter which remains unresolved as of the date hereof with respect to any alleged violation by Sellers of any Environmental Law or regarding potential liability under any Environmental Law relating to or in connection with the operation of the Business or on any property or other assets of Sellers;

(d) None of the Assets, and no property on which any of the Business or a Sellers' assets are being or has been operated, is listed on the National Priorities List pursuant to CERCLA or on the CERCLIS or on any other federal or state list as sites requiring investigation or cleanup.

4.13 Good and Marketable Title.

(a) The Disclosure Schedule contains a true and complete description of the Real Property.

(b) Except as specified in Section 4.6 or the Disclosure Schedule, Sellers have good and marketable title to all of the Assets, free and clear of any Liens, other than Permitted Liens, except for Assets sold, consumed or otherwise disposed of in the ordinary course of business and consistent with past practices.

4.14 Condemnation. There are no pending or threatened condemnation or eminent domain proceedings or contemplated sales in lieu thereof, involving a partial or total taking of any of the Assets.

4.15 Labor Matters. Except as set forth on the Disclosure Schedule, Sellers have not received any charges of discrimination, notification of any unfair labor practice charges or complaints pending before any court or agency having jurisdiction thereof nor are there any current union representation claims involving any of the Business Employees. Sellers are not aware of any strike, work stoppages, work slowdowns or lockouts or of any threats thereof, except for routine grievance matters, by or with respect to any of the Business Employees. Since January 1, 2000, there have been no significant labor disputes, strikes, slowdowns, work stoppages, lockouts or similar matters except for routine grievance matters involving Business Employees.

4.16 Actions and Proceedings. Except as set forth in the Disclosure Schedule, no proceeding or investigation is pending or threatened before any court, arbitrator or administrator or Governmental Authority, bureau or agency to restrain or prohibit, or to obtain damages, a discovery order or other relief in connection with this Agreement or any of the other agreements contemplated hereby or any material part of the transactions contemplated hereby or thereby.

4.17 Disclaimer. Except as and to the extent set forth in this Agreement and the other documents and instruments delivered in connection with this Agreement, the Sellers make no other representations or warranties, and disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser.

4.18 Sellers' Guarantor's Representations and Warranties. Sellers' Guarantor represents and warrants to Purchaser to the Knowledge of Sellers' Guarantor, except with respect to Sections 4.18(a) and 4.18(b) which shall not be limited to the Knowledge of Sellers' Guarantor, as follows:

(a) Organization and Standing.

Sellers' Guarantor is a corporation duly organized, validly existing in good standing under the laws of the State of Delaware and is in good standing as a corporation in all jurisdictions where the nature of its properties or business requires it.

(b) Authority and Binding Obligations.

Sellers' Guarantor has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and the Sellers' Guaranty. The execution, delivery, and performance of this Agreement and the Sellers' Guaranty by Sellers' Guarantor have been duly and validly authorized by all necessary corporate action and do not conflict or result in a violation or breach of the articles of incorporation and by-laws of the Sellers' Guarantor. This Agreement and the Sellers' Guaranty constitute legal, valid and binding obligations of the Sellers' Guarantor enforceable against Sellers' Guarantor in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or equity).

(c) No Consent Required; Non-Contravention.

(i) Except as specified in the Disclosure Schedule, no consent, waiver, approval, order, authorization or other action by or filings with any Governmental Authority or other entity is required in connection with the execution, delivery and performance by Sellers' Guarantor of this Agreement or the Sellers' Guaranty.

(ii) Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the Sellers' Guaranty by Sellers' Guarantor, nor the consummation of the transactions contemplated hereby will violate or conflict with or result in the acceleration of rights, or benefits or payments under any agreement, instrument, statute, regulation, rule, order, writ, judgment or decree to which the Sellers' Guarantor is directly or indirectly a party or is directly or indirectly subject, except for such violations, conflicts and accelerations which will not (x) prevent or materially delay consummation of the transaction contemplated by this Agreement or the Sellers' Guaranty; (y) prevent Sellers' Guarantor from performing its obligations under this Agreement or the Sellers' Guaranty; or (z) result in a Material Adverse Effect.

(d) Litigation.

Except as specified in the Disclosure Schedule, there are no lawsuits, actions, arbitrations or other proceedings pending or threatened by any Person against or affecting the Sellers' Guarantor by or before any court, arbitrator or Governmental Authority which would prohibit the Sellers' Guaranty.

(e) No Breach.

Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the Sellers' Guaranty by Sellers' Guarantor, nor the consummation of the transactions contemplated hereby or thereby will violate or conflict with, or result in the acceleration of rights, benefits or payments under; (i) any provision of the Sellers' Guarantor's articles of incorporation or bylaws; (ii) any statute, law, regulation or governmental order to which the Sellers' Guarantor or the assets and properties of any thereof are bound or subject; (iii) any commitment to which the Sellers' Guarantor is a party or by which it or any of its properties may be bound or subject; and (iv) any agreement, contract or commitment of the Sellers' Guarantor or to which it is a party or by which it or any of its properties may be bound or subject, except, with respect to clauses (ii), (iii) and (iv), for such violations and conflicts which will not (y) prevent or materially delay consummation of the transactions contemplated by this Agreement, and the Sellers' Guaranty or (z) prevent Sellers' Guarantor from performing its obligations under this Agreement and the Sellers' Guaranty.

(f) Actions and Proceedings.

Except as specified in the Disclosure Schedule, no proceeding or investigation is

pending or threatened before any court, arbitrator or administrator or Governmental Authority, bureau or agency to restrain or prohibit, or to obtain damages, a discovery order or other relief in connection with this Agreement, or the Sellers' Guaranty or any material part of the transactions contemplated hereby or thereby.

(g) No Knowledge of Breaches.

Except for any breaches of representations or covenants, the consequences of which have been waived by Sellers' Guarantor, Sellers' Guarantor has no knowledge of any breaches of any representation or covenant herein by Purchaser.

(h) Financial Capacity; Future Performance. Sellers' Guarantor has or will have the financial capacity to guaranty the Sellers' payments and performance under the Agreement. Sellers' Guarantor is not aware of any facts or circumstances that now or in the future would have a Material Adverse Effect on its financial condition, results of operations, business, properties, assets, or liabilities. Sellers' Guarantor is solvent, is not in the hands of a receiver, nor is any receivership pending, and no proceedings are pending by or against it for bankruptcy or reorganization in any state or federal court.

(i) Disclaimer.

Except as and to the extent set forth in this Agreement and the other documents and instruments delivered in connection with this Agreement, Sellers' Guarantor makes no other representations or warranties, and disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PURCHASER AND PURCHASER'S GUARANTOR

5.1 Purchaser's Representations and Warranties. Purchaser represents and warrants to Sellers to the Knowledge of Purchaser, except with respect to Sections 5.1(a) and 5.1(b) which shall not be limited to the Knowledge of Purchaser, as follows:

(a) Organization and Standing.

Purchaser is a corporation duly organized, validly existing in good standing under the laws of the State of Delaware and is in good standing as a corporation in all jurisdictions where the nature of its properties or business requires it.

(b) Authority and Binding Obligations.

Purchaser has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and the other agreements contemplated hereby. The execution, delivery, and performance of this Agreement and the other agreements contemplated

hereby by Purchaser have been duly and validly authorized by all necessary corporate action and do not conflict or result in a violation or breach of the articles of incorporation and by-laws of the Purchaser. Each of this Agreement and the other agreements contemplated hereby, constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

(c) No Consent Required; Non-Contravention.

(i) Except as otherwise specified in the Disclosure Schedule, no consent, waiver, approval, order, authorization or other action by or filings with any Governmental Authority or other Person is required in connection with the execution, delivery and performance by Purchaser of this Agreement or the other agreements contemplated hereby.

(ii) Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the other agreements contemplated hereby by Purchaser nor the consummation of the transactions contemplated hereby will violate or conflict with or result in the acceleration of rights, or benefits or payments under any agreement, instrument, statute, regulation, rule, order, writ, judgment or decree to which the Purchaser is directly or indirectly a Party or is directly or indirectly subject, except for such violations and conflicts which will not (x) prevent or materially delay consummation of the transactions contemplated by this Agreement or the other agreements contemplated hereby, (y) prevent Purchaser or its Affiliate which is a party from performing its obligations under this Agreement or (z) result in a Material Adverse Effect.

(d) Litigation.

Except as specified in the Disclosure Schedule, there are no lawsuits, actions, arbitrations or other proceedings pending or threatened by any Person against or affecting the Purchaser by or before any court, arbitrator or Governmental Authority which (i) would prohibit any of the transactions contemplated by this Agreement or (ii) if adversely determined would have an adverse determination that would have a Material Adverse Effect.

(e) No Breach.

Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement by Purchaser, nor the consummation of the transactions contemplated hereby will violate or conflict with, or result in the acceleration of rights, benefits or payments under: (i) any provision of the Purchaser's articles of incorporation or bylaws; (ii) any statute, law, regulation or governmental order to which the Purchaser or the assets and properties of any thereof are bound or subject; (iii) any commitment to which the Purchaser is a Party or by which it or any of its properties may be bound or subject; and (iv) any agreement, contract or commitment of the Purchaser or to which it is a Party or by which it or any of its properties may be bound or subject, except, with respect to clauses (ii), (iii) and (iv), for such violations and

conflicts which will not (x) prevent or materially delay consummation of the transactions contemplated by this Agreement and other agreements contemplated hereby; (y) prevent Purchaser from performing its obligations under this Agreement and other agreements contemplated hereby; or (z) result in a Material Adverse Effect.

(f) Actions and Proceedings.

Except as specified in the Disclosure Schedule, no proceeding or investigation is pending or threatened before any court, arbitrator or administrator or Governmental Authority, bureau or agency to restrain or prohibit, or to obtain damages, a discovery order or other relief in connection with this Agreement or any of the other agreements contemplated hereby or any material part of the transactions contemplated hereby or thereby.

(g) Independent Decision.

Purchaser has made its own independent analysis and judgment of the commercial potential, condition and usefulness of the Assets and the Business, and is not relying upon any projections from Sellers regarding prospective operations of the Assets in the future.

(h) No Knowledge of Breaches.

Except for any breaches of representations or covenants, the consequences of which have been waived by Purchaser, Purchaser has no knowledge of any breaches of any representation or covenant herein by Sellers.

(i) Financial Capacity; Future Performance.

(i) Subject to the conditions set forth in Section 7.2(e), Purchaser has or will have the financial capacity to consummate the purchase and to operate the Assets after the purchase. Purchaser is, as of the date hereof, not aware of any facts or circumstances that now or in the future would have a Material Adverse Effect on its financial condition, results of operations, business, properties, assets, or liabilities. Purchaser is solvent, is not in the hands of a receiver, nor is any receivership pending, and no proceedings are pending by or against it for bankruptcy or reorganization in any state or federal court.

(ii) Attached as Exhibit H are copies of the financing commitment letters from Blackstone Management Associates III, Occidental C.O.B. Partners, Thomas D. O'Malley, Morgan Stanley Senior Funding, Inc., and Morgan Stanley Capital Group Inc. (the "Financing Commitments"). The Financing Commitments are in full force and effect and have not been modified, amended, revised or otherwise changed in any respect and the financing parties thereunder have not given any indication that the prospects of obtaining the financing have changed adversely in any respect. Purchaser fully expects that all conditions required for such financing will be fully performed and satisfied on its part and has no reason to believe that the financing contemplated by the Financing Commitments will not be effected.

(j) Disclaimer.

Except as and to the extent set forth in this Agreement and the other documents and instruments delivered in connection with this Agreement, Purchaser makes no other representations or warranties, and disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Sellers.

5.2 Purchaser's Guarantor's Representations and Warranties. Purchaser's Guarantor represents and warrants to Sellers to the Knowledge of Purchaser's Guarantor, except with respect to Sections 5.2(a) and 5.2(b) which shall not be limited to the Knowledge of Purchaser's Guarantor as follows:

(a) Organization and Standing.

Purchaser's Guarantor is a corporation duly organized, validly existing in good standing under the laws of the State of Delaware and is in good standing as a corporation in all jurisdictions where the nature of its properties or business requires it.

(b) Authority and Binding Obligations.

Purchaser's Guarantor has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and the Purchaser's Guaranty. The execution, delivery, and performance of this Agreement and the Purchaser's Guaranty by Purchaser's Guarantor have been duly and validly authorized by all necessary corporate action and do not conflict or result in a violation or breach of the articles of incorporation and by-laws of the Purchaser's Guarantor. This Agreement and the Purchaser's Guaranty constitute legal, valid and binding obligations of the Purchaser's Guarantor enforceable against Purchaser's Guarantor in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity (regardless of whether enforceability is considered in a proceeding at law or equity).

(c) No Consent Required; Non-Contravention.

(i) Except as specified in the Disclosure Schedule, no consent, waiver, approval, order, authorization or other action by or filings with any Governmental Authority or other entity is required in connection with the execution, delivery and performance by Purchaser's Guarantor of this Agreement or the Purchaser's Guaranty.

(ii) Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the Purchaser's Guaranty by Purchaser's Guarantor, nor the consummation of the transactions contemplated hereby will violate or conflict with or result in the acceleration of rights, or benefits or payments under any agreement, instrument, statute, regulation, rule, order, writ, judgment or decree to which the Purchaser's Guarantor is directly or indirectly a party or is directly or indirectly subject, except for such violations and conflicts which will not (x) prevent or materially delay consummation of the transaction contemplated by

this Agreement or the Purchaser's Guaranty; (y) prevent Purchaser's Guarantor from performing its obligations under this Agreement or the Purchaser's Guaranty; or (z) result in a Material Adverse Effect.

(d) Litigation.

Except as specified in the Disclosure Schedule, there are no lawsuits, actions, arbitrations or other proceedings pending or threatened by any Person against or affecting the Purchaser's Guarantor by or before any court, arbitrator or Governmental Authority which would prohibit any of the transactions contemplated by this Agreement or the Purchaser's Guaranty.

(e) No Breach.

Except as specified in the Disclosure Schedule, neither the execution and delivery of this Agreement or the Purchaser's Guaranty by Purchaser's Guarantor, nor the consummation of the transactions contemplated hereby or thereby will violate or conflict with, or result in the acceleration of rights, benefits or payments under; (i) any provision of the Purchaser's Guarantor's articles of incorporation or bylaws; (ii) any statute, law, regulation or governmental order to which the Purchaser's Guarantor or the assets and properties of any thereof are bound or subject; (iii) any commitment to which the Purchaser's Guarantor is a party or by which it or any of its properties may be bound or subject; and (iv) any agreement, contract or commitment of the Purchaser's Guarantor or to which it is a party or by which it or any of its properties may be bound or subject, except, with respect to clauses (ii), (iii) and (iv), for such violations and conflicts which will not (y) prevent or materially delay consummation of the transactions contemplated by this Agreement, and the Purchaser's Guaranty or (z) prevent Purchaser's Guarantor from performing its obligations under this Agreement, and the Purchaser's Guaranty.

(f) Actions and Proceedings.

Except as specified in the Disclosure Schedule, no proceeding or investigation is pending or threatened before any court, arbitrator or administrator or Governmental Authority, bureau or agency to restrain or prohibit, or to obtain damages, a discovery order or other relief in connection with this Agreement, or the Purchaser's Guaranty or any material part of the transactions contemplated hereby or thereby.

(g) Independent Decision.

Purchaser's Guarantor has made its own analysis and independent judgment of the commercial potential, condition and usefulness of the Assets, and is not relying upon any projections from Sellers regarding prospective operations of the Assets in the future.

(h) No Knowledge of Breaches.

Except for any breaches of representations or covenants, the consequences of which have been waived by Purchaser's Guarantor, Purchaser's Guarantor has no knowledge of any breaches of any representation or covenant herein by Sellers.

(i) Financial Capacity; Future Performance.

(i) Purchaser's Guarantor has or will have the financial capacity to guaranty the purchase and operation of the Assets. Purchaser's Guarantor is not aware of any facts or circumstances that now or in the future would have a Material Adverse Effect on its financial condition, results of operations, business, properties, assets, or liabilities. Purchaser's Guarantor is solvent, is not in the hands of a receiver, nor is any receivership pending, and no proceedings are pending by or against it for bankruptcy or reorganization in any state or federal court.

(ii) The Financing Commitments are still in full force and effect and have not been modified, amended, revised or otherwise changed in any respect and the financing parties thereunder have not given any indication that the prospects of obtaining the financing have changed adversely in any respect.

(j) Guarantor Common Stock.

The authorized equity securities of the Purchaser's Guarantor consist of 150,000,000 shares of common stock, par value $0.01 per share, of which 58,041,435 shares are issued and outstanding. For as long as necessary under the terms of this Agreement, there will be sufficient authorized but unissued shares to issue the Guarantor Common Stock as contemplated by Section 2.5 of this Agreement and such Guarantor Common Stock, if and when issued, will be duly authorized, validly issued, fully paid and nonassessable.

(k) Disclaimer.

Except as and to the extent set forth in this Agreement and the other documents and instruments delivered in connection with this Agreement, Purchaser's Guarantor makes no other representations or warranties, and disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Sellers.

ARTICLE VI
COVENANTS

6.1 Brokers' Fees. Each of Sellers and Purchaser represents and warrants to the other that it has not incurred any liability for brokerage fees, finder's fees, agent's commissions, or other similar forms of compensation in connection with or in any way related to the transactions contemplated by this Agreement, except with respect to the fee owed to Lehman Brothers Inc., which fee shall be paid by Sellers. Each of Sellers and Purchaser agrees to indemnify, defend and hold the other and its related persons harmless from any claim or demand for any commission, fee or other compensation by any broker, finder, agent or similar intermediary claiming to have been employed by or on behalf of the indemnifying party, and to bear the cost of attorneys' fees and expenses incurred in defending against any such claim.

6.2 Conduct of Business by Sellers Pending Closing. Sellers covenant and agree with Purchaser that, from the date of this Agreement until the Closing Date, Sellers will conduct the Business only in the ordinary and usual course consistent with past practices. Notwithstanding the preceding sentence, Sellers covenant and agree with Purchaser that, except as specifically contemplated in this Agreement, from the date of this Agreement until the Closing Date, without the prior written consent of Purchaser or as set forth in the Disclosure Schedule:

(a) Sellers will not (i) merge or consolidate with, or transfer all or substantially all of the Assets to another business entity; (ii) liquidate, wind-up or dissolve (or suffer any liquidation or dissolution); or (iii) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing.

(b) Sellers will not (i) acquire any corporation, partnership or other business entity or any interest therein; (ii) sell, lease or sublease, transfer or otherwise dispose of, mortgage, pledge or otherwise encumber any assets that have a value at the time of such sale, lease, sublease, transfer, disposition or encumbrance in excess of $500,000, individually, or $5,000,000, in the aggregate (other than sales of products in the ordinary course of business); (iii) make any material loan, advance or capital contribution to, or investment in, any Person (other than loans or advances in the ordinary course of business); or (iv) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing. -

(c) Other than loans or other advances received from Sellers, Sellers will not (i) incur any material indebtedness for borrowed money; (ii) incur any other material obligation or liability (other than liabilities incurred in the ordinary course of business); (iii) assume, endorse, guarantee or otherwise become liable or responsible (whether directly, contingently or otherwise) for the liabilities or obligations of any Person or its Affiliates (other than endorsements of negotiable instruments in the ordinary course of business); or (iv) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing.

(d) Sellers will not enter into any new employee benefit plan, program or arrangement or any new employment, severance or consulting agreement, grant any general increase in the compensation of officers or employees (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or grant any increase in the compensation payable or to become payable to any employee, except in accordance with pre-existing contractual provisions or in the ordinary course of business.

(e) Sellers will keep and maintain accurate books, records and accounts in accordance with GAAP.

(f) Sellers will not create, incur, assume or permit to exist any Lien on any of its assets except for Permitted Liens.

(g) Sellers will (i) pay or accrue all Taxes, assessments and other governmental charges imposed upon any of the Assets or with respect to the Business before any penalty or interest accrues thereon; (ii) pay all claims (including claims for labor, services, materials and supplies) that have become due and payable and which by law have or may

become a Lien upon any of its assets prior to the time when any penalty or fine shall be incurred with respect thereto or any such Lien shall be imposed thereon; and (iii) comply in all material respects with the requirements of all Applicable Laws of any Governmental Authority, obtain or take all Governmental Actions necessary in the operation of its business, and comply with and enforce the provisions of all Material Contracts to which it is a party, including paying when due all rentals, royalties, expenses and other liabilities relating to its business or assets; provided, however, that Sellers may contest the imposition of any such Taxes, assessments and other governmental charges, any such claim, or the requirements of any applicable law, rule, regulation or order or any Material Contract if done so in good faith by appropriate proceedings and if adequate reserves are established in accordance with GAAP or as may be determined as sufficient by Sellers.

(h) Sellers will preserve and keep in full force and effect its legal existence and material rights and franchises.

(i) Sellers shall maintain in full force and effect the insurance in accordance with past practices.

(j) Sellers will cause the construction financing with regard to the "peaking power" turbine located in Memphis to be paid or satisfied in full on or prior to the Closing Date.

(k) Sellers will not engage in any practice, take any action or permit by inaction any of the representations and warranties contained in Article IV to become untrue.

(1) Sellers shall endeavor to complete the actions described on the Disclosure Schedule in connection with repairing the Fluid Catalytic Cracking unit and related equipment at the Refinery before Closing. If such Fluid Catalytic Cracking unit repairs have been commenced before Closing, the Closing Date shall be automatically extended for a reasonable amount of time, if necessary, to allow Sellers to complete such repairs. If Sellers have not initiated the shutdown of the Fluid Catalytic Cracking unit to complete the repairs prior to Closing, the Base Purchase Price shall be reduced by the amount of $10,000,000 less any costs incurred by Sellers or their Affiliates in preparing for the repair of the Fluid Catalytic Cracking unit and related equipment and conducting such repairs. In connection with any actions taken by the Sellers with respect to repairing the Fluid Catalytic Cracking unit and related equipment, Purchaser shall be allowed to have representatives present during any repairs to be performed by or at the request of Sellers on the Fluid Catalytic Cracking unit and related equipment provided that such representatives do not interfere with the actions taken in connection with this Section, the Operations or the Business.

(m) Sellers shall perform and pay for all maintenance and capital projects with respect to the Assets in accordance with the Disclosure Schedule.

(n) During the period from the execution of this Agreement to the Closing Date, Sellers shall endeavor to take the actions requested by Purchaser listed on the Disclosure Schedule, and Purchaser shall reimburse Sellers for all costs incurred relating to such actions at Closing.

(o) Subject to the terms of this Agreement and until the Closing Date, Sellers shall continue to maintain and repair the Assets in the same condition as of the date of this Agreement, normal wear and tear excepted.

6.3 Access to Assets, Personnel and Information.

(a) From the date hereof until the Closing Date, Sellers will afford to Purchaser and the Purchaser Representatives, at Purchaser's sole risk and expense, during normal business hours and on reasonable prior notice, reasonable access to any of the assets, books and records, contracts, employees, representatives, agents, consultants and facilities of Sellers and shall, upon request, furnish promptly to Purchaser, at Purchaser's expense, a copy of any file, book, record, report, contract, permit, correspondence, or other written information, document or data (excluding personnel files) concerning Sellers or the Assets that is within the possession or control of Sellers.

(b) Purchaser and the Purchaser Representatives shall have the right to make a physical assessment of the Assets and Operations of Sellers and, in connection therewith, shall have the right to enter premises of Sellers and inspect its assets and all buildings and improvements in or on which the Sellers' Operations and the Assets are located and conduct such examinations and studies as Purchaser deems necessary, desirable or appropriate for the preparation of reports relating to Sellers. Sellers shall be provided not less than 48 hours prior notice of such activities and all such activities shall be conducted in a commercially reasonable manner, and Sellers and Sellers' Representatives shall have the right to witness all such investigations. Purchaser shall (and shall cause the Purchaser Representatives to) keep any data or information acquired by any such examinations and the results of any analyses of such data and information strictly confidential and will not (and will cause the Purchaser Representatives not to) disclose any of such data, information or results to any Person unless otherwise required by law or regulation and then only after written notice to Sellers of the determination of the need for disclosure. Purchaser shall indemnify, defend and hold Sellers and the Sellers' Representatives harmless from and against any and all claims to the extent directly resulting from the activities of Purchaser and the Purchaser Representatives with respect to the assets and Operations of Sellers in connection with conducting such physical assessment, except to the extent of and limited by the fault, negligence or willful misconduct of Sellers or any Sellers Representative.

(c) Sellers will cause the Sellers' Representatives to cooperate in all reasonable respects with Purchaser and the Purchaser Representatives in connection with Purchaser's examinations, evaluations and investigations described in this Section 6.3.

(d) Except as required by law or regulation, Purchaser will not (and will cause the Purchaser Representatives not to) use any information obtained pursuant to this Section 6.3 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement.

(e) Notwithstanding anything in this Section 6.3 to the contrary, Sellers shall not be obligated under the terms of this Section 6.3 to disclose to Purchaser or the Purchaser Representatives, or grant Purchaser or the Purchaser Representatives access to, information that is within Sellers' possession or control but subject to a valid and binding confidentiality agreement with a third party without first obtaining the consent of such third party, and, to the extent reasonably requested by Purchaser, Sellers will use reasonable efforts to obtain any such consent.

(f) Notwithstanding anything to the contrary in this Section 6.3 or elsewhere in this Agreement, the Confidentiality Agreement shall remain in full force and effect and shall apply to the Parties hereto as fully as if each were a signing party thereto following the execution of this Agreement until the Closing, unless terminated as described therein and is hereby incorporated herein by reference and shall constitute a part of this Agreement for all purposes. Any and all information received by Purchaser pursuant to the terms and provisions of this Agreement shall be governed by the applicable terms and provisions of the Confidentiality Agreement.

6.4 Additional Arrangements. Subject to the terms and conditions herein provided, each of Sellers and Purchaser shall take, or cause to be taken, all action and shall do, or cause to be done, all things necessary, appropriate or desirable under any applicable laws and regulations or under applicable governing agreements to consummate and make effective the transactions contemplated by this Agreement, including using such Party's reasonable efforts to obtain all necessary waivers, consents and approvals and effecting all necessary registrations and filings. Each of Sellers and Purchaser shall take, or cause to be taken, all action or shall do, or cause to be done, all things necessary, appropriate or desirable to cause the covenants and conditions applicable to the transactions contemplated hereby to be performed or satisfied as soon as practicable. In addition, if any Governmental Authority shall have issued any order, decree, ruling or injunction, or taken any other action that would have the effect of restraining, enjoining or otherwise prohibiting or preventing the consummation of the transactions contemplated hereby, each of Sellers and Purchaser shall use reasonable efforts to have such order, decree, ruling or injunction or other action declared ineffective as soon as practicable.

6.5 Public Announcements. Sellers may issue a press release announcing the sale, price, and terms upon execution of this Agreement. Prior to the Closing, Purchaser and Sellers will consult with the other before issuing any other press release or otherwise making any other public statement with respect to the transactions contemplated by this Agreement, and the party desiring to issue a press release shall not issue any press release or make any such public statement prior to obtaining the approval of the other party, which approval shall not be unreasonably withheld; provided, however, that prior notice shall be required but prior approval shall not be required where such release or announcement is required by applicable law, securities regulations or stock exchange rules; and provided further, that either Sellers or Purchaser may respond to inquiries by the press or others regarding the transactions contemplated by this Agreement, so long as such responses are consistent with such party's previously issued press releases.

6.6 Payment of Expenses. Each Party shall bear its own expenses incurred in connection with the transactions contemplated herein, including all fees and expenses of agents, representatives, counsel and accountants engaged by it, whether or not the Closing occurs.

6.7 Further Assurances. Sellers and Purchaser each agrees that, from time to time after the Closing Date, it will execute and deliver such further instruments, including instruments of conveyance and transfer, and take such other action as the other Party may reasonably request in order more effectively to convey and transfer to Purchaser the Assets and to assist in completing the other transactions contemplated by this Agreement.

6.8 Preservation of Files and Records. For a period of seven years after the Closing Date: (a) Purchaser shall preserve all files and records relating to the Assets that are less than seven years old, shall allow Sellers or its designee reasonable access to such files and records and the right to make copies and extracts therefrom at any time during normal business hours and shall not dispose of any thereof without first offering them to Sellers; and (b) Sellers shall preserve all files and records relating to the Assets that are less than seven years old and that are retained by Sellers, shall allow Purchaser or its designee reasonable access to such files and records relating to the Assets or any of them as may be in Sellers' possession and the right to make copies and extracts therefrom at any time during normal business hours and shall not dispose of any thereof without first offering them to Purchaser.

6.9 Business Employees.

(a) Employees in General

The Disclosure Schedule contains a true and complete list of each employee who performs services directly related to the Business as of the Effective Date and is represented by the Union (as defined in 6.9(b) herein) (each, a "Represented Employee"), and each regular, full-time and regular, part-time employee who performs services directly related to the Business as of the Effective Date and is not represented by the Union (each, a "Non-Represented Employee"). The Represented Employees and Non-Represented Employees are sometimes collectively referred to herein as "Business Employees."

(b) Represented Employees

Sellers represent that they are bound by the Collective Bargaining Agreement and all existing Memoranda of Agreement or Understanding, which are listed on the Disclosure Schedule ("Collective Bargaining Agreements"), between Sellers and PACE International Union, Local 5-0631 (the "Union"). Purchaser agrees to: (i) comply with all legal requirements that may be applicable as a result of the Represented Employees being represented by any labor organization, (ii) recognize the Union as the exclusive bargaining unit for the Representative Employees and (iii) assume all rights and obligations of Sellers under the Collective Bargaining Agreement.

(c) Offers of Employment

(i) At least 30 days before Closing, Purchaser shall offer full-time employment to each Represented Employee meeting Purchaser's written employment qualifications and shall consider as a candidate for employment each Non-Represented Employee, provided that, any such consideration or offers shall be conditioned upon the Closing and shall require acceptance at least ten (10) business days before Closing. Sellers or their Affiliates may not make offers of continuing employment to the Business Employees except pursuant to a protocol mutually agreed by the Parties. As soon as practicable after the signing of this Agreement, Sellers shall provide, and cause their Affiliates, as appropriate, to provide, Purchaser with the current title, title history, years of service, current salary, salary history, position description, detailed organization charts, current bonus eligibility and level and payment history and accrued vacation of each Business Employee; provided, however, Sellers shall have no obligation to provide any such information with respect to any employee if the consent of such employee is necessary and Sellers are unable to obtain such consent after reasonable effort.

(ii) Purchaser shall notify Sellers of the acceptance of any employment offer made by Purchaser, within five (5) business days of the acceptance of such offer.

(iii) Upon Closing, Sellers shall terminate and Purchaser shall thereupon employ each Business Employee who accepts Purchaser's offer of employment and satisfies all of Purchaser's written employment qualifications. Sellers agree to use their reasonable efforts to assist Purchaser in the orderly transition to Purchaser of any such Business Employees. Each such accepting Business Employee shall, from the Closing Date, be known as a "Purchaser's Employee."

(iv) Purchaser shall provide Non-Represented Employees who become Purchaser's Employees with an opportunity for compensation, including incentive compensation, and benefits, excluding retiree welfare benefits, that is consistent with the compensation and benefits that Purchaser pays its similarly situated employees.

(d) Employee Benefits for Purchaser's Employees

(i) The Represented Employees' participation in Purchaser's employee pension benefit plans and employee welfare benefit plans shall be subject to the legal obligations that exist as a result of the Represented Employees being represented by any labor organization. Purchaser shall permit the Non-Represented Employees who become Purchaser's Employees to participate in all of the Purchaser's employee pension benefit plans (as that term is defined by Section 3(2) of the Employee Retirement Income Security Act of 1974 ("ERISA")), employee welfare benefit plans (as that term is defined by Section 3(1) of ERISA), and other benefit programs, policies, and practices that are or will be generally available to Purchaser's similarly situated employees, excluding retiree welfare benefits.

(ii) With respect to each Purchaser's Employee and/or dependent of a Purchaser's Employee who elects to participate in Purchaser's employee welfare benefit plans, to which they are eligible, Purchaser shall waive any pre-existing-condition exclusions to coverage, any evidence-of-insurability provisions, and any waiting-period requirements, as permitted under Purchaser's contractual obligations, under its employee welfare benefit plans that had been waived or otherwise satisfied under comparable employee welfare benefit plans sponsored by the

Sellers or an Affiliate of Sellers, provided the Purchaser's Employee enrolls within thirty-one (31) days of his or her employment commencement date. For each Purchaser's Employee and/or dependent of a Purchaser's Employee, Purchaser shall also apply towards any deductible requirements and out-of-pocket maximum limits under its employee welfare benefit plans applicable to the calendar year in which the Closing occurs any amounts paid by such Purchaser's Employee or dependent of a Purchaser's Employee toward such requirements and limits under the Sellers or an Affiliate of Sellers' employee welfare benefit plans in which he or she participated during such year. Purchaser shall notify Sellers if a Purchaser's Employee and dependent of a Purchaser's Employee fails to enroll in one of Purchaser's health plans upon initial eligibility.

(iii) Purchaser shall cause all its employee welfare benefit plans programs, policies, and practices in which the Purchaser's Employees participate, including Purchaser's vacation and sick leave programs and severance plans or programs, to recognize that service as recognized by the Sellers' or an Affiliate of Sellers' employee welfare benefit plans, programs, policies and practices, including vacation and sick leave programs, for all purposes, including eligibility to participate, eligibility for enrollment, eligibility for the commencement of benefits, and eligibility for the levels of benefits. Purchaser shall cause its employee pension benefit plans (whether defined contribution plans, as defined in Section 3(34) of ERISA, or defined benefit plans, as defined in Section 3(35) of ERISA) to recognize that service as recognized by the Sellers' or an Affiliate of Sellers' employee pension benefit plans for all purposes, including eligibility to participate, eligibility for enrollment, eligibility for vesting, eligibility for the commencement of benefits, eligibility for the forms of benefits, including death benefits, and eligibility for the levels of benefits. Purchaser shall not be required to recognize or cause its employee pension benefit plans to recognize for purposes of benefit accruals that service recognized by the Sellers' employee pension benefit plans.

(iv) With respect to all Purchaser's Employees, Purchaser shall assume, without duplication of benefits, all current calendar year accrued but unused paid-time-off under the Sellers' or their Affiliates' paid-time-off program as of the Effective Date using the same methodology used by the Sellers or their Affiliates immediately prior to the Effective Date for crediting service and determining the amount of such paid-time-off benefits; provided, however, the paid-time-off to be assumed pursuant to this Section 6.9(d)(iv) shall not include any paid-time-off carried over from the prior calendar year regardless of whether the Sellers' or their Affiliates' paid-time-off programs provides for such carryover. With respect to Purchaser's Employees, Purchaser shall also be responsible for vacation earned after the Effective Time.

(v) Sellers or their Affiliates shall pay such a Severance Benefit as is consistent with The Williams Companies, Inc. Severance Pay Plan in effect at the applicable time ("The Williams Companies, Inc. Severance Pay Plan"), to each Business Employee that Sellers or their Affiliates terminate as a result of this sale, and to whom Purchaser does not offer employment prior to Closing or to whom Purchaser offers employment and such offered employment is not at a comparable level as described under The Williams Companies, Inc. Severance Pay Plan ("Sellers' Employee"). Sellers will be liable for the first $2,000,000 of such Severance Benefits and Purchaser and Purchaser's Guarantor shall be jointly and severally liable for the cost of any Severance Benefit that exceeds the $2,000,000 payable by the Sellers and

their Affiliates pursuant to this subparagraph. The "Severance Benefit" shall mean the cash payment applicable to Sellers' Employee under The Williams Companies, Inc. Severance Pay Plan and any other separation related expenses and liabilities including, without limitation, any payments due in connection with WARN Act (as defined below) liability, continuing healthcare coverage, outplacement assistance.

(vi) Effective as of the Closing Date, Purchaser's Employees shall become fully vested in their account balances in any defined contribution or 401(k) Plan, including the Mid-South Savings and Retirement Plan, maintained by Sellers or their Affiliates on behalf of such - -Purchaser's Employees (the "Seller Savings Plan") and distributions of such account balances shall be made available to such Purchaser's Employee as soon as reasonable following the Closing Date, in accordance with the provisions of the Seller Savings Plan and applicable law. Thereafter, Purchaser shall accept rollover contributions from the Seller Savings Plan into a defined contribution or 401(k) Plan maintained by Purchaser of the account balances distributed to the Purchaser's Employees from the Sellers Savings Plan.

(e) Liabilities

(i) Purchaser shall indemnify Sellers and their Affiliates against all liabilities arising out of the notification or other requirements of the Worker Adjustment and Retraining Notification Act of 1988, as amended (the "WARN Act"), with respect to the Purchaser's Employees in connection with actions taken by Purchaser after the Effective Time. Sellers shall indemnify Purchaser against all liabilities under the WARN Act with respect to Business Employees in connection with actions taken by Sellers prior to the Effective Time, subject to the limitations set forth in Section 6.9(d)(v).

(ii) Sellers shall be responsible for workers' compensation claims with respect to any Purchaser's Employee if the incident or alleged incident giving rise to the claim occurred prior to the Effective Time. Purchaser shall be responsible for any workers' compensation claims with respect to any Purchaser's Employee if the incident or alleged incident giving rise to the claim occurs after the Effective Time. In the event of doubt as to the date of the occurrence of the incident or alleged incident, Purchaser shall process the claim; provided, however, the processing of such claim shall not result in Purchaser being liable for the entire claim. In such case, Purchaser and Sellers will agree on an equitable manner to allocate the actual liability.

(1) Indemnities

(i) To the maximum extent permitted by Applicable Law, Sellers shall defend, indemnify, and hold harmless Purchaser from and against any damages, and any fines, penalties and assessments, arising out of Claims by Business Employees that arise prior to, on, or after the Effective Time and relate to their employment with, or the termination of their employment from, the Sellers, except to the extent such damages, fines, penalties and assessments are assumed by Purchaser hereunder.

(ii) To the maximum extent permitted by Applicable Law, Purchaser shall defend, indemnify, and hold harmless Sellers and their Affiliates from and against any damages, and any fines, penalties and assessments, arising out of Claims by the Purchaser's Employees that arise on or after the Effective Time which relate to their employment with, or the termination of their employment from, the Purchaser.

(iii) To the maximum extent permitted by Applicable Law, Purchaser shall defend, indemnify, and hold harmless Sellers and their Affiliates from and against any damages, and any fines, penalties and assessments, arising out of Claims that arise prior to, on or after the Effective Time and relate to Purchaser's interviews of Business Employees, Purchaser's hiring selection criteria and procedures, and/or Purchaser's failure or refusal to hire any of the Business Employees.

(g) Enforceability

The provisions of this Section 6.9 are intended to be for the benefit of, and shall be enforceable by, Sellers and their Affiliates and Purchaser and its Affiliates and their respective successors.

6.10 Bonds and Guaranties. Upon Closing, Purchaser will assume all obligations for bonding for state motor fuel tax purposes with respect to the Business conducted by Purchaser after Closing. Schedule 6.10 of the Disclosure Schedule lists the motor fuel tax bonds that Sellers currently have in place. Upon Closing, Sellers will terminate the guaranties that are listed on Schedule 6.10 of the Disclosure Schedule and Purchaser will assume all obligation to replace such guaranties as the counterparties thereto require.

6.11 Environmental Insurance. Sellers shall purchase from AIG a fully pre-paid, ten (10)-year environmental pollution legal liability policy naming Purchaser as an additional named insured for all coverages, except A 1, and covering all unknown environmental response activities and all third-party liabilities arising from unknown pre-Closing releases of Hazardous Materials upon any properties of Sellers as specified in such policy, a specimen of which is attached as Exhibit I (the "Environmental Insurance Policy"). The Environmental Insurance Policy shall have the deductibles and limits set forth in such specimen policy. Purchaser covenants and agrees to comply with the terms of the Environmental Insurance Policy.

6.12 Use of Trademarks, Williams Marks.

(a) Any and all trademarks, service marks, trade names and associated goodwill, slogans and other like property owned by Sellers or their Affiliates in which the name "Williams" or any derivatives or variations thereof is used, the Williams logos and any derivatives or variations thereof, and any and all rights to use any such trade-marks, service marks, trade names or slogans owned by any other party are referred to as the "Williams Marks". Except as specifically provided herein, no license to the Williams Marks is hereby granted, and Purchaser is precluded from any use of the Williams Marks on any of its products or services as a means of corporate identity or in any of its communications. Purchaser acknowledges and agrees with Sellers that as between Sellers and Purchaser, Sellers and their Affiliates have the absolute and exclusive proprietary right to all Williams Marks and other marks owned by Sellers

or their Affiliates, and all rights to which, and that the goodwill represented thereby and pertaining thereto are being retained by Sellers and their Affiliates.

(b) Effective upon the Closing Date, the Sellers and their Affiliates grant to Purchaser a nonexclusive, nontransferable, royalty-free license, without right to sublicense, to use, solely in the Business as they are presently conducted, any and all Williams Marks owned by Sellers and their Affiliates solely to the extent appearing on existing Inventory, advertising materials and property of Sellers or their Subsidiaries (such as signage, vehicles, and equipment) for a period of three (3) months from the Closing Date ("License Period").

(c) The Purchaser may use such existing Inventory, advertising materials and property during the License Period, but shall not create new Inventory, advertising materials or property using the Williams Marks. Purchaser shall promptly replace or remove the Williams Marks on Inventory, advertising materials and property, provided that all such use shall cease no later than the end of the License Period.

(d) The nature and quality of all uses of the Williams Marks by the Purchaser shall conform to the Sellers' existing quality standards. Immediately upon expiration of the License Period, the Purchaser shall cease all further use of the Williams Marks and shall adopt new trademarks, service marks, and trade names which are not confusingly similar to the Williams Marks.

(e) All rights not expressly granted in this section with respect to the Williams Marks are hereby reserved. In the event the Purchaser breaches the provisions of this section, Sellers may immediately terminate the License Period upon 15 days written notice. In such event, Sellers shall be entitled to specific performance of this Section 6.12 and to injunctive relief against further violations, as well as any other remedies at law or in equity.

6.13 Purchaser's Notice. Not later than ten (10) days prior to the Closing Date, and, again, on the Closing Date prior to the Closing, Purchaser shall notify Sellers of any breaches of representations or covenants herein by Sellers of which Purchaser has knowledge at the time of such notice and with respect to which a prior notice has not been given pursuant to this Section.

6.14 Other Tax Matters.

(a) Sellers agree to provide Purchaser and Purchaser agrees to provide Sellers with such cooperation and information as the other shall reasonably request in connection with the preparation or filing of any tax return required under this Agreement.

(b) At the Closing, Sellers shall deliver to Purchaser a certificate (i) stating that it is not a foreign corporation, foreign partnership, foreign trust or foreign state, (ii) providing its U.S. Employer Identification Number and (iii) providing its address, all pursuant to Section 1445 of the Code, such certificates to be substantially in the form attached hereto as Exhibit J.

(c) The obligations and agreements contained in this Section 6.14 shall survive without limitation.

6.15 Information Technology. As soon as practical after the execution of this Agreement, the Parties shall each designate representatives to a migration team (the "IT Migration Team") that shall assist Purchaser with identifying the specific software and hardware necessary for Purchaser to continue operations of the Business in the manner in which they operate as of the Closing Date. The IT Migration Team shall also assist Purchaser with developing a detailed plan to include cost estimates and timetables for the conversion, loading and integrating of Sellers' existing data into Purchaser's information technology systems, and the transfer or replacement of licenses and maintenance agreements not currently held in the Sellers' names ("IT Migration Plan"). The IT Migration Team shall complete the creation of the IT Migration Plan no later than thirty (30) days after Closing. The time period for implementation of the IT Migration Plan, which period shall proceed no longer than ninety (90) days after Closing, shall be referred to as the "IT Migration Period." -

On or before the expiration of the IT Migration Period, Sellers shall, and shall cause their Affiliates, at Sellers' sole option, to either: (i) assign (to the extent assignable) to Purchaser all of their respective right, title and interest in the Intellectual Property that is licensed from non-Affiliates, and secure any consents necessary for such assignment and for the use by Sellers and Sellers' Affiliates thereof on behalf of Purchaser during the IT Migration Period; or (ii) obtain for the Purchaser, on commercially reasonable terms, comparable replacements for any such Intellectual Property that is not assigned pursuant to (i) above. Fees, costs and expense for license transfers or replacements shall be borne by Purchaser. Each Party shall bear its respective labor costs in connection with the creation of the IT Migration Plan and any implementation of the IT Migration Plan that occurs during thirty (30) days after Closing. Thereafter, all costs related to the implementation of the IT Migration Plan shall be borne by Purchaser.

Purchaser shall assume or pay all termination costs related to the hardware leases identified during development of the IT Migration Plan, including but not limited to servers and personal computers, at the time such costs are identified.

6.16 Non-Software Copyright License. Effective upon the Closing Date, Sellers, for themselves and on behalf of their Affiliates, hereby grants to Purchaser a nonexclusive royalty-free, perpetual license, without right to sublicense, to use, copy, modify, enhance, and to upgrade, solely for their internal business purposes and not as a service bureau, all manuals, user guides, standards and operation procedures and similar documents owned by Sellers and/or their Affiliates and used in the Business. All copies of the foregoing must reproduce and include all copyright and other intellectual property rights notices provided by Sellers.

6.17 Software License. Effective upon the Closing Date, Sellers, for themselves and on behalf of their Affiliates, hereby grant to Purchaser, a nonexclusive royalty-free, perpetual license, without right to sublicense, to use, copy, modify, enhance, and upgrade, solely for their internal business purposes and not as a service bureau, all computer software owned by Sellers and/or their Affiliates which is used in connection with the Business as conducted as of the Closing Date and with respect to which Sellers or their Affiliates have the right to grant such a license ("Licensed Software"). Any copies of the Licensed Software and any documentation

related thereto must contain all copyright and other intellectual property rights notices included thereon. Purchaser shall not be entitled to receive and Sellers and their Affiliates shall have no obligation to provide any modifications, enhancements, or upgrades made to the Licensed Software developed subsequent to the Closing Date. Ownership of all intellectual property rights in the Licensed Software remains with Sellers and their Affiliates. Purchaser shall not take any action inconsistent with Sellers' and their Affiliates' rights in the Licensed Software. All rights not expressly granted herein to Purchaser are retained by Sellers and their Affiliates. Except as otherwise expressly provided in this section, the Licensed Software and any related documentation are provided on an "as is" basis. Sellers and their Affiliates hereby expressly disclaim any implied warranty of merchantability or fitness for a particular purpose. Sellers and their Affiliates do not warrant that the Licensed Software or documentation are error-free or that Purchaser's use thereof will be uninterrupted.

6.18 HSR Act Filing.

(a) Purchaser and Sellers agree to take or cause to be taken all actions necessary to (i) make the filings required of Purchaser and Sellers, or any of their respective Affiliates, under the HSR Act promptly, but in no event later than ten (10) business days of the date hereof; (ii) comply at the earliest practicable date with any request for additional information or documentary material (or any similar request for information and/or documents) received by Purchaser, Sellers, or any of their respective Affiliates from the Antitrust Division of the United States Department of Justice, the United States Federal Trade Commission, or the antitrust or competition law authorities of any State of the United States (the "Antitrust Authority") pursuant to any applicable antitrust law; and (iii) cooperate in connection with any filing under applicable antitrust laws and in connection with resolving any investigation or other inquiry concerning the transactions contemplated hereby commenced by any Antitrust Authority pursuant to any applicable antitrust law. Purchaser shall promptly inform Sellers, and Sellers shall promptly inform Purchaser of any material communication made to, or received by such party from any Antitrust Authority regarding any of the transactions contemplated hereby. Sellers and Purchaser agree that the other Party will have the right and be given the opportunity to have representatives attend all meetings with any Antitrust Authority regarding the transactions contemplated hereby or any of the matters described in this Section 6.18.

(b) Without limiting the generality of subsection 6.18(a), Sellers, Purchaser and their Affiliates shall take all actions (using commercially reasonable best efforts) that are necessary or reasonably advisable to (A) obtain approval of any Antitrust Authority of the transactions contemplated hereby or (B) avoid delay in consummation of the transactions contemplated hereby caused or likely to be caused by an investigation by any Antitrust Authority; provided, however, each Party's obligations in connection with the foregoing shall be limited to the extent that any such actions to be taken by a Party are likely to result in a Material Adverse Effect with respect to such Party.

6.19 Consents to Assignment.

(a) Prior to Closing, Sellers agree to use reasonable business efforts to obtain all consents to assignment of the Contracts, the Leases and Easements and the Permits that are

required to be obtained under this Agreement, even though failure to obtain certain of the consents is not a condition precedent to the Closing, except as provided for herein; provided, that neither Party shall be obligated to make payments or incur obligations to third parties or governmental agencies to obtain such consents except to pay such Party's reasonable expenses or to pay normal fees to governmental agencies.

(b) To the extent that any Contracts, Leases and Easements or Permits that would otherwise be assigned under this Agreement are not capable of being assigned, transferred, subleased or sublicensed without the consent of, or waiver by, any other party thereto or any other Person, or if such assignment, transfer, sublease or sublicense or attempted assignment, transfer, sublease or sublicense would constitute a breach thereof or a violation of any Applicable Law, this Agreement shall not constitute an assignment, transfer, sublease or sublicense, or an attempted assignment, transfer, sublease or sublicense of any such Contract, Lease or Easement or Permit. For a period of one hundred and twenty (120) days after Closing, Sellers shall continue to use their reasonable efforts to obtain a consent to an assignment from Sellers to Purchaser of each Contract, each of the Leases and Easements and Permits that, but for the first sentence of this Section, would be assigned; provided, however, that Sellers shall not be required to pay any consideration or suffer any financial disadvantages to obtain such assignment.

6.20 Casualty. Sellers shall bear the risk of loss with respect to any and all physical damage, destruction or loss of any kind to the Improvements and Equipment occurring during the period from the date of this Agreement until the Closing Date ("Casualty"). If any Improvement or Equipment has been materially damaged, destroyed or lost by Casualty occurring during the period from date of this Agreement until the Closing Date, a good faith estimate for appropriate repairs and/or replacements shall be immediately obtained by Sellers' or their Affiliates' employees or third-party vendors hired by Sellers or their Affiliates, at Sellers' sole cost and expense, if any, from a reputable adjuster, independent contractor and/or vendor, as appropriate in Sellers' sole discretion. If the total of the estimates for any one Casualty, or series of related Casualties, exceeds One Hundred Thousand Dollars ($100,000), Sellers shall notify Purchaser of the same in writing immediately after Sellers receive such estimates. Written notification of such Casualty shall include a copy of each of the employee's, adjuster's, contractor's and/or vendor's estimates stating with reasonable specificity the materials and work to be provided in regard to such repairs and/or replacements. In such event, and on the condition that the estimates provided by the employee, adjuster, contractor and/or vendor are reasonably acceptable to Purchaser, Purchaser shall have the option to have Sellers either (i) complete, at Sellers' expense and prior to the Closing Date if reasonably possible, any repairs and/or replacements necessary to restore such Improvements and Equipment to at least their condition prior to the occurrence of such Casualty, or (ii) convey or assign to Purchaser, no later than the Closing Date, any insurance proceeds to which Sellers or their Affiliates may be entitled as a result of the subject Casualty and credit to Purchaser against the Purchase Price at the Closing the amount of any shortfall between such insurance proceeds so conveyed or assigned and the total amount of the estimates described above. If Sellers fail to obtain in a timely manner estimates from a reliable employee, adjuster, independent contractor and/or vendor under those circumstances where such are contemplated by this Section or if the estimates provided to Purchaser by Sellers pursuant to this Section are not reasonably acceptable to Purchaser, then

Purchaser may obtain such estimates itself and shall provide copies of same to Sellers immediately upon Purchaser receiving same. The cost of obtaining such estimates, if any, shall be borne by Purchaser.

6.21 Payment of Transfer Taxes; Recording Fees. Purchaser shall pay (or if paid or required to be paid by Sellers, reimburse Sellers for) all Taxes which are assessed or imposed with respect to the transfer of the Assets from Sellers to Purchaser, and all costs to record any deeds. Each Party shall cooperate with the other to take advantage of all applicable tax exemptions and provide applicable tax exemption certificates. Purchaser shall pay any title insurance premium due for any title insurance policies obtained by Purchaser and Seller shall pay for the costs of any title search fees and survey costs for searches and surveys initiated by Sellers.

6.22 Payment of Certain Expenses Due and Payable After the Effective Time; Cooperation.

(a) Purchaser shall pay, as and when due, all emissions fees, permit fees and utility bills due and payable after the Effective Time, and Sellers shall reimburse Purchaser within thirty (30) days after invoice for any amounts under such bills attributable to any period prior to the Effective Time. Purchaser shall pay, and be entitled to collect, any rents due subsequent to the Effective Time under leases which are assumed Leases, and Sellers shall either pay, or be entitled to receive from Purchaser, as the case may be, within thirty (30) days after invoice or notice, any amounts attributable to any period prior to and including the Effective Time.

(b) Purchaser shall file, or cause to be filed, all required reports and returns incident to all ad valorem taxes, real property taxes, personal property taxes and similar obligations, which reports and returns are due on or after the Effective Time and shall pay or cause to be paid to the taxing authorities all such taxes reflected on such reports or returns even if same are for periods prior to the Effective Time and Sellers shall reimburse Purchaser within thirty (30) days after invoice for any such taxes and similar obligations which are attributable to any period prior to the Effective Time; however, under no circumstances shall such reimbursement be greater than the result of (i) the pro-rated amount Sellers or their Affiliates would have paid if Sellers or their Affiliates had remained the owner of the Assets, less (ii) any liabilities attributable to the Assets which are paid by Sellers directly to any local Governmental Authority or school district.

(c) Sellers and Purchaser agree to cooperate with the other in the event one of them or their Affiliates are involved in a tax controversy concerning the Assets and the other has either records or personnel which may be of assistance to the Party engaged in the controversy. Sellers and Purchaser further agree that if, in such Party's view, such cooperation becomes an unreasonable financial burden, they will agree upon a reasonable method of reimbursement to the burdened Party.

(d) Purchaser shall pay the transfer tax or registration fee for all vehicles transferred to Purchaser as part of the Assets.

(e) If a Party hereto makes or has made any payment to a third party pursuant to any assigned Contract, Lease, agreement or commitment; and (i) such payment is made in respect of work performed, services provided or goods delivered during a period of time which includes the Effective Time; or (ii) the Effective Time intervenes between the making of such payment and the performance of the work or services or delivery of goods, the Parties will allocate the burden of such payment in a manner which reflects the relative benefit of such work performed, services provided or goods delivered to each Party; provided, however, it shall be presumed that any work performed, services provided or goods delivered prior to and including the Effective Time are for the benefit of Sellers and any work performed, services provided or goods delivered after the Effective Time are for the benefit of Purchaser.

6.23 Relationship of the Parties.

(a) Nothing in this Agreement or the other agreements contemplated hereby shall be construed to create any joint venture, partnership, agency or other similar fiduciary relationship between the parties hereto or thereto. The Parties and their Affiliates under this Agreement and the other agreements contemplated hereby are nothing other than independent contractors for the sale or purchase of specific property, goods or services. The Parties hereto acknowledge that, for purposes of this Agreement and the other agreements contemplated hereby, (i) none of the Parties or their Affiliates shall be considered to be the agent, representative, employee, master, or servant of the others for any purpose, (ii) none of the Parties or their Affiliates shall have any obligation to manage or operate any of their respective businesses with any duty or standard of care to the other Party or their Affiliates, and (iii) none of the Parties or their Affiliates have any authority, right or power to enter into a contract or commitment, assume any obligation or make any representation or warranty on behalf of the others (except as expressly specified in this Agreement or the other agreements contemplated hereby). The Parties agree and acknowledge that except as expressly provided herein or in the other agreements contemplated hereby, none of the Parties or their Affiliates shall owe duties, fiduciary or otherwise, to the other. The Parties and their Affiliates are, and will be after Closing, competitors with the right to pursue any business opportunity for their respective individual benefit and make no representation or warranty regarding the manner in which they will conduct their respective businesses and operations. None of the Parties or their Affiliates shall have any obligation to refrain from (i) engaging in the same or similar activities or lines of business as the Parties or their Affiliates, (ii) developing or marketing any products or services that compete, directly or indirectly with those Parties or their Affiliates, (iii) investing or owning any interest publicly or privately in, or developing a business relationship with, any Person engaged in the same or similar activities or lines of business as, or otherwise in direct or indirect competition with, the Parties or their Affiliates, or (iv) doing business with any client or customer of the Parties or their Affiliates. None of the Parties or their Affiliates shall have any obligation to offer any business opportunity and may modify or otherwise change any of their respective businesses or operations at any time.

6.24 Preparation of Audited Financial Statements. Sellers covenant and agree with Purchaser that Sellers will take such actions as are reasonable necessary to ensure audited consolidated financial statements of Sellers for the years ended 1999, 2000 and 2001 and unaudited consolidated financial statements of Sellers for the nine-month stub period ended

September 30, 2002 relating to the Assets (the "Audited Financial Statements") are made available to Purchaser as soon as practical after the execution of this Agreement. The Audited Financial Statements are to be prepared in accordance with GAAP, and all of the costs relating to the audit are to be paid by Purchaser.

6.25 Financing Covenants. Purchaser and Purchaser's Guarantor will use their commercially reasonable best efforts to secure the financing which is a condition for the Purchaser to perform its obligations hereunder as provided in Section 7.2(e). In this regard, Purchaser and Purchaser's Guarantor will take or cause to be taken all action that is reasonably required in order to comply with or satisfy the Financing Commitments. Additionally, unless Purchaser has the fully-committed financing and cash on hand to complete the purchase contemplated by this Agreement at Closing, between the date of signing of this Agreement and the Closing, Purchaser and Purchaser's Guarantor will not enter into any commitment or transaction which would limit, hinder or impair Purchaser's ability to consummate its purchase obligations hereunder. Purchaser and Purchaser's Guarantor will keep Sellers informed of any revisions, revocations, expirations, withdrawals or other changes in any of the Financing Commitments that Purchaser or Purchaser's Guarantor may receive and in the actions or prospects contemplated thereby. In the event that Purchaser or Purchaser's Guarantor intends to issue a press release relating to the financing described by this Section, Purchaser or Purchaser's Guarantor must first consult with and obtain Sellers' approval of such press release, which approval will not be unreasonably withheld.

6.26 Stockholder Approval of Issuance of Guarantor Common Stock. If stockholder approval is determined to be necessary under stock exchange rules applicable to Purchaser's Guarantor in connection with the issuance of shares of Guarantor Common Stock in lieu of a portion of the cash Purchase Price pursuant to Section 2.5, Purchaser's Guarantor, shall:

(a) at Closing, issue to Sellers (i) that number of shares of Guarantor Common Stock which it is permitted to issue without stockholder approval, and (ii) an exchangeable or convertible promissory note which will, upon receipt of such stockholder approval, be automatically exchanged for or converted into the number of shares of Guarantor Common Stock which, when added to the number of shares issued at Closing, would equal the total amount of Guarantor Common Stock which Sellers would have been entitled to receive at Closing but for the requirement to obtain stockholder approval;

(b) duly call, give notice of, convene and hold a special meeting of its stockholders promptly following a determination that stockholder approval is necessary for the purpose of considering and taking action upon a proposal to approve such action as may be necessary for the issuance of the shares of Guarantor Common Stock upon the exchange or conversion of such note;

(c) prepare and file with the Commission a preliminary proxy statement and use its commercially reasonable efforts (x) to obtain and furnish the information required to be included by the Commission in the definitive proxy statement, and, after consultation with the Sellers, to respond promptly to any comments made by the Commission with respect to the preliminary proxy statement and cause a definitive proxy statement to be mailed to its

stockholders and (y)to obtain the necessary approval of the necessary action by its stockholders; and

(d) include in the proxy statement the recommendation of its Board of Directors that stockholders of the Purchaser's Guarantor vote in favor of the approval of the stockholder proposal.

6.27 Listing of Guarantor Common Stock. Purchaser's Guarantor shall use its commercially reasonable best efforts to cause the shares of Guarantor Common Stock, if any, to be issued under this Agreement to be approved for listing on the New York Stock Exchange, subject to official notice of issuance.

ARTICLE VII
CONDITIONS

7.1 Conditions to Each Party's Obligation to Close. The respective obligations of each Party to be performed at the Closing shall be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

(a) Filings; Waiting Periods; Approvals. The waiting period applicable to the consummation of the transactions contemplated herein under the HSR Act shall have expired or been terminated and all filings required to be made prior to the Closing Date with, and all consents, approvals, permits, releases and authorizations required to be obtained prior to the Closing Date from, any Governmental Authority or other Person in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by Sellers and Purchaser shall have been made or obtained (as the case may be), except where the failure to obtain such consents, approvals, permits, releases and authorizations would not be reasonably likely to result in a Material Adverse Effect on Sellers' assets, taken as a whole, or the Business or to materially adversely affect the Closing or to be contrary to Applicable Laws.

(b) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition, including legislation, preventing the consummation of the transactions contemplated herein shall be in effect; provided, however, that prior to invoking this condition, each Party shall have complied fully with its obligations under Section 6.4 and, in addition, shall have used all reasonable efforts to have any such decree, ruling, injunction or order vacated, except as otherwise contemplated by this Agreement.

7.2 Conditions to Obligations of Purchaser. The obligations of Purchaser to be performed at the Closing are subject to the satisfaction of the following conditions, any or all of which may be waived in whole or in part by Purchaser:

(a) Representations and Warranties. The representations and warranties of Sellers and Sellers' Guarantor set forth in Article IV shall be true and correct in all material

respects (provided, that any such representation or warranty that is qualified by a materiality standard or a Material Adverse Effect qualification shall not be further qualified hereby as to materiality) as of the Closing Date as though made on and as of the Closing Date, and Purchaser shall have received a certificate signed by a Responsible Officer of Sellers and Sellers' Guarantor to such effect.

(b) Performance of Covenants and Agreements by Sellers. Sellers shall have performed in all material respects all covenants and agreements required to be performed by it under this Agreement on or prior to the Closing Date, and Purchaser shall have received a certificate signed by a Responsible Officer of Sellers to such effect.

(c) Deliveries. Sellers shall have delivered to Purchaser all of the documents required to be delivered by Sellers pursuant to Section 3.2(a) and the Audited Financial Statements required to be delivered by Sellers pursuant to Section 6.24.

(d) Required Consents and Authorizations. Sellers shall have received (and shall have furnished copies thereof to Purchaser) all consents and authorizations of third parties required to transfer the contracts between Sellers and FedEx Corporation, between Sellers and MILG&W, and relating to Sellers' rights in the Capline and Southcap pipelines; provided however, if such consents are not obtained, Sellers may elect to provide to Purchaser the economic benefit of such contracts until such consents are obtained. -

(e) Equity and Debt Financing. Purchaser shall have obtained, on terms and conditions reasonably satisfactory to it, all of the financing it needs, including but not limited to, the sale of equity securities, in order to consummate the transactions contemplated hereby and to fund the working capital needs of the Business after Closing. Purchaser's failure to obtain such financing will excuse Purchaser's obligation to be performed at Closing only if it has notified Sellers of its inability to obtain such financing not less than ten business days prior to Closing, which notification shall be accompanied by a notice from Purchaser's lead investment banker regarding its opinion as to the dollar amount of equity financing that is available to Purchaser at such time, and Sellers have not, within five business days after receipt of Purchaser's notice, notified Purchaser that Sellers will accept shares of Guarantor Common Stock as part of the Purchase Price, pursuant to its rights under Section 2.5, in sufficient number to provide the financing that Purchaser needs.

(f) Taking of Assets. In the event that prior to Closing there shall be instituted or threatened any proceeding or other action, including, without limitation, eminent domain, condemnation or other governmental proceeding, that results in a reasonable probability of Sellers or Purchaser (after Closing) losing any portion of or interest in the Assets, Sellers shall immediately notify Purchaser, and Purchaser, if such proceeding has a reasonable probability of a taking of Assets with a value in excess of Twenty-Five Million Dollars ($25,000,000), shall have the right to terminate this Agreement within ten (10) days from the date of such notice, by giving notice to Sellers of the election to terminate. If Purchaser is not entitled to or, if entitled, does not timely terminate this Agreement, then Sellers shall assign to Purchaser at Closing any rights Sellers may have to receive any payments (net of any expenses) as a result of any such proceeding or other action.

(g) Material Adverse Change. Prior to the Closing, there shall not have been any change (other than changes affecting the economy generally or affecting the petroleum industry, including refining, marketing, transportation, terminaling and trading) that individually or in any combination thereof result in adverse effect in excess of Twenty-Five Million Dollars ($25,000,000.00) with respect to the value of any of the Assets (for the types of purposes to which the same have been or could lawfully have been devoted at any time during the six (6) month period immediately prior to the date of this Agreement). In the event of such material adverse change, the Parties agree that Sellers shall have the right, but not the obligation, to correct or cure any the material adverse change at its sole option and cost prior to Closing. In addition, Sellers shall have the right, but not the obligation, to extend the Closing Date for up to thirty (30) days within which to use reasonable business efforts to cure or correct any such material adverse change.

7.3 Conditions to Obligation of Sellers. The obligations of Sellers to be performed at the Closing are subject to the satisfaction of the following conditions, any or all of which may be waived in whole or in part by Sellers:

(a) Representations and Warranties. The representations and warranties of Purchaser and Purchaser's Guarantor set forth in Article V shall be true and correct in all material respects (provided, that any such representation or warranty that is qualified by a materiality standard or a Material Adverse Effect qualification shall not be further qualified hereby as to materiality) as of the Closing Date as though made on and as of the Closing Date, and Sellers shall have received a certificate signed by a Responsible Officer of each of Purchaser and Purchaser's Guarantor to such effect.

(b) Performance of Covenants and Agreements by Purchaser and Purchaser's Guarantor. Purchaser and Purchaser's Guarantor shall have performed in all material respects all covenants and agreements required to be performed by them under this Agreement on or prior to the Closing Date, and Sellers shall have received a certificate signed by a Responsible Officer of Purchaser and Purchaser's Guarantor to such effect.

(c) Deliveries. Purchaser and Purchaser's Guarantor shall have delivered to Sellers all of the documents required to be delivered pursuant to Section 3.2(c) and (d), respectively.

ARTICLE VIII
TERMINATION

8.1 Termination Rights. This Agreement may be terminated at any time prior to the Closing Date:

(a) By mutual written consent of Purchaser and Sellers;

(b) By either Sellers or Purchaser if any Governmental Authority shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Closing and such order, decree, ruling or other action shall have become final and nonappealable (provided, however, that the right to terminate this Agreement pursuant to this Section 8.1(b) shall not be available to any Party until such Party has used all reasonable efforts to remove such injunction, order, decree or ruling);

(c) By Purchaser if (i) there has been a breach of the representations and warranties made by Sellers or Sellers' Guarantor in Article IV that results in a Material Adverse Effect as to Sellers (provided, however, that Purchaser shall not be entitled to terminate this Agreement pursuant to this clause (i) unless Purchaser has given Sellers at least 30 days prior notice of such breach, Sellers has failed to cure such breach within such 30-day period, and the condition described in Section 7.2(a), other than the provision thereof relating to the certificate signed by a Responsible Officer of Sellers, would not be satisfied if the Closing were to occur on the day on which Purchaser gives Sellers notice of such termination); or (ii) Sellers has failed to comply in any material respect with any of its covenants or agreements contained in this Agreement, and such failure has not been, or cannot be, cured within a reasonable time after notice and a demand for cure thereof; or

(d) By Sellers if (i) the Closing has not occurred by March 31, 2003 (provided, however, that the right to terminate this Agreement pursuant to this clause (i) shall not be available to Sellers if Sellers' breach of any representation or warranty or failure to perform any covenant or agreement under this Agreement has been the cause of or resulted in the failure of the Closing to occur on or before such date); (ii) there has been a breach of the representations and warranties made by Purchaser or Purchaser's Guarantor in Article V that results in a Material Adverse Effect as to the Purchaser or Purchaser's Guarantor (provided, however, that Sellers shall not be entitled to terminate this Agreement pursuant to this clause (ii) unless Sellers have given Purchaser at least 30 days prior notice of such breach, Purchaser has failed to cure such breach within such 30-day period, and the condition described in Section 7.3(a), other than the provision thereof relating to the certificate signed by a Responsible Officer of Purchaser, would not be satisfied if the Closing were to occur on the day on which Sellers gives Purchaser notice of such termination); (iii) Purchaser has failed to comply in any material respect with any of its covenants or agreements contained in this Agreement, and such failure has not been, or cannot be, cured within a reasonable time after notice and a demand for cure thereof; or (iv) the Purchaser has not effected the financing contemplated by Section 7.2(e).

8.2 Effect of Termination. Except as otherwise provided, if this Agreement is terminated by either Sellers or Purchaser pursuant to the provisions of Section 8.1, this Agreement shall forthwith become void except for, and there shall be no further obligation under this Agreement on the part of either Party or its respective Affiliates, directors, officers, or stockholders except pursuant to, the provisions of Sections 6.3(d), 6.3(f) and 6.6 and Article X (which shall continue pursuant to their terms); provided, however, that a termination of this Agreement shall not relieve either Party from any liability for damages incurred as a result of a breach by such Party of its representations, warranties, covenants, agreements or other obligations hereunder occurring prior to such termination (including without limitation, Sellers' and Purchaser's rights to liquidated damages in certain events as provided in Section 11.7 below).

ARTICLE IX
INDEMNIFICATION AND THIRD PARTY CLAIMS

9.1 Indemnification.

(a) Each of Sellers and Purchaser (each an "Indemnifying Party") hereby agrees to be responsible for, pay for and indemnify, defend and hold harmless the other Party, and its directors, officers, manager, owners, shareholders, employees and Affiliates (hereinafter, collectively, "related persons"), from and against any and all Claims (as that term is defined below in Section 9.1(d)) asserted against, resulting to, imposed upon or incurred by such other Party or such other Party's related persons (each an "Indemnified Person"), relating to, arising from or resulting from:

(i) the inaccuracy or breach of any representation or warranty of the Indemnifying Party contained in or made pursuant to this Agreement, other than Section 4.12 (concerning Environmental Matters) which is covered by a separate indemnity set forth in Section 9.4 or any certificate delivered pursuant to this Agreement; and

(ii) the breach of any covenant or agreement of the Indemnifying Party contained in or made pursuant to this Agreement.

(b) Purchaser shall be responsible for, shall pay for and shall indemnify, defend, and hold Sellers and their related persons harmless from and against, any and all Claims:

(i) relating to, arising from or resulting from all environmental matters that are not covered by Sellers' indemnity in Section 9.4 (excluding anything for which Sellers would have been otherwise obligated to indemnify Purchaser but for the Sellers' limitations on its indemnification obligations described in Sections 9.4(c)(iii) and 9.7) and from the ownership or operation of the Assets from and after Effective Time; and

(ii) relating to, arising from or resulting from its obligations under the provisions of Section 6.9 of this Agreement.

(c) Sellers shall be responsible for, shall pay for and shall indemnify, defend, and hold Purchaser and its related persons harmless from and against, any and all Claims:

(i) relating to, arising from or resulting from the ownership or operation of the Assets prior to the Effective Time except for Claims which are specifically addressed by the provisions of Section 9.4, which Claims shall be governed by that section; and

(ii) relating to, arising from or resulting from their obligations under the provisions of Section 6.9 of this Agreement.

(d) As used in this Article IX, the term "Claim" shall include (x) all debts, liabilities and obligations; (y) all losses, damages, costs and expenses, including pre- and post-judgment interest, penalties, fines, court costs and attorneys' fees and expenses; and (z) all demands, claims, actions, costs of investigation, causes of action, proceedings, arbitrations, controversy judgments, settlements and assessments, whether or not ultimately determined to be valid and whether based on contract, tort, statute, strict liability, negligent acts or omissions or other legal or equitable theory.

9.2 Defense of Third Party Claims. In the event any Claim is asserted against any Indemnified Person by a third party, the Indemnified Person shall, with reasonable promptness, notify the Indemnifying Party of such Claim. If the Indemnified Person does not so notify the Indemnifying Party within 30 days after becoming aware of such Claim, then the Indemnifying Party shall, if such delay materially prejudices the Indemnifying Party with respect to the defense of such Claim, be relieved of liability hereunder in respect of such Claim only to the extent of the damage caused by such delay. Within fifteen (15) days of the receipt of a notice of a Claim, the Indemnifying Party shall notify the Indemnified Party whether the Indemnifying Party elects to defend such Claim. In any such proceeding, following receipt of notice properly given, the Indemnifying Party shall be entitled, at its sole discretion, to assume the entire defense of such Claim (with counsel selected by it which is reasonably satisfactory to the Indemnified Person or Persons), and the Indemnifying Party shall bear the entire cost of defending such Claim; provided that if, in the Indemnified Party's and the Indemnifying Party's reasonable judgment, a conflict of interest exists between the Indemnified Party and the Indemnifying Party with respect to such Claim, or if the Indemnifying Party elects not to defend such Claim, or if the Indemnifying Party fails to notify the Indemnified Party within the fifteen (15) day notice period that it elects to defend such Claim, such Indemnified Party shall be entitled to select counsel of its own choosing, in which event the Indemnifying Party shall be obligated to pay the reasonable fees and expenses of such counsel to the extent that the Indemnifying Party is finally determined to be obligated to indemnify the Indemnified Party under this Agreement. The Indemnifying Party shall not have the right to settle any such Claim without the written consent of the Indemnified Person or Persons, which consent shall not be unreasonably withheld; provided that the Indemnifying Party shall not enter into any such settlement, compromise or judgment without the prior written consent of the Indemnified Party if it would result in the imposition of any non-monetary liability or obligation on the Indemnified Party. In the event of the assumption of the defense by the Indemnifying Party, the Indemnifying Party shall not be liable for any further legal or other expenses subsequently incurred by the Indemnified Persons in connection with such defense unless otherwise agreed to in writing by the Indemnifying Party or as herein provided; provided, however, the Indemnified Persons shall have the right to participate in such defense, at their own cost, and shall have the obligation to cooperate therewith. If the Indemnifying Party refuses or fails at any time to defend the Indemnified Party against any Claim, the Indemnified Party shall have the right to undertake the defense, and to compromise or settle such Claim on behalf of and for the account and at the risk of the Indemnifying Party to the extent that the Indemnifying Party is finally determined to be obligated to indemnify the Indemnified Party under this Agreement with respect to such Claim.

9.3 Limits on Indemnity Obligations. The indemnity obligations of the Parties under this Article IX, except for those under Sections 9.4 through 9.6 (which are subject to the restrictions and limitations stated in those sections) unless otherwise specifically stated in this Section 9.3, are subject to the following restrictions and limitations:

(a) No Indemnified Person shall be entitled to seek indemnification from any Indemnifying Party with respect to any Claim under Section 9.1(a)(i) unless such Indemnified Person notifies such Indemnifying Party of such Claim within the survival period set forth in Section 9.7.

(b) No individual Claim of the Purchaser or any of its related persons under Section 9.1 shall be made for indemnification hereunder unless it exceeds an amount equal to $150,000 (`Purchaser Claims"). Furthermore, if the total amount of all Purchaser Claims (exclusive of Purchaser Claims covered by Section 9.4), including the immediately preceding sentence, does not exceed an amount equal to $5,000,000 (the "Deductible"), then Sellers shall have no obligation under this Article IX with respect to any such Claim. If the total amount of all Purchaser Claims exceeds the Deductible, then Sellers' obligations under this Article IX shall be limited to the amount by which the aggregate amount of all Purchaser Claims exceeds the Deductible.

(c) Sellers' obligations under this Article IX (excluding any amounts it is required to pay under Section 9.4) shall be limited to an aggregate maximum amount of $50,000,000 (the "Ceiling").

(d) Except as otherwise specifically provided in this Agreement, in the absence of fraud, the sole and exclusive remedy of both Purchaser and Sellers hereunder or otherwise in connection with Claims for matters covered in Section 9.1 shall be restricted to the rights set forth in this Article IX, excluding, however, any cause of action for specific performance.

(e) No Claims shall be recoverable by an Indemnified Person with respect to any matter which is covered by insurance or a third party indemnitor, to the extent that proceeds of such insurance or other third party indemnitor are paid net of any costs incurred in connection with the collection thereof (including, but not limited to, present, retrospective or future premiums, self-insured retention amounts, deductibles, legal and administrative costs and costs of investigations); and an Indemnified Person, hereby agrees to exhaust all reasonable remedies against all applicable insurers or indemnitors prior to recovering any amounts hereunder. All Claims shall be reduced by any tax savings to be realized by the Indemnified Person in connection with such matter.

9.4 Environmental Indemnity

(a) Sellers shall indemnify, defend and hold harmless Purchaser and its related parties from and against any Claims suffered or incurred by Purchaser solely (i) as a consequence of a breach of the representations and warranties contained in Section 4.12; (ii) as a consequence of any Claims for environmental liabilities known to Sellers before Closing but not disclosed in the Disclosure Schedule; and (iii) as a consequence of any Claims for environmental liabilities not known to Sellers prior to Closing. Notwithstanding anything in the preceding sentence to the

contrary, Sellers' environmental indemnities shall not apply to Claims suffered or incurred by Purchaser arising out of any EPA Section 114 proceedings or actions relating to the Assets, including such proceedings or actions as may arise with respect to all scheduled environmental liabilities or with respect to environmental liabilities not known to Sellers before Closing ("Purchaser's Section 114 Environmental Obligations"). With respect to all environmental liabilities not known to Sellers prior to the Closing, Purchaser understands and acknowledges that Sellers have purchased the Environmental Insurance Policy naming the Purchaser as an additional insured and that Purchaser has agreed to comply with the terms of the Environmental Insurance Policy as a condition to Sellers' indemnity obligations under this Section 9.4. Purchaser shall assume, and indemnify Sellers and their related parties from and against, all environmental liabilities described on the Disclosure Schedule and Purchaser's Section 114 Environmental Obligations.

(b) Sellers' obligation with respect to Claims by Purchaser for the matters addressed in Section 9.4(a) shall be limited to those matters as to which Purchaser provides Sellers with written notice (such notice to conform with other relevant provisions of this Agreement and to contain, to the extent available, reasonable details of the claim for which indemnity is sought) of said claim within seven (7) years after the Closing Date. Sellers' obligations with regards to Claims by Purchaser for environmental liabilities not known to Sellers prior to Closing shall be conditioned upon Purchaser's compliance with the terms of the Environmental Insurance Policy.

(c) With respect to Claims by Purchaser relating to matters that are described by Section 9.4(a):

(i) Sellers shall only be required to defend, indemnify and hold harmless Purchaser and its Indemnified Person (each a "Purchaser Indemnified Person") to the extent that: (A) investigation, containment or remediation of the Hazardous Material is required pursuant to an applicable Environmental Law that is in effect as of and is enforceable as of the Closing Date and is of the type required by any Governmental Authority at the time of Closing; (B) the Remediation Standards (as defined in Section 9.4(f)) that must be met in order to satisfy the requirements of the applicable Environmental Law are no more stringent than the Remediation Standards that (i) were in effect as of and were enforceable as of the Closing Date under the applicable Environmental Law that is the source of the obligation to conduct a remediation, or, where no such Remediation Standards had been promulgated and were enforceable as of the Closing Date, Remediation Standards that were applied, within one year prior to the Closing Date, on a case-by-case basis, to properties that are most similar to the property that is subject to a remediation and would be the least stringent Remediation Standards, taking into account that the normal operating condition at the affected facility shall be maintained at all times, that would be applicable given the use of the property as of the day before the Closing Date or as required by any Governmental Authority; and (C) such investigation and/or remediation is conducted using the most cost-effective methods, taking into account that the normal operating condition at the affected facility shall be maintained at all times, for investigation, remediation and/or containment consistent with applicable Environmental Law. If Sellers are undertaking remedial action, Sellers shall not be responsible for any effect the remediation has upon the business or operations of Purchaser (including,

without limitation, business interruptions or lost profits); however, Sellers agree to use commercially reasonable efforts to avoid or minimize any business interruption.

(ii) If the costs of an investigation or remediation at any of the Real Property that is subject to an indemnity by Sellers hereunder are increased due to an act or omission (after the Closing) by a person other than Sellers, or an Affiliate of Sellers, Sellers shall not be responsible for any such increase in costs incurred. Sellers shall not be responsible for any increased costs or increased Claims by Purchaser under this subsection to the extent they arise by reason of (A) the voluntary closure of Operations at any Real Property or (B) a material change in use of any of said property from the use of said property as of the Closing.

(iii) Notwithstanding anything to the contrary herein, Sellers shall not have any obligation in connection with this Section 9.4 unless each individual Claim exceeds $50,000, regardless of whether such Claim is covered by the Environmental Insurance Policy. In no event will Sellers be liable under this Section 9.4 for an aggregate amount exceeding $50,000,000 in excess of the amounts of Environmental Claims and Losses paid or provided under the Environmental Insurance Policy described in Section 6.11.

(d) Notwithstanding anything to the contrary herein, with respect to claims arising pursuant to 9.4, Seller shall not be obligated to indemnify Purchaser Indemnified Persons for the costs and expenses associated with Purchaser Indemnified Persons' overseeing of Sellers' performance of its defense and indemnity obligations, including, but not limited to, the costs and expenses of overseeing of Sellers' legal counsel, consultants, or employees, and Sellers shall not be obligated to indemnify Purchaser Indemnified Parties for any costs or expenses of Purchaser Indemnified Parties for management and employee time costs.

(e) To the extent that Purchaser Indemnified Persons make a claim, pursuant to Section 9.1, for breach of the representations and warranties set forth in Section 4.12, the provisions of this 9.4 shall be applicable to such claim. Claims brought pursuant to this 9.4 shall be subject to the procedures for indemnification set forth in Section 9.2 if such claims are third party claims.

(f) For purposes of this Agreement, the term "Remediation Standard" means a numerical standard (whether resulting from an enacted statute, promulgated regulation, guidance or policy document issued by a regulatory agency, or developed on a case-by-case basis through a risk assessment or other methodology authorized pursuant to an applicable Environmental Law and acceptable to the Governmental Authority) that defines the concentrations of Hazardous Material that may be permitted to remain in any environmental media after an investigation, remediation or containment of a release of Hazardous Material.

9.5 Exclusive Remedy for Environmental Matters; Indemnification by Purchaser. Notwithstanding anything to the contrary in this Agreement, Purchaser Indemnified Persons hereby agree that their sole and exclusive remedy against Sellers and its related persons, with respect to any and all matters arising under or related to Environmental Law or Hazardous Material (with respect to the Business), Sellers (with respect to the Business), and the Real Property, shall be the indemnity set forth in 9.4. Except with respect to the remedy referred to in

the preceding sentence, the Purchaser Indemnified Persons hereby waive, to the fullest extent permitted under applicable law, and forever release Sellers and (with respect to the Business), the Real Property, from, any and all Purchaser Claims arising under Environmental Laws or relating to Hazardous Material or the environment.

9.6 Environmental Fines and Penalties. Without limitation as to time, Sellers shall indemnify, defend and hold harmless Purchaser and its related parties from and against any Claims suffered or incurred by Purchaser solely as a consequence of any fines or penalties accessed against Purchaser that result from Sellers' operation of the Business or ownership of the Assets prior to Closing; provided, however, that Purchaser will notify Sellers of all EPA Section 114 and other Governmental Authority actions, proceedings, meetings and notices relating to the Assets and involving pre-Closing environmental matters that might reasonably lead to any fines or penalties upon Sellers, and shall endeavor in good faith to facilitate Sellers' participation therein.

9.7 Survival. The representations, warranties and covenants made in this Agreement or in any certificate or instrument delivered in connection herewith and the concomitant indemnities relating thereto shall survive the Closing and continue to be applicable and binding thereafter for a period of three (3) years after the Closing Date (except for the representations and warranties contained in Sections 4.8 and 4.10, and the related indemnities, which shall survive for a period of five (5) years after the Closing Date and for the representations and warranties contained in Section 4.12 and the indemnities related thereto which shall survive for a period of seven (7) years after the Closing Date), at which time the same shall terminate and be extinguished.

ARTICLE X
REGISTRATION RIGHTS

10.1 Registration Rights. In the event that Sellers elects to accept shares of the Guarantor Common Stock as part of the Purchase Price pursuant to Section 2.5, Sellers shall have the following rights:

(a) As used in this Section 10.1, the following terms have the meanings set forth below:

"Commission" means the United States Securities and Exchange Commission.

"Demand Registration Statement" means a registration statement on Form S-1 or S-3 filed with the Commission under the Securities Act.

"Disadvantageous Condition" has the meaning set forth in Section 10.1(b)(iii).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Holders" means the Sellers or any Person who becomes a holder of Subject Securities after the Closing Date as a result of a No-Sale Transaction.

"No-Sale Transaction" means a transfer from a Holder of Subject Securities that does not constitute a "sale" (as such term is understood and defined under the Securities Act), including without limitation a distribution from a Holder that is a corporation, partnership, joint venture, limited liability company, association or trust to the owner of a beneficial interest in such Holder, provided, however, that in any such transaction the recipient must be able to tack the holding period to that of the Holder.

"Guarantor Common Stock" means the shares of common stock, par value $_per share, of Purchaser's Guarantor.

"Piggy-back Registration" has the meaning set forth in Section 10.1(g)(i).

"Registration Expenses" has the meaning set forth in Section 10.1(e).

"Registration Termination Date" means the second anniversary of the date when the Commission first declares the Demand Registration Statement effective; provided, however that the Registration Termination Date shall be extended for a period equal to the aggregate period or periods during which the Holders have been precluded from selling any Subject Securities under subparagraph (b)(iii) by reason of receipt of a Suspension Notice. Notwithstanding anything to the contrary, the Registration Termination Date shall occur at such earlier date as the Subject Securities become freely transferable on the public market without any restrictions or limitations pursuant to Rule 144(k) promulgated by the Commission or has been sold in compliance with the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

"Subject Securities" means the shares of Guarantor Common Stock issued as part of the Purchase Price pursuant to Section 2.5, and any common stock or other security issued or issuable as a dividend or other distribution with respect to, or in exchange for, or upon conversion or in replacement of, any of such Guarantor Common Stock; provided, however, that a security is not a Subject Security after (i) it has been effectively registered and disposed of under the Securities Act, (ii) it has been publicly sold pursuant to Rule 144 (or any similar provisions then in force) under the Securities Act, or (iii) it is capable of being disposed of without volume restrictions pursuant to Rule 144(k) (or any similar provisions then in force) under the Securities Act..

"Suspension Notice" has the meaning set forth in Section 10.1(b)(iii).

(b) (i) If the Subject Securities are issued pursuant to Section 2.5, as promptly as practicable after receipt of a written request by the Holders of at least 25% of the Subject Securities (but in no event more than 30 days thereafter, subject to Purchaser's Guarantor's right to extend such time in the event that there exists any Disadvantageous Condition which would permit Purchaser's Guarantor to issue a Suspension Notice if the Demand Registration Statement were already effective), Purchaser's Guarantor will, on up to three (3) occasions, prepare and file

with the Commission a Demand Registration Statement for the purpose of registering the resale in the market from time to time of the Subject Securities by Holders or by potential assignees of such Holders to which all or a portion of such Holders' Subject Securities may be transferred in a No-Sale Transaction.

(ii) Purchaser's Guarantor will use its reasonable efforts to have the Demand Registration Statement declared effective by the Commission as promptly as practicable and thereafter to maintain the effectiveness of the Demand Registration Statement and, subject to subparagraph (iv) below, to maintain such Demand Registration Statement "current" (as below defined) at all times until the Registration Termination Date. Purchaser's Guarantor shall promptly give written notice to the Holders when the Registration Statement has been declared effective by the Commission and is available for use by Holders for the resale of Subject Securities.

(iii) If the Holders initiating the registration request hereunder ("Initiating Holders") intend to distribute the Subject Securities covered by their request by means of an underwriting, they shall so advise Purchaser's Guarantor as a part of their request made pursuant to subsection 10. 1(b)(i). The managing underwriter will be selected by the Initiating Holders and shall be reasonably acceptable to Purchaser's Guarantor. In such event, the right of any Holder to include its Subject Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Subject Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with Purchaser's Guarantor) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting; provided, however, that no Holder (or any of their Permitted Transferees) shall be required to make any representations, warranties or indemnities except as they relate to such Holder's ownership of shares and authority to enter into the underwriting agreement and to such Holder's intended method of distribution and as otherwise may be required by applicable law or regulation. In addition, to the extent requested by the Holders or the managing underwriter, Purchaser's Guarantor will conduct and engage in the marketing activities normally or typically engaged in by an issuer in connection with an underwritten offering of its securities.

(iv) The Demand Registration Statement shall not be considered to be "current" at any time when, by reason of occurrence of any event or by reason of the passage of time, the Demand Registration Statement does not meet the requirements of Section 10, Section 12(2) or Section 17 of the Securities Act, or the Demand Registration Statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Demand Registration Statement shall disclose that Holders may elect to resell Subject Securities without registration of such sales under the Demand Registration Statement, by making such sales under and as permitted by Rules 144 or 145, as applicable, of the Commission under the Securities Act. If at any time or times after the Demand Registration Statement is declared effective by the Commission, Purchaser's Guarantor's Board of Directors determines that the offering of Guarantor Common Stock under the Demand Registration Statement would be adversely affect or impact Purchaser's Guarantor's ability to negotiate or complete a material financing, merger, acquisition or other material

transaction or event involving Purchaser's Guarantor or its subsidiaries that has not been publicly disclosed or the unavailability of any required financial statements for reasons substantially beyond the control of the Purchaser's Guarantor, (a "Disadvantageous Condition"), Purchaser's Guarantor shall be entitled to either suspend the effectiveness of the Demand Registration Statement with the Commission or suspend the availability of the Demand Registration for resales of Subject Securities by Holders, or may take both such actions, and shall promptly notify all Holders thereof by delivery of written notice (a "Suspension Notice"); provided, however, that Purchaser's Guarantor's obligation to maintain the Demand Registration Statement current under this Section 10.1(b) shall not be suspended by reason of Purchaser's Guarantor's failure to disclose information at a time when public disclosure of such information is required by law. Upon receipt of a Suspension Notice, Holders shall immediately discontinue the use of the Demand Registration Statement for any purpose until notified by Purchaser's Guarantor that the Demand Registration Statement is current and available for use by Holders for sales of Subject Securities. Purchaser's Guarantor shall not be entitled to suspend the effectiveness of the Demand Registration Statement for more than 60 consecutive days or an aggregate of 120 days within any twelve-month period and no subsequent suspension period shall occur unless at least 90 days have elapsed during which Sellers can utilize the Registration Statement. As promptly as practicable after the public disclosure of such Disadvantageous Condition or the Purchaser's Guarantor determines that the Disadvantageous Condition no longer exists, Purchaser's Guarantor shall amend or supplement the Demand Registration Statement to the extent necessary to make the Demand Registration Statement current, and shall give prompt written notice to all Holders when the Demand Registration Statement is again available for resales of Subject Securities.

(v) If Purchaser's Guarantor should undertake an underwritten public offering of its shares either after the Demand Registration Statement has been declared effective or prior to the consummation of the transactions contemplated by this Agreement, Sellers shall, upon the request of the managing underwriter of such offering, agree and commit, and it does hereby agree and commit, that it will not effect any public sale or distribution, directly or indirectly, or make any offer to sell, contract to sell (including without limitation any short sale), grant any option to purchase or otherwise transfer or dispose (including sales pursuant to Rule 144) of any of the Subject Securities, other than those which are included in a Piggy-Back Registration, during a period of seven days prior to and up to 180 days after the closing of such public offering without the consent of the managing underwriter. This restriction shall not apply to the offer and sale of any Subject Securities which may be covered by the registration statement covering such public offering.

(vi) Purchaser's Guarantor shall promptly notify all Holders of Subject Securities of, and confirm in writing, the issuance by the Commission of any stop order suspending the effectiveness of the Demand Registration Statement or the initiation of any proceedings for that purpose. Purchaser's Guarantor shall use its reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of the Demand Registration Statement at the earliest possible time.

(vii) Purchaser's Guarantor will cause all of the Subject Securities to be listed on each securities exchange on which similar securities issued by Purchaser's Guarantor are then listed no later than the effective date of the Demand Registration Statement or Piggy-Back Registration, as the case may be.

(c) Purchaser's Guarantor will indemnify and hold harmless each Holder, each of such Holder's officers, directors, partners, or members, as the case may be, and each Person controlling such Holder, with respect to which registration or qualification of Subject Securities has been effected pursuant to this Section 10.1 against all claims, losses, damages, and liabilities, joint or several (or actions in respect thereof), arising out of or based upon any untrue statement (or alleged untrue statement) of a material fact contained in the Demand Registration Statement or Piggy-Back Registration, as the case may be, prospectus, or offering circular, or in any document incorporated by reference in any of the foregoing, or arising out of or based upon any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by Purchaser's Guarantor of any rule or regulation promulgated under the Securities Act applicable to Purchaser's Guarantor and relating to action or inaction required of Purchaser's Guarantor in connection with the Demand Registration or Piggy-Back Registration, as the case may be and will promptly reimburse Holder and, each of such Holder's officers, directors, partners, or members, as the case may be, and each Person controlling such Holder, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claims, loss, damage, liability or action; PROVIDED, however, that Purchaser's Guarantor will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based upon any untrue statement or omission based upon written information furnished to Purchaser's Guarantor by such Holder specifically for inclusion in any such registration statement, prospectus or offering circular. The obligations of Purchaser's Guarantor under the foregoing indemnity agreement shall survive the completion of the offering of Subject Securities under the Demand Registration Statement or Piggy-Back Registration, as the case may be.

(d) Each Holder with respect to which registration or qualification of Subject Securities has been effected pursuant to this Section 10.1 will indemnify and hold harmless Purchaser's Guarantor, each of Purchaser's Guarantor's officers, directors, and each Person controlling Purchaser's Guarantor, against all claims, losses, damages, and liabilities, joint or several (or actions in respect thereof), arising out of or based upon any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, or offering circular, or in any document incorporated by reference in any of the foregoing, or arising out of or based upon any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by such Holder of any rule or regulation promulgated under the Securities Act or Exchange Act applicable to such Holder and relating to action or inaction required of such Holder in connection with any such registration or qualification, and will promptly reimburse Purchaser's Guarantor, each of Purchaser's Guarantor's officers, directors, and each Person controlling Purchaser's Guarantor, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claims, loss, damage, liability or action; PROVIDED, however, that such Holder will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense does not arise out of or is not based upon any untrue statement or omission based upon written information furnished by such Holder specifically for inclusion in any such registration statement, prospectus or offering circular. The

obligations of Holders under the foregoing indemnity agreement shall survive the completion of the offering of Subject Securities under any registration statement provided for in this Section 10.1. Notwithstanding the foregoing, in no event shall any selling Holder be liable for an amount in excess of the proceeds from the sale of the Subject Securities realized by such Holder. Each Holder shall furnish in writing all information to the Purchaser's Guarantor concerning itself and its holdings of securities of the Purchaser's Guarantor as shall be required in connection with the preparation and filing of any Registration Statement covering any Subject Securities.

(e) All expenses incident to Purchaser's Guarantor's performance of or compliance with this Section 10.1, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Subject Securities), rating agency fees, printing expenses, messenger and delivery expenses, internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the fees and expenses incurred in connection with the listing of the securities to be registered on the New York Stock Exchange and all securities exchanges on which similar securities issued by Purchaser's Guarantor are then quoted or listed, the fees and disbursements of counsel for Purchaser's Guarantor and its independent certified public accountants (including the expense of any special audit or comfort letters required by or incident to such performance), securities act liability insurance (if Purchaser's Guarantor elects to obtain such insurance), the fees and expenses of any special experts retained by Purchaser's Guarantor in connection with such registration, and fees and expenses of other Persons retained by Purchaser's Guarantor, in connection with each registration hereunder (but not including discounts, commissions, fees or expenses payable to underwriters that are attributable to the Subject Securities offered on behalf of the Selling Holder or to fees and expenses of counsel to the Selling Holder) (collectively, the "Registration Expenses") will be borne by Purchaser's Guarantor.

(f) Purchaser's Guarantor will also take such action as may be required to be taken under applicable blue sky laws in connection with the issuance of Guarantor Common Stock pursuant to this Agreement and in connection with resale of Subject Securities by Holders pursuant to the Demand Registration Statement; PROVIDED that Purchaser's Guarantor will not be required to become qualified as a foreign corporation in any jurisdiction.

(g) (i) If, at any time during the period ending on the second anniversary of the date of this Agreement, the Purchaser's Guarantor proposes to file a registration statement under the 1933 Act with respect to an offering by the Purchaser's Guarantor for its own account or for the account of any other Person of any class of equity security, including any security convertible into or exchangeable for any equity security (other than a registration statement on Forms S-4 or S-8 (or their successor forms) or filed in connection with an exchange offer or an offering of securities solely to the Purchaser's Guarantor's existing stockholders, and other than as set forth in (ii) below), then the Purchaser's Guarantor shall in each case give written notice of such proposed filing to the Holders of the Subject Securities at least twenty days before the anticipated filing date, and such notice shall offer such Holders the opportunity to register such number of Subject Securities as each such Holder may request (a "Piggy-back Registration"). Purchaser's Guarantor shall use reasonable efforts to cause the managing underwriter or

underwriters of a proposed underwritten offering to permit the Holders of Subject Securities requested to be included within such 20 days in the registration for such offering to include such securities in such offering on the same terms and conditions as any similar securities of the Purchaser's Guarantor included therein. Notwithstanding the foregoing, if the managing underwriter or underwriters of such offering advises to the Holders of Subject Securities that the total amount of securities which they and any other Persons (other than the Purchaser's Guarantor) intend to include in such offering is sufficiently large to materially and adversely affect the success of such offering, then the amount of Subject Securities to be offered in such event shall be allocated first to the person on whose behalf the Registration Statement has been filed, and then, to the extent that any additional securities can, in the opinion of such managing underwriter or underwriters, be sold without any such material adverse affect, pro rata among the Holders of Subject Securities and all other selling stockholders named or proposed to be named in the Piggy-Back Registration on the basis of the number of outstanding shares of Purchaser's Guarantor common stock requested to be included in such registration by each such Holder and other selling stockholder to the amount recommended by such managing underwriter.

(ii) Notwithstanding anything to the contrary contained in this Agreement, the Purchaser's Guarantor shall not be required to include Subject Securities in any registration statement if the proposed registration is (A)a registration of a stock option or other employee incentive compensation or employee benefit plan or of securities issued or issuable pursuant to any such plan, or a registration statement relating to warrants, options or shares of capital stock granted or to be granted or sold primarily to employees, directors or officers of the Purchaser's Guarantor, (B) a registration of securities issued or issuable pursuant to a stockholder reinvestment plan or other similar plan, (C) a registration of securities issued in exchange for any securities or any assets of, or in connection with a merger or consolidation with, an unaffiliated Purchaser's Guarantor, (D) a registration of securities pursuant to a "rights" or other similar plan designed to protect the Purchaser's Guarantor's stockholders from a coercive or other attempt to cause a change in control of Purchaser's Guarantor, (E) registration of securities filed pursuant to Rule 145 under the 1933 Act or any successor rule, or (F) a registration of securities issued in connection with any debt or preferred stock financing of Purchaser's Guarantor.

(iii) The Purchaser's Guarantor may withdraw any registration statement and abandon any proposed offering initiated by the Purchaser's Guarantor without the consent of any Holder of Subject Securities, notwithstanding the request of any such Holder to participate therein in accordance with this provision, if the Purchaser's Guarantor determines in its sole discretion that such action is in the best interests of the Purchaser's Guarantor and its stockholders (for this purpose, the interest of the Holders shall not be considered).

ARTICLE XI
DISPUTES

11.1 Dispute Resolution. Any controversy, claim or dispute ("Dispute"), whether based on contract, tort, statute or other legal or equitable theory (including but not limited to any claim of fraud, misrepresentation or fraudulent inducement or any question of validity or effect of this Agreement including this section) arising out of or related to this Agreement (including any amendments or extensions), or the breach or termination thereof, shall be settled

consultations between the Parties initiated upon the written notice of any Party. In the event of failure of such consultations to settle such Dispute in a manner acceptable to all Parties within thirty (30) days following such written notice, then such Dispute shall be settled by binding arbitration in accordance with this provision and the then current CPR Institute for Dispute Resolution Rules for Non-Administered Arbitration of Business Disputes. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, to the exclusion of any provision of state law inconsistent therewith or which would produce a different result, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction.

11.2 Place. The arbitration shall be held in New York, New York.

11.3 Arbitrators. There shall be three (3) independent and impartial arbitrators of whom Sellers shall promptly appoint one (1), Purchaser shall promptly appoint one (1), and the third of which shall be appointed by the two (2) Party-appointed arbitrators in accordance with the arbitration rules. The arbitrators shall determine the Dispute of the Parties and render a final award in accordance with Section 11.1 hereof. The arbitrators shall set forth the reasons for the award in writing.

11.4 Statute of Limitations. Any Dispute by a Party shall be time-barred if the asserting Party does not commence arbitration with respect to such Dispute within one (1) year after the cause of action accrues. All statutes of limitations and defenses based upon passage of time applicable to any Dispute of a defending Party (including any counterclaim or setoff) shall be tolled while the arbitration is pending.

11.5 Discovery. The arbitrator shall order the Parties to promptly exchange copies of all exhibits and witness lists, and, if requested by a Party, to produce other relevant documents, to answer up to ten (10) interrogatories (including subparts), to respond to up to ten (10) requests for admissions (which shall be deemed admitted if not denied) and to produce for deposition and, if requested, at the hearing all witnesses that such Party has listed and up to four (4) other persons within such Party's control. Any additional discovery shall only occur by agreement of the Parties or as ordered by the arbitrators upon a finding of good cause.

11.6 Costs. Each Party shall bear its own costs, expenses and attorneys' fees; provided that if court proceedings to stay litigation or compel arbitration are necessary, the Party who unsuccessfully opposes such proceedings shall pay all reasonable associated costs, expenses, and attorneys' fees in connection with such court proceeding.

11.7 Breach.

(a) The Parties recognize that irreparable injury will result from a breach of any provision of this Agreement and that money damages will be inadequate to fully remedy the injury. In order to prevent such irreparable injury, the arbitrators shall have the power to grant temporary or permanent injunctive or other equitable relief. Prior to the appointment of the arbitrators a Party may, notwithstanding any other provision of this

agreement, seek temporary injunctive relief from any court of competent jurisdiction; provided that the Party seeking such relief shall (if arbitration has not already been commenced) simultaneously commence arbitration. Such court ordered relief shall not continue more than ten (10) days after the appointment of the arbitrator (or in any event for longer than sixty (60) days).

(b) Notwithstanding any other provisions of this Agreement to the contrary, upon any failure to Close the transactions contemplated herein due to Purchaser's Guarantor's or Purchaser's breach of their representations and warranties, due to the failure of Purchaser's Guarantor or Purchaser to perform hereunder or due to the failure for any reason to obtain the financing contemplated by the Financing Commitments, Purchaser shall pay to Sellers promptly (and in no event more than three Business days after receipt of Sellers' written notice) an amount equal to Thirty Million Dollars ($30,000,000.00), by way of liquidated damages and not as a penalty. Such amount shall be payable in cash by wire transfer to the Sellers' account and such amount will not be due and payable because of any failure or refusal by Sellers to exercise their rights to elect under Section 2.5 to accept shares of Guarantor Common Stock as part of the Purchase Price. Purchaser has provided to Sellers that certain standby irrevocable letter of credit in the amount of $30,000,000 issued by Fleet National Bank N.A. for a term at least until May 1, 2003, a copy of which is attached hereto as Exhibit K (the "Letter of Credit"). If Sellers are entitled to liquidated damages as provided herein, they shall give Purchaser and Purchaser's Guarantor written notice of such fact and a demand for payment thereof. If such amount of liquidated damages has not been paid to Sellers within three (3) days after Purchaser's receipt of Sellers' notice and demand, Sellers shall be entitled to draw on the Letter of Credit the full amount of the liquidated damages due hereunder.

(c) Notwithstanding any other provisions of this Agreement to the contrary, upon any failure to Close the transactions contemplated herein due to Sellers or Sellers' Guarantor's breach of their representations and warranties or their failure to perform hereunder and, within twelve (12) months from the date of this Agreement, Sellers shall have consummated a sale of the Assets to a third party or the outstanding securities of Sellers are acquired by a third party, Sellers shall pay to Purchaser promptly (and in no event more than three Business days after receipt of Purchaser's written notice) an amount equal to Twenty Million Dollars ($20,000,000.00), by way of liquidated damages and not as a penalty. Such amount shall be payable either in cash by wire transfer to the Purchaser's account.

11.8 Consent to Jurisdiction. The Parties hereby consent to the non-exclusive jurisdiction of the state or federal courts of New York for the enforcement of any award rendered by the arbitrators.

ARTICLE XII
MISCELLANEOUS

12.1 Governing Law. This Agreement shall be governed by and construed in accordance with the substantive law of the State of New York without giving effect to the

principles of conflicts of law thereof, except that the substantive law of Tennessee relating to the ownership of real property Assets located in Tennessee shall govern with respect to such ownership.

12.2 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be an original, but all of which together shall constitute one and the same agreement.

12.3 Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either of the Parties (whether by operation of law or otherwise) without the prior written consent of the other Party. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and assigns. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any Person other than the Parties hereto, their successors and assigns, any Indemnified Person, and, under certain circumstances, the Parties' Affiliates any right, remedy or claim under or by reason of this Agreement.

12.4 Entire Agreement. This Agreement (including the Exhibits and Schedules hereto and any documents referred to herein including, without limitation, the Confidentiality Agreement) and the Crack Spread Retained Interest Agreement constitute the entire agreement between the Parties, and supersedes any prior understandings, agreements, arrangements and representations between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

12.5 Notices. All notices, requests, demands, claims and other communications required or permitted to be given hereunder shall be in writing and shall be given by (a) personal delivery (effective upon delivery), (b) facsimile transmission (effective on the next day after transmission), (c) recognized overnight delivery service (effective on the next day after delivery to the delivery service), or (d) registered or certified mail, return receipt requested and postage prepaid (effective on the third day after being so mailed), in each case addressed to the intended recipient as set forth below:

If to Purchaser or Purchaser's Guarantor:

The Premcor Refining Group Inc.
1700 East Putnam Avenue, Suite 500
Old Greenwich, CT 06870
Facsimile:(203) 698-7920
Attention:General Counsel

With a copy (which shall not constitute notice) to:

The Premcor Refining Group Inc.
1700 East Putnam Avenue, Suite 500
Old Greenwich, CT 06870
Facsimile:(203) 698-7909
Attention:Chief Operating Officer

If to Sellers:

c/o The Williams Companies
One Williams Center
Tulsa, Oklahoma 74172
Attention: Mark Wilson
Facsimile: (918) 573-5540

With a copy (which shall not constitute notice) to:

Conner & Winters, P.C.
3700 First Place Tower
15 East 5th Street
Tulsa, Oklahoma 74 103-4344
Attention: Lynnwood R. Moore, Jr.
Facsimile: (918) 586-8548

General Counsel
Williams Energy Services
One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Facsimile: (918) 573-6928

Any Party may change its address(es) for receiving notices by giving written notice of such change to the other Party in accordance with this Section 12.5.

12.6 Amendment. This Agreement may be amended by the Parties at any time only by a written instrument signed on behalf of each of the Parties.

12.7 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

12.8 Waivers. The Parties may, to the extent legally allowed: (a) extend the time for the performance of any of the obligations or other acts of the other Party, (b) waive any inaccuracies in the representations and warranties of the other Party contained herein or in any document delivered pursuant hereto, or (c) waive performance of any of the covenants or agreements, or satisfaction of any of the conditions, contained herein. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such Party. Except as provided in this Agreement, no action taken pursuant to this Agreement, including any investigation by or on behalf of either Party, shall be deemed to

constitute a waiver by the Party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by either Party of a breach of any provision hereof shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provisions hereof.

12.9 Execution. This Agreement may be executed in one or more counterparts, and by each Party in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which shall together constitute but one and the same agreement. This Agreement may be duly delivered by one Party by its transmission of a facsimile signature page of this Agreement.

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6.19 Consents to Assignment.

(a) Prior to Closing, Sellers agree to use reasonable business efforts to obtain all consents to assignment of the Contracts, the Leases and Easements and the Permits that are required to be obtained under this Agreement, even though failure to obtain certain of the consents is not a condition precedent to the Closing, except as provided for herein; provided, that neither Party shall be obligated to make payments or incur obligations to third parties or governmental agencies to obtain such consents except to pay such Party's reasonable expenses or to pay normal fees to governmental agencies.

(b) To the extent that any Contracts, Leases and Easements or Permits that would otherwise be assigned under this Agreement are not capable of being assigned, transferred, subleased or sublicensed without the consent of, or waiver by, any other party thereto or any other Person, or if such assignment, transfer, sublease or sublicense or attempted assignment, transfer, sublease or sublicense would constitute a breach thereof or a violation of any Applicable Law, this Agreement shall not constitute an assignment, transfer, sublease or sublicense, or an attempted assignment, transfer, sublease or sublicense of any such Contract, Lease or Easement or Permit. For a period of one hundred and twenty (120) days after Closing, Sellers shall continue to use their reasonable efforts to obtain a consent to an assignment from Sellers to Purchaser of each Contract, each of the Leases and Easements and Permits that, but for the first sentence of this Section, would be assigned; provided, however, that Sellers shall not be required to pay any consideration or suffer any financial disadvantages to obtain such assignment.

Signature page to that certain Asset Purchase and Sale Agreement between Williams Refining & Marketing, L.L.C., Williams Generating Memphis, L.L.C., Williams Memphis Terminal, Inc., Williams Petroleum Pipeline Systems, Inc. and Williams Mid-South Pipelines, LLC (Sellers), The Williams Companies, Inc. (Sellers' Guarantor) and Premcor Refining Group, Inc. (Purchaser) and Premcor Inc. (Purchaser's Guarantor)

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

"Purchaser"

The Premcor Refining Group, Inc.
By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P.

"Purchaser's Guarantor"

Premcor Inc.

By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P. and General Counsel

"Sellers"

Williams Refining & Marketing, L.L.C.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Generating Memphis, L,L.C.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Memphis Terminal, Inc.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Petroleum Pipeline Systems, Inc.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: Vice President

"Sellers' Guarantor"

The Williams Companies, Inc.

By: /s/ Phillip D. Wright
Name: Phillip D. Wright
Title: Chief Restructuring Officer

Williams Mid-South Pipeline, LLC

By: /s/ Randy M. Newcomer
Name: Phillip D. Wright
Title: President

FIRST AMENDMENT
TO
ASSET PURCHASE AND SALE AGREEMENT

between

WILLIAMS REFINING & MARKETING, L.L.C.,
WILLIAMS GENERATING MEMPHIS, L.L.C.,
WILLIAMS MEMPHIS TERMINAL, INC.,
WILLIAMS PETROLEUM PIPELINE SYSTEMS, INC.
AND
WILLIAMS MID-SOUTH PIPELINES, LLC

Sellers

and

THE WILLIAMS COMPANIES, INC.

Sellers' Guarantor

and

THE PREMCOR REFINING GROUP, INC.

Purchaser

and

PREMCOR INC.

Purchaser's Guarantor

This First Amendment is made effective as of January 16, 2003 by and among the Sellers, Sellers' Guarantor, the Purchaser and Purchaser's Guarantor (the "Parties").

RECITALS

A. The Parties made and entered into that certain Asset Purchase and Sale Agreement as of the 25th day of November, 2002 (the "Asset PSA").

B. The Parties now desire to amend the Asset PSA as set forth herein.

In consideration of the matters set forth herein, the Parties agree that the Asset PSA is hereby amended in the following particulars:

1. Exhibit H - Financing Commitments. First Amended Exhibit H is attached hereto. It replaces and supersedes Exhibit H to the Asset PSA. Pursuant to Section 5.1(i) of the Asset PSA, First Amended Exhibit H incorporates copies of the Purchaser's financing commitment letters from Blackstone Management Associates III, Occidental C.O.B. Partners, Thomas D. O'Malley, Morgan Stanley Senior Funding, Inc. and Morgan Stanley Capital Group Inc

2. Schedules 6.2(m) and 6.2(n). First Amended Schedules 6.2(m) and 6.2(n) are attached hereto and replace and supersede Schedules 6.2(m) and 6.2(n) to the Asset PSA.

3. Sellers Closing Obligations. The first phrase of Section 3.2(a) is amended to read as follows: "Sellers shall deliver to Purchaser or to Purchaser's Affiliates or designees (as specified in writing at least three (3) business days prior to Closing):"

[THE BALANCE OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK, WITH SIGNATURES APPEARING ON THE NEXT PAGE]

Signature Signature page to that certain First Amendment to Asset Purchase and Sale Agreement between Williams Refining & Marketing, L.L.C., Williams Generating Memphis, L.L.C., Williams Memphis Terminal, Inc., Williams Petroleum Pipeline Systems, Inc. and Williams Mid-South Pipelines, LLC (Sellers), The Williams Companies, Inc. (Sellers' Guarantor) and Premcor Refining Group, Inc. (Purchaser) and Premcor Inc. (Purchaser's Guarantor)

IN WITNESS WHEREOF, the Parties have caused this First Amendment to be executed by their duly authorized representatives as of the date first above written.

"Purchaser"

The Premcor Refining Group, Inc.

By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P.

"Purchaser's Guarantor"

Premcor Inc.

By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P. and General Counsel

"Sellers"

Williams Refining & Marketing, L.L.C.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Generating Memphis, L,L.C.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Memphis Terminal, Inc.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Petroleum Pipeline Systems, Inc.

By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: Vice President

"Sellers' Guarantor"

The Williams Companies, Inc.

By: /s/ Phillip D. Wright
Name: Phillip D. Wright
Title: Chief Restructuring Officer

Williams Mid-South Pipeline, LLC

By: /s/ Randy M. Newcomer
Name: Phillip D. Wright
Title: President

SECOND AMENDMENT
TO
ASSET PURCHASE AND SALE AGREEMENT

between

WILLIAMS REFINING & MARKETING, L.L.C.,
WILLIAMS GENERATING MEMPHIS, L.L.C.,
WILLIAMS MEMPHIS TERMINAL, INC.,
WILLIAMS PETROLEUM PIPELINE SYSTEMS, INC.
AND
WILLIAMS MID-SOUTH PIPELINES, LLC

Sellers

and

THE WILLIAMS COMPANTES, INC.

Sellers' Guarantor

and

THE PREMCOR REFINING GROUP INC.

Purchaser

and

PREMCOR INC.

Purchaser's Guarantor

This Second Amendment is made effective as of February 28, 2003 by and among the Sellers, Sellers' Guarantor, the Purchaser and Purchaser's Guarantor (the "Parties").

RECITALS

A. The Parties made and entered into that certain Asset Purchase and Sale Agreement as of the 25th day of November 2002 and amended that agreement pursuant to a First Amendment to Asset Purchase and Sale Agreement effective as of January 16, 2003 (such Asset Purchase and Sale Agreement, as amended, being hereinafter referred to as the "Asset PSA").

B. The Parties now desire to further amend the Asset PSA as set forth herein.

In consideration of the matters set forth herein, the Parties agree that the Asset PSA is hereby amended in the following particulars:

Capitalized terms used herein shall have the same meaning as the defined terms in the Asset PSA.

1. Crude Oil Acquired for March 2003 Deliveries. (a) Domestic Crude. With respect to domestic barrels of crude oil for which Williams Refining & Marketing, L.L.C. ("Seller") has entered into contracts with third parties for deliveries into Capline pipeline during the month of March, 2003 (as those barrels are described in Exhibits "A" and "B" hereto), the Parties agree that such barrels will be purchased by Purchaser and sold by Seller pursuant to the contracts attached hereto as Exhibits "A" and "B". Purchaser agrees to provide credit support for such contracts consisting of an irrevocable standby letter of credit in the amount of approximately $75 million and in the form attached hereto as Exhibit "C".

(b) Foreign Crude. With respect to foreign barrels of crude for which Seller has entered into contracts with third parties and with Purchaser for deliveries into Capline pipeline during the month of March 2003 (under which such contracts Seller has neither prepaid for the crude nor acquired title thereto prior to the Effective Time), the Parties agree as follows: (i) If such Seller contracts are assignable (including those for which any necessary prior consent has been obtained from the third party), such contracts (and all rights and obligations arising thereunder) will be assigned to and assumed by Purchaser upon the Closing; (ii) Such contracts for foreign crude (if any) that are not assignable will be covered by a back-to-back contract which Seller and Purchaser shall enter at Closing containing terms, including price terms, that mirror, in all substantive respects, the terms and conditions of the Seller contract applicable to that crude, with the exception that Purchaser will be obligated to make payment for such barrels in accordance with the payment terms under Seller's contract for such crude but no earlier than at the time that title to such barrels transfers to Purchaser via delivery of such barrels into Capline pipeline for Purchaser's account. Purchaser further agrees, however, to provide credit support for such contracts by, at Purchaser's option, (x) prepaying funds to Seller directly or (y) providing an irrevocable standby letter of credit in the form hereto as Exhibit C to cover each foreign contract at least two business days prior to delivery into Capline pipeline for Purchaser's account. Promptly upon receipt of Seller's invoice (and reasonable documentation of such shipment for Purchaser's account), but in no event later than the first business day following the receipt of such invoice, Purchaser shall make payment for the applicable volumes of crude in accordance with such invoice via wire transfer to Seller's account in accordance with the instructions provided by Seller.

(c) True-up. With respect to volumes of crude delivered under (a) above, the later of forty (40) days after Closing or the date the final reconciliation between Williams and its domestic crude oil suppliers have occurred, the Parties will true up for volume by grade, price and any other adjustments allowed under the contract, all amounts paid. With respect to volumes of crude delivered under (b)(ii) above within forty (40) days after Closing, the Parties will true-up for volume by grade, price and any other adjustments available under the contracts, all amounts paid. Any payment required to be made pursuant to such true up shall be made by wire transfer no later than five (5) days after such true up.

(d) Schedule 2.4(a). The Parties agree that Schedule 2.4(a) is hereby amended to provide that the "pricing days" for valuing the Williams Feedstock Inventory and the Williams Product

Inventory will be the day of Closing and the first four (4) consecutive business days immediately following the Closing Date. Each such business day used for pricing must be one for which the applicable publication referenced in Schedule 2.4(a) publishes a price quotation and the New York Mercantile Exchange ("NYMEX") is open for normal business and normal hours of business. In no event will a business day be used as a pricing day if the applicable marker price referenced in Schedule 2.4(a) of the PSA is not published on that date or the NYMIEX is not open for normal business and normal hours of business. The Parties agree that the pricing of the Williams Feedstock Inventory and the Williams Product Inventory must be completed within a fifteen (15) consecutive business day pricing period immediately following Closing. If, during the fifteen (15) day consecutive business days immediately following Closing there are at least three (3) pricing days, the Parties agree to use the average of the pricing days achieved to value the Inventory. If, during the fifteen (15.) consecutive business days immediately following Closing, there are not at least three (3) pricing days, the Parties agree that the determination of the fair market values of the Inventory will be resolved pursuant to the provisions of the Dispute Resolution provisions of Article XI of the Asset PSA.

2. Oracle Licenses. With respect to Oracle licenses that are used at the Assets, Sellers have provided notice to Purchaser of Sellers' election under Section 6.15 of the Asset PSA to retain such Oracle licenses. The Parties hereby agree that Sellers are to refrain from all efforts to obtain replacement Oracle licenses for Purchasers without further written direction from Purchaser pursuant to the terms of the Asset PSA.

3. Exchange Balances. The definition of "Williams Product Inventory" is hereby amended to exclude any exchange imbalances. Purchaser and Sellers agree that Sellers will cash settle all exchange balances for the periods prior to the Closing Date so that the exchange agreements assigned to Purchaser at Closing will have -0- balances.

4. Forward Hedges of Heating Oil. Purchaser and Sellers agree that Sellers will cash settle the corresponding NYMEX long future hedges associated with the remaining firm price distillate sales that are described in pages 10-12 of Schedule 4.5 of the PSA in which the Sellers have not delivered the contracts and which the Purchaser will assume the delivery obligations of the contracts. Such cash settlement will be determined as set forth in the "Cash Settlement of Outstanding Futures" schedule attached hereto (which assumes a Closing Date of Monday, March 3, 2003). If, on Closing Date, the price of NYMEX heating oil contracts are greater than the price of the corresponding April and May NYMEX heating oil contracts described in pages 10-12 of Schedule 4.5 of the PSA, the total value difference shall be applied at Closing to decrease the Final Inventory Amounts. If, on the Closing Date, the price of NYMEX heating oil contracts are less than the price of the corresponding April and May NYMEX heating oil contracts described in pages 10-12 of Schedule 4.5 of the PSA, the total value difference shall be applied at Closing to increase the Final Inventory Amounts.

5. Peaking Power Plant. The Parties agree that there will be a separate Closing for the transfer of Sellers' interest in Williams Generating Memphis, L.L.C. and Williams Power Marketing, LLC in recognition of the need for prior FERC approval before the ownership of Williams Generating Memphis, L.L.C. may be transferred to Purchaser. Such Closing shall occur within five (5) calendar days following the day that public notice of such transfer approval by FERC has been

given. Such separate Closing will not reduce or affect the Closing Purchase Price required to be paid under Section 2.2(b) of the Asset PSA. Sellers will provide Purchaser with the economic benefit of Williams Generating Memphis, LLC and Williams Power Marketing until such separate Closing. Sellers and Purchaser agree that the Assets owned by Williams Generating Memphis, L.L.C. and Williams Power Marketing, LLC shall be governed by such representations, warranties, covenants, agreements and indemnities as may apply (and to the extent of such application) under the Asset PSA to the same extent as if such Assets were to be transferred to Purchaser instead of the transfer of the ownership interest to Purchaser of Williams Generating Memphis, L.L.C. and Williams Power Marketing, LLC. Such separate Closing shall not constitute a waiver or forfeiture of any rights and remedies that Purchaser may have under the terms of the Asset PSA.

6. Schedule 4.13(a) - Description of Real Property. Schedule 4.13(a) is hereby superseded and replaced in its entirety by the attached First Amended Schedule 4.13(a).

7. 330,000 Barrel Storage Tank at St. James. The Parties hereby confirm the provisions of Sections 6.19 and 7.2(d) of the Asset PSA with respect to the referenced storage tank and the related surface lease and pipeline servitude and tank operating agreements. If the necessary consents for Sellers' transfer of the tank and the related tank operating agreement and surface lease and pipeline servitude agreement have not been obtained before Closing, Sellers will provide Purchaser with the economic benefit of such tankage and such agreements until such consents are obtained. Unless otherwise agreed, such economic benefit will be on a pass-through basis, with such costs as are actually incurred in connection with the ownership of the tank and pursuant to the terms of the lease and tank operating agreement. In the event that any of the provisions of the underlying land lease or tank operating agreement are proposed to be changed, Sellers shall review the proposed changes with Purchaser with Sellers first obtaining Purchasers consent to any increase in costs or change in a material term. At Closing, the Parties will execute an agreement that is consistent with the foregoing and it substantially in the form attached hereto as Exhibit "D."

8. Form of Special Warranty Deed. The form of special warranty deed (Exhibit B to the Asset PSA) upon which the Parties have agreed is attached hereto as Exhibit "E".

9. Section 6.2(m). Section 6.2(m) of the Asset PSA concerns the maintenance and capital projects described in Schedule 6.2(m) and the Parties have entered into a separate Low Sulfur Gasoline Project Agreement. The Parties recognize that certain of these maintenance and capital project matters, as reflected on Exhibit "F' hereto, will not have been completed at the time of Closing and do hereby agree to resolve and settle all of those matters through the payment to Purchaser, via Purchase Price adjustment at Closing, of the sum of $41,048.00 as calculated on Exhibit "F." Purchaser agrees that, subject to such Purchase Price adjustment being made at Closing and Sellers' payments of invoices attributable to the period prior to Closing, Sellers have fully performed and satisfied their obligations under Section 6.2(m) and Sellers agree that Purchaser has fully performed and satisfied its obligations under the Low Sulfur Gasoline Project Agreement up to and including the Closing Date.

10. Casualty/Unfinished Items. Exhibit "G" hereto sets forth the following five items ("Items"): Two casualty incidents at the Memphis refinery which occurred after November 25, 2002 (Items 1 and 2), one unfinished project involving removal and disposition of tank waste (Item 3), and

two real property matters (Items 4 and 5). Because repairs and actions related to these items will not be completed until after the Closing, the Parties have agreed to escrow specified amounts for each Item, the sum of which equals $2.7 million, pursuant to the escrow agreement attached hereto as Exhibit "G-1." The Parties agree to handle these Items as follows:

(a) Items 1, 2 and 5. The Parties shall endeavor in good faith to agree upon commercially reasonable approaches (including the cost thereof) to repairing or completing each one of these Items. If the Parties are unable to reach such agreement on any one or more of these Items, such disagreement(s) will be resolved pursuant to the Dispute Resolution provisions of Article XI. The agreed-upon repair or completion approach shall be conducted or managed by the Purchaser who shall provide prompt notice to Sellers of completion, including detail cost support for the repairs and other actions taken. When an Item has been repaired or completed pursuant to the Parties' agreed-upon repair or completion approach, any escrowed amounts attributable to that Item over and above the actual repair or completion cost shall be promptly released to Sellers.

(b) Items 3 and 4. Sellers shall, in satisfaction of Item 3, ship and dispose of the 25 roll-off boxes currently located at the Memphis refinery resulting from completion of the asphalt tank cleaning project. Purchaser will provide Sellers with reasonable assistance in effectuating such shipment from the refinery premises. When Sellers have completed such shipment, the escrowed amount applicable to Item 3 will be promptly paid to Sellers. Item 4 concerns the Capline Connection Agreement, dated August 6, 1984, between the Capline Owners and Mid-America Pipeline Company (the "Connection Agreement"), the Pipeline and Meter Station Easement, dated February 14, 1985, between Shell Pipe Line Corporation and Mid-America Pipeline Company (the "Easement"), 18 pipeline easements located along the Collierville pipeline that are to be transferred to The Premcor Pipeline Company (the "Pipeline Easements"), and the Surface Lease and Pipeline Servitude and the Tank Operating Agreement, both dated December 1, 1996, between Shell Pipe Line Corp. and Mapco Petroleum Inc., now known as Williams Express, Inc. (the "Capline Agreements"). With respect to the Pipeline Easements, the Easement, the Connection Agreement and the Capline Agreements, Sellers will use their best efforts to cause such agreements or other easements, contracts or property interests providing substantially similar benefits to vest in The Premcor Pipeline Company. Upon completion of Item 4, the monies remaining in escrow with respect to such item will be promptly paid to Sellers.

(c) Limitations on Liability. Sellers shall have no liability to Purchaser in connection with any one of Items 1, 2 or 3 over and above the amount allocated thereto in accordance with Exhibit "G". The amounts allocated on Exhibit "G" with respect to Items 4 and 5 are good faith estimates by the Parties of the maximum amounts that will have to be expended to accomplish Items 4 and 5 in a commercially reasonable fashion. Except as provided for in this Second Amendment, for the respective escrow amounts allocated to these Items on Exhibit "G," this paragraph 10 of this Second Amendment does not create rights or remedies over and above any that may already exist under the Asset PSA; nor does this Second Amendment limit or impair any such rights or remedies that may exist under the terms of the Asset PSA upon Closing.

11. Inventory Estimate Adjustment. The parties agree to reduce the Inventory Estimate of $167,660,020.74 provided by Sellers to Purchaser on February 24, 2003 by the amount of $22,862,500 in order to exclude from Inventory a Saharan Blend crude oil cargo that will now be

arriving after the Effective Time. The adjusted Inventory Estimate is therefore $144,797,520.74.

13. Off-Spec Propylene/Propane Product. Purchaser agrees to buy and Seller agrees to sell approximately 20 full rail cars of off-spec propylene/propane mix product located on Real Property on the Closing Date. The Parties agree that the price for this product shall be determined in accordance with the method of determination in Schedule 2.4(a) of the Asset PSA for propylene/propane mix minus 7 cents per gallon. The value of this product shall be included in the Final Inventory Amount and shall be subject to the Inventory adjustment and dispute resolution procedures of Section 2.4 of the Asset PSA.

14. Revised Schedules. Schedule 4.3(a) is hereby superseded and replaced in its entirety by the attached First Amended Schedule 4.3(a). Schedule 4.6(a) is hereby superseded and replaced in its entirety by the attached First Amended Schedule 4.6(a). Schedule 4.6(b) is hereby superseded and replaced in its entirety by the attached First Amended Schedule 4.6(b). Schedule 4.6(c) is hereby superseded and replaced in its entirety by the attached First Amended Schedule 4.6(c).

15. Brent vs. WTI Differential for Inventory Valuation. The parties agree that Brent crude oil included in Inventory shall be priced at the NYMEX WTI price minus $0.50 per barrel at St. James. The Brent price at any other location shall be adjusted with the applicable transportation differential as specified in the Asset PSA.

16. Closing/Effective Time. The parties agree that the Effective Time of the Closing shall be 12:01 A.M. CST on March 3, 2003.

[THE BALANCE OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK, WITH SIGNATURES APPEARING ON THE NEXT PAGE]

Signature page to that certain Second Amendment to Asset Purchase and Sale Agreement between Williams Refining & Marketing, L.L.C., Williams Generating Memphis, L.L.C., Williams Memphis Terminal, Inc., Williams Petroleum Pipeline Systems, Inc. and Williams Mid-South Pipelines, LLC (Sellers), The Williams Companies, Inc. (Sellers' Guarantor) and Premcor Refining Group, Inc. (Purchaser) and Premcor Inc. (Purchaser's Guarantor)

IN WITNESS WHEREOF, the Parties have caused this Second Amendment to be executed by their duly authorized representatives as of the date first above written.

"Purchaser"

The Premcor Refining Group, Inc.
By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P.

"Purchaser's Guarantor"

Premcor Inc.
By: /s/ Michael Gayda
Name: Michael Gayda
Title: Senior V.P.

"Sellers"

Williams Refining & Marketing, L.L.C.
By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Generating Memphis, L,L.C.
By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Memphis Terminal, Inc.
By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: President

Williams Petroleum Pipeline Systems, Inc.
By: /s/ Randy M. Newcomer
Name: Randy M. Newcomer
Title: Vice President

"Sellers' Guarantor"

The Williams Companies, Inc.
By: /s/ Mark W. Husband
Name:
Title:

Williams Mid-South Pipeline, LLC
By: /s/ Randy M. Newcomer
Name: Phillip D. Wright
Title: President

EXHIBIT 10.81

EXECUTION COPY

STOCK PURCHASE AGREEMENT

by and among

THE WILLIAMS COMPANIES, INC.,

MEHC INVESTMENT, INC.

and

MIDAMERICAN ENERGY HOLDINGS COMPANY

March 7, 2002

Index of Defined Terms

STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT, dated as of March 7, 2002 (this "Agreement"), by and among The Williams Companies, Inc., a Delaware corporation (the "Company"), MEUC Investment, Inc., a South Dakota corporation (the "Purchaser") and MidAmerican Energy Holdings Company, an Iowa corporation ("MidAmerican").

WITNESSETH:

WHEREAS, the Company has authorized the issuance of up to 1,466,667 shares of its 9-7/8% Cumulative Convertible Preferred Stock, which shares will be upon issuance convertible into authorized but unissued shares of common stock, par value $1.00 per share, of the Company; and

WHEREAS, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, 1,466,667 shares of 9-7/8% Cumulative Convertible Preferred Stock referred to herein, in each case upon the terms and subject to conditions set forth in this Agreement; and

WHEREAS, the Purchaser is a wholly owned subsidiary of MidAmerican; and

WHEREAS, the Company and MidAmerican are, concurrently with the execution of this Agreement, entering into a Purchase Agreement for the sale and purchase of 100% of the partnership interests of Williams Gas Transmission Company (the "Purchase Agreement").

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions set forth herein, the parties hereto hereby agree as follows:

SECTION 1. AUTHORIZATION OF PREFERRED AND COMMON STOCK

(a) The Company has authorized and created a series of its preferred stock, consisting of 1,466,667 shares, par value $1.00 per share, designated as its "9-7/8% Cumulative Convertible Preferred Stock" (the "Preferred Stock"). The terms, limitations and relative rights and preferences of the Preferred Stock are set forth in the Certificate of Designation of the 9-7/8% Cumulative Convertible Preferred Stock of the Company, which the Company will file on or before the Closing Date (as defined below) with the Secretary of State of the State of Delaware and a copy of which is attached hereto as Exhibit A (the "Certificate of Designation").

The Company has duly authorized and reserved for issuance the shares of its common stock, par value $1.00 per share (the "Common Stock"), issuable upon conversion of the Shares (as defined below).

SECTION 2. PURCHASE AND SALE

(a) Subject to the terms and conditions set forth in this Agreement and in

reliance upon the Company's and the Purchaser's respective representations and warranties set forth below, on the Closing Date, the Company shall issue and sell to the Purchaser, and the Purchaser shall purchase from the Company, 1,466,667 shares of Preferred Stock (the "Shares"), at a purchase price of $187.50 per share (the aggregate consideration to be paid by the Purchaser for the Shares is referred to herein as the 'Purchase Price"). Such sale and purchase shall be effected on the Closing Date by the Company executing and delivering to the Purchaser, duly registered in the name of the Purchaser (or such other name as the Purchaser may instruct), a duly executed stock certificate evidencing the Shares, against delivery by the Purchaser to the Company of the Purchase Price (net of the fee referred to in Section 2(c) below) by wire transfer of immediately available United States dollars to such account as the Company shall designate prior to the Closing Date.

(b) The closing of such sale and purchase (the "Closing") shall take place concurrently with the closing of the transactions contemplated by The Purchase Agreement, after satisfaction or waiver of the conditions set forth in Sections 6 and 7, or at such other time as the Purchaser and the Company shall agree in writing (the "Closing Date"), at the offices of Willkie Farr & Gallagher, 787 Seventh Avenue, New York, New York 10019, or such other location as. the Purchaser and the Company shall mutually select.

(c) At the Closing, the Company shall pay the Purchaser a fee of $2,750,000 for the purchase of the Shares contemplated herein, which fee the Purchaser shall deduct from the Purchase Price payment.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchaser that:

3.1. Organization, Good Standing and Qualification

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has provided to the Purchaser a complete and correct copy of the Company's Restated Certificate of Incorporation and By-laws, each as amended to date (collectively, the "Organizational Documents"), which are in full force and effect.

(b) The Company has all requisite power and authority to own and lease its properties and assets and to carry on its business as now conducted.

(c) The Company is qualified to do business as a foreign Corporation in, and the Company is in good standing under the laws of, each jurisdiction in which the conduct of the Company's business or the ownership, operation or leasing of its assets or properties requires such qualification, except where the failure to so qualify, or to be so in good standing, would not reasonably be expected to have a Material Adverse Effect.

3.2. Significant Subsidiaries

Each significant subsidiary of the Company (as defined in Rule 1-02 of

Regulation S-X under the Securities Act of 1933, as amended (the "Securities Act")) (a "Significant Subsidiary") has been duly organized or formed, is validly existing and in good standing under the laws of the jurisdiction of its organization or formation, has all requisite power and authority to own and lease its properties and assets and to carry on its business as now conducted and is duly registered, qualified and authorized to transact business and is in good standing in each jurisdiction in which the conduct of its business or the nature of its properties requires such registration, qualification or authorization, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect. All of the issued and outstanding equity or other participating interests of each Significant Subsidiary have been duly authorized and validly issued, to the extent such subsidiary is a corporation, are fully paid and non-assessable, and, to the extent owned by the Company, are owned free and clear of any Liens (as defined in Section 9.1), other than such Liens (1) relating to any debt financing described in the Company Reports (as defined herein), (ii) listed on Schedule 3.2, or (iii) that do not materially detract from the value of such equity or participation interest.

3.3. Capitalization

(a) The authorized capital stock of the Company consists of 960,000,000 shares of Common Stock and 30,000,000 shares of preferred stock, par value $1.00 per share. As of February 25, 2002, (i) 543,086,004 shares of Common Stock were issued and outstanding, (ii) 356,000 shares of preferred stock were issued and outstanding, consisting of 342,000 shares of December 2000 Cumulative Convertible Preferred Stock, par value $1.00 per share (the "December Preferred Stock"), and 14,000 shares of March 2001 Mandatorily Convertible Single Reset Preferred Stock, par value $1.00 per share (the "March Preferred Stock"), (iii) 11,918,129 shares of Common Stock were reserved for issuance under the Company's employee stock option and equivalent plans for options which have not yet been granted, (iv) 234,540,489 shares of Common Stock were reserved for issuance under the Company's outstanding options, warrants and securities convertible into or exchangeable for Common Stock or otherwise entitling the holder thereof to acquire (whether for consideration or otherwise) or requiring the Company to issue Common Stock, of which (A) 29,767,489 shares of Common Stock are reserved for issuance with respect to outstanding employee stock options, (B) 150,000,000 shares of Common Stock are reserved for issuance with respect to the March Preferred Stock, (C) 10,773,000 shares of Common Stock are reserved for issuance with respect to the December Preferred Stock, and (D) 44,000,000 shares of Common Stock are reserved for issuance with respect to the Company's FELINE PACS, and (v) there were no bonds, debentures, notes or other evidences of indebtedness issued or outstanding having the right to vote on any matters on which the Company's stockholders may vote. Except for the shares of Common Stock referred to in clauses (ii), (iii) and (iv), the Company has no present or future obligation to issue, and no Person has any present or future right to receive, any shares of Common Stock.

(b) All of the outstanding shares of Common Stock of the Company have been duly and validly issued and are fully paid and non-assessable, and to the knowledge of the Company were issued in accordance with all applicable United States federal and state securities laws. Upon issuance, sale and delivery as contemplated by this Agreement, the Shares will be duly authorized, validly issued, fully paid and non-assessable shares of Preferred Stock, free of all preemptive or similar rights. Upon their issuance in accordance with the terms of the Preferred Stock, the shares of Common Stock issuable upon conversion of the Shares will be

duly authorized, validly issued, fully paid and non-assessable shares of Common Stock, free of all preemptive or similar rights.

(c) Except for the rights attached to the Options issued under the Company's employee stock option plans or as otherwise set forth on Schedule 3.3(c) hereto, there are no existing options, warrants, calls, preemptive (or similar) rights, subscriptions, conversion or exchange obligations or other rights, agreements, arrangements or Commitments of any character obligating the Company to issue, transfer or sell, or cause to be issued, transferred or sold, any shares of the capital stock of the Company or other equity interests in the Company or any securities convertible into or exchangeable for such shares of capital stock or other equity interests, and there are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of its capital stock or other equity interests.

(d) Except as set forth on Schedule 3.3(d), no Person has any right to effect, or to require the Company to effect, the registration of any shares of Common Stock. For purposes of this section 3.3(d), the term "registration" shall mean a registration effected by preparing and filing a registration statement in compliance with the Securities Act (and any post-effective amendments filed or required to be filed) and the declaration or ordering of effectiveness of such registration statement.

3.4. Authorization

The Company has all necessary corporate power and authority to execute and deliver this Agreement and the Registration Rights Agreement, the form of which is attached as Exhibit B hereto (the "Registration Rights Agreement" and together with this Agreement, the "Transaction Documents"), to perform its obligations under the Transaction Documents and the Preferred Stock and to consummate the transactions contemplated by the Transaction Documents and the Preferred Stock. The execution, delivery and performance, as applicable, of the Transaction Documents and the Preferred Stock by the Company and each of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action on the part of the Company. No other corporate action on the part of the Company is necessary to authorize the execution, delivery and performance, as applicable, of the Transaction Documents and the Preferred Stock by the Company and each of the transactions contemplated hereby and thereby. This Agreement constitutes, and upon execution and delivery the Registration Rights Agreement shall constitute, a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors rights and remedies.

3.5. Consents and Approvals; No Conflict

(a) Except as set forth on Schedule 3.5(a), the execution and delivery by the Company of the Transaction Documents, the performance by the Company of its obligations under the Transaction Documents and the Preferred Stock and the consummation by the Company of the transactions contemplated hereby and thereby do not require the Company or any of its subsidiaries to obtain any consent, approval or action of, or make any filing with or

give any notice to, any corporation, Person, firm, Governmental Entity (as defined herein) or public or judicial authority, other than (i) compliance with the applicable requirements of the Exchange Act (as defined herein), (ii) with respect to the Company's obligations under the Registration Rights Agreement, as provided therein, (iii) the filing of the Certificate of Designation in accordance with the laws of the State of Delaware, and (iv) other consents approvals, actions, filings or notices that are immaterial to the consummation of the transactions contemplated hereby and thereby.

(b) Except as set forth on Schedule 3.5(b), the execution and delivery by the Company of the Transaction Documents do not, and the fulfillment of the terms of the Transaction Documents and the Preferred Stock by the Company will not, result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or permit the acceleration of rights under or termination of, the Organizational Documents, any agreement, lease, contract, license, note, mortgage, indenture, arrangement or other obligation ("Contracts" and individually, a "Contract") to which the Company or its subsidiaries is a party, or any order, judgment, rule or regulation of any Governmental Entity having jurisdiction over the Company or any of its subsidiaries or over their respective assets, properties or businesses, except for such breaches, defaults and accelerations that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

3.6. Company Reports; Financial Statements; Undisclosed Liabilities; Statutory Statements

(a) Each registration statement, report, proxy statement or information statement prepared by the Company since December 31, 2000, including, without limitation, the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the "company Form 10-K"), the Company's Current Reports on Form 8-K filed January 4, 2002, January 23, 2002, January 30, 2002, February 5, 2002 and February 19, 2002, together in each case with any documents incorporated by reference therein, each in the form (including exhibits, annexes and any amendments thereto) filed with the SEC (collectively, including any such reports filed with the SEC subsequent to the date hereof, the "Company Reports"), as of their respective dates, as amended prior to the date hereof or as supplemented by Company Reports filed on or prior to the date hereof, did not, and any Company Reports filed with the SEC subsequent to the date hereof will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading. Except to the extent they may have been subsequently amended or otherwise modified prior to the date hereof by subsequent reporting or filings, as of their respective dates, the Company Reports (as the same may have been amended or otherwise modified) complied in all material respects with the requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the SEC thereunder applicable thereto.

(b) Each of the consolidated balance sheets included in or incorporated by reference into the Company Reports (including the related notes and schedules) fairly presents in all material respects the consolidated financial position of the Company as of its date, and each of the consolidated statements of income, stockholders' equity and cash flows included in or incorporated by reference into the Company Reports (including any related notes and schedules)

fairly presents in all material respects the consolidated results of operations, retained earnings and changes in financial position of the Company for the periods set forth therein (subject, in the case of unaudited statements included in the Company Reports, to notes and normal year-end audit adjustments), in each case in accordance with U.S. generally accepted accounting principles ("GAAP") consistently applied during the periods involved.

(c) Except as disclosed on Schedule 3.6(c) and except for those liabilities that are fully reflected or reserved against on the audited consolidated balance sheet of the Company for the year ended December 31, 2001 heretofore furnished by the Company to the Purchaser or liabilities described in the notes thereto (or liabilities for which neither accrual nor footnote disclosure is required pursuant to GAAP) and liabilities incurred or accrued in the ordinary course of business since December 31, 2001, neither the Company nor any of its subsidiaries has any material liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due).

(d) Since December 31, 2000, the Company and each of its Significant Subsidiaries has timely filed all material periodic statements, together with all material exhibits, interrogatories, notes, schedules and any actuarial opinions, affirmations or certifications or other supporting documents in connection therewith, required to be filed with or submitted to any Governmental Entity on forms prescribed or permitted thereby (collectively, the "Company Regulatory Report"). The Company Regulatory Reports complied in all material respects with all applicable Laws when filed, and no material deficiency has been asserted with respect to any Company Regulatory Report by any Governmental Entity.

3.7. Absence of Certain Developments

(a) Since December 31, 2001, except as disclosed in the Company Reports filed on or before the date hereof or as set forth on Schedule 3.7(a), (i) the Company and its subsidiaries have conducted their respective businesses only in the ordinary course, consistent with past practice, and (ii) there has not been (1) any Material Adverse Effect or any development or combination of developments, that, individually or in the aggregate, has had or is reasonably likely to have a Material Adverse Effect; (2) any material change by the Company or any Significant Subsidiary in accounting principles, practices or methods other than as required by GAAP, RAP (as defined below) or applicable law; or (3) any split in share capital, combination, recapitalization, redenomination of share capital or other similar transaction or issuance or authorization of any issuance of any other securities in respect of, in lieu of or in substitution for share capital of the Company. "RAP" shall mean the accounting principles prescribed or permitted by the Federal Energy Regulatory Commission.

3.8. Litigation

Except as set forth on Schedule 3.8 or in the Company Reports filed on or before the date hereof, there is no legal action, suit, arbitration or other legal, administrative or other governmental investigation, inquiry or proceeding (whether federal, state, local or foreign) pending or, to the best of the Company's knowledge, threatened against or affecting the Company or any subsidiary or any of their respective properties, assets or businesses which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect

or prevent or materially delay the consummation of the transactions contemplated by the Transaction Documents and the Preferred Stock. Except as set forth in Schedule 3.8, neither the Company nor any Significant Subsidiary is subject to any order, writ, judgment, injunction, decree, determination or award of any Governmental Entity which would reasonably be expected to have a Material Adverse Effect.

3.9. Compliance with Law; Permits

(a) The businesses of the Company and each of its subsidiaries have been (since December 31, 2000), and are being, conducted in compliance in all material respects with all applicable federal, state, local or non-U.S. laws, statutes, ordinances, rules, regulations (including, without limitation, the rules of any applicable self-regulatory organization recognized by the SEC), rulings, written interpretations, judgments, orders, injunctions, decrees, arbitration awards, agency requirements, licenses or permits of any Governmental Entity of competent jurisdiction (collectively, "Laws"), except as disclosed in the Company Reports filed on or before the date hereof and except where the failure to so comply would not reasonably be expected to have a Material Adverse Effect. Except as disclosed in the Company Reports filed on or before the date hereof, neither the Company nor its subsidiaries has received written notice of a violation of any Law, which, if violated, would reasonably be expected to have a Material Adverse Effect. Except as set forth in Schedule 3.9 or as set forth in the Company Reports filed prior to the date hereof and for regulatory examinations or reviews conducted in the ordinary course, no material investigation or review by any Governmental Entity with respect to the Company or any of its subsidiaries is as of the date hereof pending or, to the knowledge of the Company, threatened, which would reasonably be expected to have a Material Adverse Effect.

(b) The Company and its subsidiaries have all licenses, permits, franchises or other governmental authorizations (collectively, "Permits") necessary for the ownership of their assets or properties or for the conduct of their respective businesses, except for those Permits which, if violated or not obtained, would not reasonably be expected to have a Material Adverse Effect.

3.10. Material Contracts

(a) Neither the Company nor any of its subsidiaries is in default (or would be in default with notice or lapse of time, or both) under, is in violation (or would be in violation with notice or lapse of time, or both) of, or has otherwise breached, any Material Contract which default, alone or in the aggregate with all other such defaults, would reasonably be expected to have a Material Adverse Effect. Except as set forth in Schedule 3.10, each Material Contract to which the Company or any of its subsidiaries is a party is in full force and effect and is binding upon the Company or its subsidiary and, to the best of the Company's knowledge, is binding upon such other parties, in each case in accordance with its terms. There are no unresolved disputes involving the Company or any of its subsidiaries under any Material Contract which if resolved in a manner adverse to the Company would reasonably be expected to have a Material Adverse Effect. "Material Contract" means any Contract that is material to the properties, assets, liabilities, financial condition, business, operations or net income of the Company and its subsidiaries, taken as a whole.

3.11. Employee Benefits

Each "employee benefit plan" (as defined under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA")) maintained by the Company or any entity which would be treated as a single employer with the Company under Section 4l4(b),(c),(m) or (o) of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code") have been operated and administered in all material respects in accordance with all presently applicable provisions of ERISA and the Code; no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would have any material liability; the Company has not incurred and no condition exists that presents a material risk to the Company of incurring a material liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Code; and each "pension plan" for which the Company would have any material liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would reasonably be expected to cause the loss of such qualification.

3.12. Environmental Matters

(a) Except as disclosed in the Company Reports filed on or before the date hereof and except as disclosed on Schedule 3.12, (i) there has been no storage, disposal, generation, manufacture, refinement, transportation, handling or treatment of Hazardous Materials by the Company or any of its subsidiaries (or, to the knowledge of the Company, any of their predecessors in interest) at, upon or from any of the property now or previously owned or leased by the Company or its subsidiaries in violation of any Environmental Laws or which would require Remedial Action under any applicable law, ordinance, rule, regulation, order, judgment, decree or permit, except for any violation or Remedial Action which would not have, or would not be reasonably likely to have, singularly or in the aggregate with all such violations and remedial actions, a Material Adverse Effect; and (ii) there has been no material spill, discharge, leak, emission, injection, escape, dumping or release of any kind onto such property or into the environment surrounding such property of any Hazardous Materials due to or caused by the Company or any of its subsidiaries or with respect to which the Company or any of its subsidiaries have knowledge, except for any such spill, discharge, leak, emission, injection, escape, dumping or release which would not have or would not be reasonably likely to have, singularly or in the aggregate with all such spills, discharges, leaks, emissions, injections, escapes, dumpings and releases, a Material Adverse Effect.

(b) Except as disclosed in the Company Reports filed on or before the date hereof and except as would not reasonably be likely to have a Material Adverse Effect, (i) neither the Company nor any of its subsidiaries has received any written notice, claim, demand, suit or request for information from any Governmental Entity or private entity with respect to any liability or alleged liability under any Environmental Law, nor to the knowledge of the Company has any other entity whose liability, in whole or in part, may be attributed to the Company or any of its subsidiaries, received any such notice, claim, demand, suit or request for information; and (ii) neither the Company nor any of its subsidiaries has ongoing negotiations

with or agreements with any Governmental Entity or other Person or entity relating to any Remedial Action or other claim arising under or related to any Environmental Law.

(c) For purposes of this Agreement, the following terms shall have the following meanings:

"Environmental Laws" shall mean any statute, regulation, ordinance, order, decree, treaty, agreement, compact, common law duty or other requirement of United States, tribal, state, local, Canadian (federal or provincial) or international law relating to protection of human health, safety or the environment (including, without limitation, ambient air, surface water, groundwater, wetlands, soil, surface and subsurface strata).

"Hazardous Materials" shall mean any chemicals; pollutants, contaminants, wastes, toxic substances, hazardous substances, hazardous materials, hazardous wastes, radioactive materials, petroleum or petroleum products.

"Remedial Action" shall mean any action required to: (i) clean up, remove or treat Hazardous Materials; (ii) prevent a release or threat of release of any Hazardous Material; (iii) perform pre-remedial studies, investigations or post-remedial monitoring and care; or (iv) cure a violation of Environmental Law.

3.13. Intellectual Property

Each of the Company and its subsidiaries owns, or is licensed or otherwise possesses legally enforceable rights to use, all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, technology, know-how, computer software programs or applications, and tangible or intangible proprietary information or materials, including trade secrets (collectively, "Intellectual Property") that are used in, and material to, the business of the Company and its subsidiaries as currently conducted, and any such patents, trademarks, trade names, service marks and copyrights held by the Company and/or its subsidiaries are valid and subsisting except, in any such case, as would not be reasonably expected to have a Material Adverse Effect. To the knowledge of the Company, neither the Company nor any of its subsidiaries is infringing, or has received any notice of any asserted infringement by any of them of, any rights of a third party with respect to any Intellectual Property which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

3.14. Regulatory Matters

The Company is not (i) a "public utility company" or a "holding company," or (ii) an "affiliate" or "subsidiary company" of a holding company or public utility company as such terms are defined in the Public Utility Holding Company Act of 1935 (the "1935 Act"). No approval of (i) the SEC under the 1935 Act, or (ii) the Federal Energy Regulatory Commission under either the Natural Gas Act of 1938 or the Federal Power Act is required in connection with the execution of this Agreement or the consummation of the transactions contemplated hereby.

3.15. Tax Matters

(a) Except as set forth in Schedule 3.15, (i) the Company and its Significant Subsidiaries have timely filed with the appropriate governmental authorities all income and other material Tax Returns (as hereinafter defined) required to be filed by or with respect to the Company and its subsidiaries or their operations or assets, and such Tax Returns are true, correct and complete in all material respects, (ii) all material Taxes (as hereinafter defined) due with respect to taxable years for which the Company or any subsidiary's Tax Returns were filed, all material Taxes required to be paid on an estimated or installment basis, and all material Taxes required to be withheld with respect to the Company or its employees, operations or assets have been timely paid or, if applicable, withheld and paid to the appropriate taxing authority in the manner provided by law, (iii) the reserve for Taxes set forth on the audited consolidated balance sheet of the Company as of December 31, 2001 heretofore furnished by the Company to the Purchaser is adequate in all material respects for the payment of all Taxes through the date thereof and no material Taxes (other than with respect to the disposition of assets) have been incurred after December31, 2001 which were not incurred in the ordinary course of business, (iv) there are no Liens for Taxes upon the assets of the Company or any of its Significant Subsidiaries (except for Liens for current Taxes not yet due and payable), (v) no Federal, state, local or foreign audits, administrative proceedings or court proceedings are pending with regard to any material Taxes or Tax Returns of the Company or any of its Significant Subsidiaries and there are no material outstanding deficiencies or assessments asserted or proposed, and any such proceedings, deficiencies or assessments shown in Schedule 3.15 are being contested in good faith through appropriate proceedings, (vi) there are no outstanding agreements, consents or waivers extending the statutory period of limitations applicable to the assessment of any material Taxes or deficiencies against the Company or any of its Significant Subsidiaries, or with respect to their operations or assets, and (vii) the federal income Tax Returns of the Company and its Significant Subsidiaries have been examined by the Internal Revenue Service (or the applicable statutes of limitation for the assessment of federal income Taxes for such periods have expired) for all periods through and including December 31, 1993.

(b) The Company has not filed a consent to the application of Section 341(f) of the Code.

(c) For purposes of this Agreement, "Taxes" means all taxes, charges, fees, levies or other assessments imposed by any United States Federal, state, or local taxing authority or by any non-U.S. taxing authority, including but not limited to, income, gross receipts, excise, property, sales, use, transfer, payroll, license, ad valorem, value added, withholding, social security, franchise, estimated, severance, stamp, and other taxes (including any interest, fines, penalties or additions attributable to or imposed on or with respect to any such taxes, charges, fees, levies or other assessments).

(d) For purposes of this Agreement, "Tax Return" means any return, report, information return or other document (including any related or supporting information and, where applicable, profit and loss accounts and balance sheets) with respect to Taxes.

3.16. Insurance

The Company and each of its Significant Subsidiaries Carry, or are covered by, insurance in such amounts and covering such risks as the Company reasonably believes is adequate for the conduct of their respective businesses and the value of their respective properties and as the Company reasonably believes is customary for companies engaged in similar businesses in similar industries.

3.17. Offering of Shares

Neither the Company nor any Person acting on its behalf has taken or will take any action (including, without limitation, any offering of any securities of the Company under circumstances which would require, under the Securities Act, the integration of such offering with the offering and sale of the Shares) which would subject the offering, issuance or sale of the Shares hereunder to the registration requirements of Section 5 of the Securities Act.

3.18. Investment Company

The Company is not, and, after giving effect to the transactions contemplated hereby, will not be, an "investment company" as defined in the Investment Company Act of 1940, as amended.

3.19. Accuracy of Information

None of the representations, warranties or statements of the Company contained in this Agreement, or in the schedules or exhibits hereto, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any of such representations, warranties or statements not misleading. The projections previously provided to the Purchaser in connection with this Agreement and identified on Schedule 3.19 were made in good faith and based on reasonable assumptions.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser and MidAmerican represent and warrant to the Company as follows:

(a) The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of South Dakota, and it has the requisite corporate power and authority to execute and deliver the Transaction Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby, and has taken all necessary action to authorize the execution, delivery and performance of the Transaction Documents. MidAmerican is corporation duly organized, validly existing and in good standing under the laws of the State of Iowa, and it has the requisite corporate power and authority to execute and deliver the Transaction Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby, and has taken all necessary action to authorize the execution, delivery and performance of the Transaction Documents. No other action on the part of the Purchaser or MidAmerican is

necessary to authorize the execution, delivery and performance of the Transaction Documents by the Purchaser or MidAmerican and each of the transactions contemplated hereby and thereby.

(b) This Agreement constitutes, and upon execution and delivery the Registration Rights Agreement shall constitute, a valid and binding obligation of the Purchaser and MidAmerican, enforceable against the Purchaser and MidAmerican in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(c) The execution and delivery by the Purchaser and MidAmerican of the Transaction Documents do not, and the fulfillment of the terms hereof and thereof by the Purchaser and MidAmerican will not, result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or permit the acceleration of rights under or termination of, the Purchaser's or MidAmerican's organizational documents, any material Contract to which the Purchaser or MidAmerican is a party, or any order, judgment, rule or regulation of any Governmental Entity having jurisdiction over the Purchaser or MidAmerican or over their assets, properties or businesses, except for such defaults that would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Purchaser and MidAmerican and its subsidiaries, taken as a whole.

(d) The Purchaser is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act. The Purchaser is purchasing the Shares and any shares of Common Stock issued on conversion of the Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof or of any shares of Common Stock issued on conversion of the Shares in violation of the Securities Act. The Purchaser (either alone or together with its advisors) has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Shares and is capable of bearing the economic risks of such investment.

(e) The Purchaser currently has sufficient immediately available funds in cash or cash equivalents and will on the Closing Date have sufficient immediately available funds, in cash, to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to effect the transactions contemplated hereby.

(f) The Purchaser understands that the Company is relying on the statements contained herein to establish an exemption from registration under federal and state securities laws.

(g) The Purchaser understands that each certificate or other document evidencing any of the Shares shall be endorsed with the legend in the form set forth in Section 5.3(b).

SECTION 5. COVENANTS

5.1. Covenants of the Company and the Purchaser

Subject to the terms and conditions of this Agreement, each of the parties shall use reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary or desirable under applicable legal requirements, to consummate and make effective the transactions contemplated by this Agreement. If at any time after the Closing Date, any further action is necessary or desirable to carry out the purposes of this Agreement, the parties hereto shall use their reasonable best efforts to take or cause to be taken all such necessary or desirable action and execute, deliver and file, or cause to be executed, delivered and filed, all necessary or desirable documentation.

5.2. Covenants of the Company

(a) Between the date of this Agreement and the Closing Date, the Company will promptly advise the Purchaser of any action or event of which it becomes aware which has the effect of making incorrect, any of the Company's representations or warranties or which has the effect of rendering any of the Company's covenants incapable of performance;

(b) From the date hereof until the Closing Date, the Company will (i) furnish to the Purchaser and its authorized representatives such financial and operating data and other information relating to the Company and its subsidiaries as such Persons may reasonably request, and (ii) instruct its counsel, independent accountants and financial advisors to cooperate reasonably with the Purchaser and its authorized representatives in its investigation of the Company. Any investigation pursuant hereto shall be conducted in such manner as not to interfere unreasonably with the conduct of the business of the Company. In addition, from the date hereof until the Closing Date, the Company will provide the Purchaser with copies of all financial information, reports and presentations delivered to the lenders under the Company's principal credit facilities, subject to customary confidentiality terms and conditions.

(c) After the date hereof and prior to the Closing Date, except as (1) expressly provided for in this Agreement, (ii) set forth on Schedule 3.5(b) or (iii) consented to in writing by the Purchaser (which consent shall not be unreasonably withheld or delayed), the Company will not:

(i) split, combine or reclassify any shares of the Company's capital stock;

(ii) declare or pay any dividend or distribution (whether in cash, stock or property) in respect of its Common Stock, other than its regular quarterly dividend, or call for redemption, redeem or repurchase any of its Common Stock;

(iii) take any action, or knowingly omit to take any action, that would, or that would reasonably be expected to, result in (A) any of the representations and warranties of the Company set forth in Section 3 becoming untrue, or (B) any of the conditions to the obligations of the Purchaser set forth in

Section 6 not being satisfied; or

(iv) enter into any agreement or commitment to do any of the foregoing.

(d) Prior to the Closing, the Company will take all actions necessary to file the Certificate of Designation with the Secretary of State of the State of Delaware.

(e) If, following completion of the Williams Substitution (as such term is defined in the Consent Solicitation Statement, dated February 25, 2002, of the Company), the Company or any of its Affiliates owns any share or shares of the March 2001 Mandatorily Convertible Single Reset Preferred Stock, par value $1.00 per share, of the Company, the Company will cancel any such share or shares as soon as reasonably practicable after it is permitted to do so under the terms of the Williams Share Trust Amended and Restated Trust Agreement, dated March 28, 2001, by Wilmington Trust Company, as Share Trustee, Williams Share Trust, and the Company. The Company will use its reasonable best efforts to cause the Williams Substitution to occur prior to September 30, 2002.

5.3. Covenants of the Purchaser

(a) The Purchaser covenants that it will not sell or otherwise transfer the Shares (or any shares of Common Stock acquired upon conversion of the Shares)to any Person except pursuant to an effective registration under the Securities Act or in a transaction which, in the opinion of counsel reasonably satisfactory to the Company, qualifies as an exempt transaction under the Securities Act and the rules and regulations promulgated thereunder.

(b) The certificates evidencing the Shares and the shares of Common Stock issuable upon conversion of the Shares will bear the following legend reflecting the foregoing restrictions on the transfer of such securities:

"THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT'), AND MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE ACT OR IN A TRANSACTION WHICH, IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER."

The Company shall remove this legend from the certificates evidencing such securities as promptly as practicable following the registration of such securities under the Securities Act or such earlier time as such securities are no longer subject to restriction on transfer under the Securities Act.

SECTION 6. CLOSING CONDITIONS OF THE PURCHASER

The obligations of the Purchaser to effect the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, any one

or more of which may be waived by the Purchaser in accordance with Section 8.4:

(a) All representations and warranties made by the Company in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified as to materiality or Material Adverse Effect, which shall be true and correct in all respects) on and as of the Closing Date as if again made by the Company on and as of such date.

(b) The Company shall have performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing Date.

(c) The Purchaser shall have received a certificate, dated the Closing Date, signed by the Chief Executive Officer or the Chief Financial Officer of the Company, certifying that the conditions specified in the foregoing paragraphs (a) and (b) of this Section 6 hereof have been fulfilled.

(d) The Purchaser shall have received from the General Counsel of the Company an opinion, dated the Closing Date, with respect to the matters set forth in Exhibit C hereto.

(e) The Company shall have executed the Registration Rights Agreement.

(f) The Certificate of Designation shall have been filed by the Company with the Secretary of State of the State of Delaware.

(g) All conditions to the obligations of the parties to the Purchase Agreement to consummate the transactions contemplated by such agreement shall have been satisfied or waived (other than conditions set forth in Sections 5.11 and 6.5 of such agreement) and the Company shall be ready, willing and able to close such transaction.

(h) During the period from December 31, 2001 to the Closing Date, there shall not have been any fact, circumstance or development that has had or would reasonably be expected to have a Material Adverse Effect.

(i) The consents, waivers, authorizations and approvals set forth on Schedules 3.5(a) and 3.5(b) shall have been duly obtained and shall be in full force and effect on the Closing Date.

(j) No preliminary or permanent injunction or other order issued by any Governmental Entity, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Entity, which declares the Transaction Documents or the Preferred Stock invalid or unenforceable in any respect or which prevents the consummation of the transactions contemplated hereby or thereby, shall be in effect; and no action or proceeding before any Governmental Entity shall have been instituted by a Governmental Authority or other person or threatened by any Governmental Entity which seeks to prevent or delay the consummation of the transactions contemplated by the Transaction Documents or the Preferred Stock or which challenges the validity or enforceability of the Transaction Documents or the

Preferred Stock.

(k) There shall not have occurred since the date of this Agreement any downgrading in the rating accorded any of the Company's senior unsecured securities below BBB-, Baa3 or BBB- by any one of Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings, respectively.

SECTION 7. CLOSING CONDITIONS OF THE COMPANY

The obligations of the Company to effect the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, any one or more of which may be waived by the Company in accordance with Section 8.4:

(a) All representations and warranties made by the Purchaser in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified as to materiality or Material Adverse Effect, which shall be true and correct in all respects) on and as of the Closing Date as if again made by the Purchaser on and as of such date.

(b) The Purchaser shall have performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing Date.

(c) The Company shall have received a certificate, dated the Closing Date, signed by the Chief Executive Officer or the Chief Financial Officer of the Purchaser, certifying that the conditions specified in the foregoing paragraphs (a) and (b) of this Section 7 hereof have been fulfilled.

(d) No preliminary or permanent injunction or other order issued by any Governmental Entity, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Entity, which declares the Transaction Documents or the Preferred Stock invalid or unenforceable in any respect or which prevents the consummation of the transactions contemplated hereby or thereby, shall be in effect; and no action or proceeding before any Governmental Entity shall have been Instituted by a Governmental Authority or other person or threatened by any Governmental Entity which seeks to prevent or delay the consummation of the transactions contemplated by the Transaction Documents or the Preferred Stock or which challenges the validity or enforceability of the Transaction Documents or the Preferred Stock.

(e) All conditions to the obligations of the parties to the Purchase Agreement to consummate the transactions contemplated by such agreement shall have been satisfied or waived (other than conditions set forth in Sections 5.11 and 6.5 of such agreement) and the Purchaser shall be ready, willing and able to close such transaction.

(f) The consents, waivers, authorizations and approvals set forth on Schedules 3.5(a) and 3.5(b) shall have been duly obtained and shall be in full force and effect on the Closing Date.

SECTION 8: TERMINATION, AMENDMENT AND WAIVER

8.1. Termination

This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing:

(a) by mutual written consent of the Company and the Purchaser;

(b) by the Company, in the event that the Purchaser fails to comply with any of its covenants or agreements contained herein, or breaches its representations and warranties contained herein, such failure to comply or breach, if curable, is not cured within 10 days after receipt by the Purchaser of notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in the failure to satisfy the conditions set forth in Sections 7(a) and/or 7(b);

(c) by the Purchaser, in the event that the Company fails to comply with any of its covenants or agreements contained herein, or breaches its representations and warranties contained herein, such failure to comply or breach, if curable, is not cured within 10 days after receipt by the Company of notice specifying particularly such failure to comply or breach, and such failure to comply or breach would result in a failure to satisfy the conditions set forth in Section 6(a) and/or 6(b);

(d) by the Company or the Purchaser, in the event that a Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their reasonable best efforts to lift), which permanently restrains, enjoins or otherwise prohibits the transactions contemplated by this Agreement and which is not subject to appeal;

(e) by the Company or the Purchaser at any time after June 15, 2002; or

(1) by the Company or the Purchaser, in the event that the Purchase Agreement has been terminated.

8.2. Effect of Termination

In the event of termination and abandonment of this Agreement pursuant to Section 8.1, written notice thereof shall forthwith be given to the other party hereto and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by the Company or the Purchaser. If this Agreement is terminated as provided herein, no party to this Agreement shall have any liability or further obligation to any other party to this Agreement except as provided in Sections 11.1 and 11.2 hereof; provided, however, that no termination of this Agreement pursuant to this Section 8 shall relieve any party of liability for a grossly negligent or wilful and, in either case, material breach of any provision of this Agreement occurring before such termination.

8.3. Amendment

This Agreement may be amended, modified or supplemented only by a written instrument executed by the parties hereto.

8.4. Waiver

The Purchaser or the Company may, by written notice to the other party (i) extend the time for the performance of any of the obligations or other actions of the other party hereto, (ii) waive any inaccuracies in the representations and warranties of the other party contained in this Agreement or in any documents delivered pursuant to this Agreement by the other party, (iii) waive compliance with any of the covenants of the other party contained in this Agreement, (iv) waive performance of any of the obligations of the other party or (v) waive fulfillment of any of the conditions to its own obligations under this Agreement or in any documents delivered pursuant to this Agreement by the other party. The waiver by either party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach, whether or not similar, unless such waiver specifically states that it is to be construed as a continuing waiver.

SECTION 9. INTERPRETATION OF THIS AGREEMENT

9.1. Certain Terms Defined

As used in this Agreement, the following terms have the respective meanings set forth below:

Affiliate: shall mean a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned Person.

Governmental Entity: shall mean any U.S. or non-U.S. (a) federal, state, county, local or municipal governmental, administrative or regulatory authority, agency, commission, tribunal, body or political subdivision thereof, (b) other governmental, quasi-governmental, regulatory or self-regulatory entity, (c) court or administrative tribunal, or (d) arbitration tribunal or other non-Governmental Entity with applicable jurisdiction.

Liens: shall mean any mortgage, lien, pledge, charge, security interest or encumbrance of any kind.

Material Adverse Effect: shall mean a material adverse effect on the assets, properties, business, operations, net income or financial condition of the Company and its subsidiaries taken as a whole, it being understood that none of the following shall be deemed to constitute a Material Adverse Effect; (1) any effect resulting from entering into this Agreement or the announcement of the transactions contemplated by this Agreement; and (ii) any effect resulting from changes in the United States or global economy as a whole, except for such effects which disproportionately impact the Company and its subsidiaries, taken as a whole.

Person: shall mean an individual, corporation, association, trust, limited liability company, limited partnership, limited liability partnership, partnership, incorporated organization, other entity or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, and a Governmental Entity.

SEC: shall mean the Securities and Exchange Commission.

9.2. Schedules

The numbers assigned to the disclosure schedules are given for reference purposes only. Any matter or item disclosed on any disclosure schedule shall not be deemed to be material (whether singularly or in the aggregate) or deemed to give rise to circumstances which may result in a Material Adverse Effect solely by reason of it being so disclosed herein. Any matter or item disclosed pursuant to any disclosure schedule shall be deemed to be disclosed for all purposes under the Agreement reasonably related thereto and any matter disclosed in one disclosure schedule will be deemed disclosed with respect to another disclosure schedule if such disclosure is made in such a way as to make its direct relevance with respect to such other disclosure schedule readily apparent.

9.3. Governing Law

This Agreement shall be governed by and construed in accordance with the internal and substantive laws of Delaware and without regard to any conflicts of laws concepts which would apply the substantive law of some other jurisdiction.

9.4. Paragraph and Section Headings

The headings of the sections and subsections and any table of contents of this Agreement are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or any term or provision hereof.

SECTION 10. SURVIVAL

The respective representations and warranties of the parties hereto contained herein or in any certificates or other documents delivered pursuant to this Agreement on the Closing shall not survive the Closing. The covenants and agreements of the parties hereto shall survive the Closing in accordance with their terms.

SECTION 11. MISCELLANEOUS

11.1. Notices

(a) All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly made or delivered, if delivered personally or sent by overnight courier or facsimile (with evidence of confirmation of receipt), in each case to the parties at the following addresses:

(1) if to the Purchaser or MidAmerican:

MEHC Investment, Inc.
do MidAmerican Energy Holdings Company
320 South 36th St.
Suite 400
Omaha, NE 68131

Attention: Douglas L. Anderson, Esq.
Facsimile: (402) 231-1658

With a copy to:

Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019-6009

Attention: Peter J. Hanlon, Esq. / William N. Dye, Esq.
Facsimile: (212) 728-8111

(2) if to the Company:

The Williams Companies
One Williams Center
Tulsa, Oklahoma 74172

Attention: William von Glahn, Esq.
Facsimile: (918) 573-5942

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036

Attention: Nancy A. Lieberman, Esq.
Facsimile: (212) 735-2000

or such other persons or at such other addresses as shall be furnished by either party by like notice to the other, and such notice or communication shall be deemed to have been given or made as of the date so delivered or mailed. No change in any of such addresses shall be effective insofar as notices under this Section 11.1 are concerned unless such changed address is located in the United States of America and notice of such change shall have been given to such other party hereto as provided in this Section 11.1.

11.2. Expenses

Except as otherwise expressly provided in this Agreement, all legal, accounting, financial advisory and other fees, costs and expenses of a party hereto incurred in connection with this Agreement and the performance of the transactions contemplated hereby shall be paid by the party incurring such fees, costs and expenses.

11.3. Publicity

On or prior to the Closing Date, neither party shall, nor shall it permit its affiliates to, issue or cause the publication of any press release or other announcement with respect to this Agreement or the transactions contemplated hereby without the consent of the other party hereto. Notwithstanding the foregoing, in the event any such press release or announcement is required by law or stock exchange rule to be made by the party proposing to issue the same, such party shall use its reasonable best efforts to consult in good faith with the other party prior to the issuance of any such press release or announcement.

11.4. Submission to Jurisdiction

With respect to any suit, action or proceeding initiated by a party to this Agreement arising out of, under or in connection with this Agreement or the transactions contemplated hereby, the Company and the Purchaser each hereby submit to the exclusive jurisdiction of any state or federal court sitting in the State of Delaware and irrevocably waive, to the fullest extent permitted by law, any objection that they may now have or hereafter obtain to the laying of venue in any such court in any such suit, action or proceeding.

11.5. Successors and Assigns

The rights and obligations of the parties hereto shall inure to the benefit of and shall be binding upon the authorized successors and permitted assigns of each party. Neither party hereto may assign its rights or obligations under this Agreement or designate another person (i) to perform all or part of its obligations under this Agreement or (ii) to have all or part of its rights and benefits under this Agreement, in each case without the prior written consent of the other party. Notwithstanding the prior sentence, the Purchaser may assign any of its rights (but not its obligations) under this Agreement to one or more of the wholly-owned subsidiaries of MidAmerican (so long as such assignment does not delay the Closing or impose any additional costs on the Company), it being understood that such assignment will not release Purchaser from its obligations hereunder. In the event of any assignment in accordance with the terms of this Agreement, the assignee shall specifically assume and be bound by the provisions of the Agreement by executing and agreeing to an assumption agreement reasonably acceptable to the Company.

11.6. Entire Agreement; Amendment and Waiver

The Transaction Documents and the Certificate of Designation represent the entire agreement and understanding of the parties with reference to the transactions set forth herein and therein and no representations or warranties have been made in connection with the

Transaction Documents and the Certificate of Designation other than those expressly set forth herein or in the Schedules, exhibits, certificates and other documents delivered in accordance herewith or therewith. The Transaction Documents and the Certificate of Designation supersede all prior negotiations, discussions, correspondence, communications, understandings and agreements between the parties relating to the subject matter of the Transaction Documents and the Certificate of Designation and all prior drafts of the Transaction Documents and the Certificate of Designation, all of which are merged into the final executed versions of the Transaction Documents and the Certificate of Designation, as the case may be. No prior drafts of the Transaction Documents and the Certificate of Designation and no words or phrases from any such prior drafts shall be admissible into evidence in any action or suit involving the final executed versions of the Transaction Documents and the Certificate of Designation, as the case maybe.

11.7. Severability

This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

11.8. Counterparts

Facsimile transmission of any signed original document and/or retransmission of any signed facsimile transmission shall be the same as delivery of an original. At the request of the Company or the Purchasers, the parties will confirm facsimile transmission by signing a duplicate original document. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

11.9. Third Party Beneficiaries

Nothing in this Agreement shall confer upon any person or entity not a party to this Agreement, or the legal representatives of such person or entity, any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

11.10. Guarantee

MidAmerican guarantees performance by the Purchaser of the Purchaser's obligations under this Agreement.

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

THE WILLIAMS COMPANIES, INC.

By: /s/ Steven J. Malcolm
Name:

Title:

MEHC INVESTMENT, INC.

By: [Signature Illegible]
Name:

Title

MIDAMERICAN ENERGY HOLDINGS COMPANY

By: [Signature Illegible]
Name:

Title

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of March 27, 2002, between MEHC Investment, Inc., a South Dakota corporation (the "Investor"), and The Williams Companies, Inc., a Delaware corporation (the 'Company").

RECITALS

WHEREAS, the Investor has, pursuant to the terms of the Stock Purchase Agreement, dated as of March 7, 2002 (the "Stock Purchase Agreement"), by and among the Company, the Investor and MidAmerican Energy Holdings Company, agreed to purchase 1,466,667 shares of 9-7/8% Cumulative Convertible Preferred Stock, par value $1.00 per share, of the Company (the "Preferred Stock") and

WHEREAS, the shares of Preferred Stock are convertible into shares of Common Stock, par value $1.00 per share, of the Company (the "Common Stock") and

WHEREAS, the Company has agreed, as a condition precedent to the Investor's obligations under the Stock Purchase Agreement, to grant the Investor certain registration rights; and

WHEREAS, the Company and the Investor desire to define the registration rights of the Holders (as defined below) on the terms and subject to the conditions herein set forth.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements contained herein, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, and subject to and on the terms and conditions herein set forth, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

In addition to the terms defined elsewhere in this Agreement, the following terms shall have the respective meaning set forth below:

Agreement: shall mean this Registration Rights Agreement, including all amendments, modifications and supplements and any exhibits or schedules to any of the foregoing, and shall refer to this Registration Rights Agreement as the same may be in effect at the time such reference becomes operative;

Commission: shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act;

Conversion Shares: shall mean any of the shares of Common Stock issued or issuable upon conversion of the Preferred Stock and any stock of the Company issued as a dividend or other distribution with respect to, or in exchange for or replacement of, the Conversion Shares;

Exchange Act: shall mean the Securities Exchange Act of 1934, as amended;

Holder: shall mean any holder of Registrable Securities. For purposes of this Agreement, the Company may deem and treat the registered holder of Registrable Securities as the Holder and absolute owner thereof, and the Company shall not be affected by any notice to the contrary;

Other Stockholders: shall mean Persons who, by virtue of agreements with the Company, are entitled to have their Company securities (other than Registrable Securities) registered;

Person: shall mean an individual, partnership, joint-stock company, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof;

Register, registered and registration: shall mean a registration effected by preparing and filing a registration statement in compliance with the Securities Act (and any post-effective amendments filed or required to be filed) and the declaration or ordering of effectiveness of such registration statement;

Registrable Securities: shall mean the Conversion Shares. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when (A) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (B) they shall have been sold to the public pursuant to Rule 144 under the Securities Act, as such Rule may be amended from time to time ("Rule 144"), (C) in the case of a Piggyback Registration pursuant to Section 2(b), at such time as they are eligible to be sold by the Holder thereof pursuant to paragraph (k) of Rule 144 ("Rule 144(k)"), (D) they shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent public distribution of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force, or (D) they shall have ceased to be outstanding;

Registration Expenses: shall mean all expenses incurred by the Company in compliance with Section 2 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and expenses of one counsel for all the Holders (not to exceed $50,000 in each instance), blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company);

Securities Act: shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder; and

Selling Expenses: shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities.

SECTION 2. REGISTRATION RIGHTS

(a) Demand Registration.

(i) Request for Registration. Upon the written request of one or more Holders of not less than 20% of the Registrable Securities (calculated on an as-converted basis) (the "Requesting Holders") that the Company effect the registration of all or a part of such Holders' Registrable Securities (which request shall specify the intended method of disposition of such Registrable Securities) (a "Demand Registration"), the Company will:

(1) promptly give written notice of the proposed registration to all other Holders; and

(2) as soon as reasonably possible, use its reasonable best efforts to effect such registration (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act) as may be so requested and as would permit or facilitate the sale and distribution (in accordance with the intended methods as aforesaid) of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within 15 days after written notice from the Company is given under Section 2(a)(i)(1) above; provided that the Company shall not be obligated to effect, or take any action to effect, any such registration pursuant to this Section 2(a):

(A) If such registration is prohibited by applicable law;

(B) For a period of 30 days before the anticipated consummation of a public offering by the Company of its equity securities and 90 days subsequent to the consummation of such public offering;

(C) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act or applicable rules or regulations thereunder;

(D) After the Company has effected three (3) Demand Registrations pursuant to this Section 2(a) and such registrations have been declared or ordered effective and the sales of such Registrable Securities shall have closed;

(E) If the Registrable Securities requested by all Holders to be registered pursuant to such request do not constitute at least 20% of the Registrable Securities (calculated on an as-converted basis);

(F) Within 90 days after the effective date of a previous Demand Registration or a previous registration under which the Requesting Holders had piggyback rights pursuant to Section 2(b) hereof wherein the Requesting Holders were permitted to register, and sold, at least 50% of the Registrable Securities requested to be included therein;

(G) If the Company shall furnish to the Requesting Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors it would be in the best interests of the Company to defer such Demand Registration because such registration would jeopardize any other material corporate transaction of the Company or would require the disclosure of material non-public information, then the Company shall have the right to defer filing a registration statement for such Demand Registration for a period not to exceed sixty (60) days from the date of receipt of written request from the Requesting Holders; provided, however, that the Company shall not exercise such right more than once in any (12) twelve-month period.

The registration rights set forth in this Section 2 may be assigned, in whole or in part, to any transferee of Registrable Securities (who shall be bound by all obligations of this Agreement).

(ii) Underwriting. If the Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to Section 2(a). The Holders whose shares are to be included in such registration and the Company shall enter into an underwriting agreement in customary form (including in the case of the Company customary indemnification and contribution) with the representative of the underwriter or underwriters selected for such underwriting by the Holders of more than 50% of the Registrable Securities (calculated on an as-converted basis) to be registered and reasonably acceptable to the Company. The Holders may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such Holders and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement be conditions precedent to the obligations of such Holders. Any such Holder shall not be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Holder, such Holder's Registrable Securities and such Holder's intended method of distribution and any other representation required by law.

(iii) Priority on Demand Registration. Notwithstanding any other provision of this Section 2(a), whenever the Company shall effect a Demand Registration pursuant to this Section 2(a) in connection with an underwritten offering by one or more Holders of Registrable Securities, if the representative of the underwriter or underwriters selected for such underwriting advises the Company and the Holders in writing that in their opinion the number of shares of Registrable Securities proposed to be included in

any such registration exceeds the number of securities which can be sold in such offering, the number of shares included in such registration by the Holders shall be reduced to such number of shares of Registrable Securities which in the opinion of such representative can be sold. If the number of shares which can be sold is less than the number of shares of Registrable Securities proposed to be registered, the amount of Registrable Securities to be so sold shall be allocated first, to the shares of Registrable Securities requested to be registered by the Requesting Holders and then pro rata among the other Holders of Registrable Securities desiring to participate in such registration on the basis of the amount of such Registrable Securities initially proposed to be registered by such other Holders. No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration.

(iv) Inclusion of Other Shares in Underwritten Demand Registration. Whenever the Company shall effect a registration pursuant to this Section 2(a) in connection with an underwritten offering by one or more Holders of Registrable Securities, no securities other than Registrable Securities shall be included among the securities covered by such registration unless the managing underwriter of such offering shall have advised each holder of Registrable Securities to be covered by such registration in writing that the inclusion of such other securities would not adversely affect such offering. If the managing underwriter shall thereafter advise the Company and the Holders that the inclusion of some or all of such securities would adversely affect such offering, the Company shall include in such registration and offering: (i) first, the Registrable Securities, in accordance with Section 2(a)(iii) and (ii) second, to the extent additional securities may be included, the securities of the Company and the Other Stockholders, in such relative amounts as they shall agree, or failing agreement, as the managing underwriter shall advise.

(v) Registration Statement Form. Registrations under this Section 2(a) shall be on such appropriate registration form of the Commission (i) as shall be selected by the Holders of more than 50% of the Registrable Securities so to be registered and as shall be reasonably acceptable to the Company and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in their request for such registration. The Company agrees to include in any such registration statement all information which, in the opinion of counsel to the holders of Registrable Securities and counsel to the Company, is required to be included.

(b) Piggyback Registration.

(i) If the Company shall determine to register any of its equity securities (other than Registrable Securities) under the Securities Act either for its own account or for the account of Other Stockholders, other than a registration relating solely to employee benefit plans, or a registration relating solely to a Commission Rule 145 transaction, or a registration on any registration form which does not permit secondary sales or does not include substantially the same information as would be required to be included in a registration statement covering the sale of Registrable Securities (a "Piggyback Registration"), the Company will:

(1) promptly give to each of the Holders a written notice thereof (which shall include a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable blue sky or other state securities laws); and

(2) subject to Section 2(b)(iii) below, include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting of equity securities involved therein, all the Registrable Securities specified in a written request or requests, made by the Holders within fifteen (15) days after receipt of the written notice from the Company described in clause (i) above. Such written request may specify all or a part of the Holders' Registrable Securities. The Company may postpone or withdraw the filing or effectiveness of a Piggyback Registration at any time in its sole discretion.

(ii) Underwriting. If the registration of which the Company gives notice pursuant to Section 2(b)(i)(1) is for a registered public offering involving an underwriting of equity securities, the Company shall so advise each of the Holders as a part of such notice. In such event, the right of each of the Holders to registration pursuant to this Section 2(b) shall be conditioned upon such Holders' participation in such underwriting and the inclusion of such Holders' Registrable Securities in the underwriting to the extent provided herein. If any Piggyback Registration is an underwritten primary offering of equity securities, the Company shall have the sole right to select the managing underwriter or underwriters to administer any such offering. The Holders whose shares are to be included in such registration shall (together with the Company and the Other Stockholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form (including in the case of the Company customary indemnification and contribution) with the representative of the underwriter or underwriters selected for underwriting by the Company. The Holders may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefits of such Holders and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement be conditions precedent to the obligations of such Holders. Any such Holder shall not be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Holder, such Holder's Registrable Securities and such Holder's intended method of distribution and any other representation required by law.

(iii) Priority on Piggyback Registrations. The number of equity securities requested to be included in such Piggyback Registration shall be subject to the following allocation priority:

(1) If a Piggyback Registration is an underwritten primary registration of equity securities on behalf of the Company, and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number of equity securities which can be sold in such offering, the Company shall include in such registration (i) first, the equity securities the Company proposes to sell, (ii) second, the Registrable Securities requested to be

included therein by the Holders, pro rata among such Holders on the basis of the number of shares requested to be registered by such Holders or as such Holders may otherwise agree and (iii) third, other equity securities requested to be included in such registration by Other Stockholders.

(2) If Piggyback Registration is an underwritten secondary registration of equity securities on behalf of Other Stockholders of the Company's securities, and the managing underwriters shall advise the Company in writing that in their opinion the number of equity securities requested to be included in such registration exceeds the number of equity securities which can be sold in such offering, the Company shall include in such registration (i) first, the equity securities proposed to be included therein by the holders requesting such registration, (ii) second, the equity securities requested to be included in such registration by the Company; (iii) third, the Registrable Securities requested to be included therein by the Holders, pro rata among such Holders on the basis of the number of shares requested to be registered by such Holders or as such Holders may otherwise agree and (iv) fourth, other equity securities requested to be included in such registration by Other Stockholders not otherwise included in clause (i) above.

The Company shall so advise all holders of securities requesting registration, and the number of shares of equity securities that are entitled to be included in any such registration. If the Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities or other equity securities excluded or withdrawn from such underwriting shall be withdrawn from such registration. Notwithstanding anything herein to the contrary, if the Company has previously filed a registration statement with respect to Registrable Securities pursuant to Section 2(a) hereof or pursuant to this Section 2(b), and if such previous registration has not been withdrawn or abandoned, the Company shall not be obligated to cause to become effective any other registration of any of its securities under the Securities Act, whether on its own behalf or at the request of any holder or holders of such securities, until a period of at least three months has elapsed from the effective date of such previous registration.

The registration of convertible debt and the underlying equity securities into which such debt converts shall not be deemed a registration of equity securities for purposes of this Section 2(b).

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 2 shall be borne by the Company, and all Selling Expenses shall be borne by the Holders of the securities so registered pro rata on the basis of the number of their shares so registered.

(d) Registration Procedures. In the case of each registration effected by the Company pursuant to this Section 2, the Company will keep the Holders, as applicable, advised in writing as to the initiation of each registration and as to the completion thereof. At its expense, the Company will as soon as reasonably possible:

(i) prepare and file with the Commission the requisite registration statement to effect such registration as soon as reasonably possible and, in any event, in the case of a registration pursuant to Section 2(a), not later than thirty (30) days after receipt of the registration request from the Requesting Holders and thereafter use its reasonable best efforts to cause such registration statement to become effective as soon as reasonably possible;

(ii) use its reasonable best efforts to keep such registration effective for a period of one hundred twenty (120) days or until the Holders, as applicable, have completed the distribution described in the registration statement relating thereto, whichever first occurs; provided, however, that (A) such 120-day period shall be extended for a period of time equal to the period during which the Holders refrain from selling any securities included in such registration in accordance with provisions in Section 2(d)(vii) hereof; and (B) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such 120-day period shall be extended until all such Registrable Securities are sold, but in any event not exceeding two years, provided that Rule 415, or any successor rule under the Securities Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Securities Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (y) includes any prospectus required by Section 10(a) of the Securities Act or (z) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (y) and (z) above to be contained in periodic reports filed pursuant to Section 12 or 15(d) of the Exchange Act in the registration statement;

(iii) furnish to each seller of Registrable Securities covered by such registration statement and each Requesting Holder such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in such registration statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 under the Securities Act, in conformity with the requirements of the Securities Act, and such other documents, as such seller may reasonably request;

(iv) use its reasonable best efforts to register or qualify all Registrable Securities and other securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions where an exemption is not available and as such seller thereof and each Requesting Holder shall reasonably request, to keep such registration or qualification in effect for so long as such registration statement remains in effect, and take any other action which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such seller.

(v) use its reasonable best efforts to cause all Registrable Securities covered by such registration statement to be registered with or approved by such other

federal or state governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities;

(vi) use its reasonable best efforts to furnish or cause to be furnished, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (1) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders participating in such registration, addressed to the underwriters, if any, and to the Holders participating in such registration and (2) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders participating in such registration, addressed to the underwriters, if any, and if permitted by applicable accounting standards, to the Holders participating in such registration.

(vii) notify each seller of Registrable Securities covered by such registration statement and each Requesting Holder, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and at the request of any such seller or holder promptly prepare and furnish to such seller or holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they are made;

(viii) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act, and will furnish to each such seller and each Requesting Holder at least two business days prior to the filing thereof a copy of any amendment or supplement to such registration statement or prospectus and shall not file any thereof to which any such seller or any Requesting Holder shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations thereunder;

(ix) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by such registration statement from and after a date not later than the effective date of such registration statement; and

(x) use its reasonable best efforts to list all Registrable Securities covered by such registration statement on any national securities exchange on which Registrable Securities of the type covered by such Registration Statement are then listed.

Each Holder agrees by acquisition of such Registrable Securities that upon receipt of any notice from the Company of the happening of any event of the kind described in Section 2(d)(vii), such Holder will forthwith discontinue such Holder's disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 2(d)(vii).

(e) Preparation; Reasonable Investigation. In connection with the preparation and filing of each registration statement under the Securities Act pursuant to this Agreement, the Company will give the Holders of Registrable Securities registered under such registration statement, their underwriters, if any, each Requesting Holder and their respective counsel and accountants the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its financial and other records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of such Holders' and such underwriters' respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

(f) Indemnification.

(i) The Company will indemnify each of the Holders, as applicable, each of its officers, directors, employees, agents and attorneys, and each Person controlling each of the Holders, with respect to each registration which has been effected pursuant to this Section 2, and each underwriter, if any, and each person who controls any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each of the Holders, each of its officers, directors, employees, agents and attorneys, and each Person controlling each of the Holders, each such underwriter and each Person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission

based upon written information furnished to the Company by the Holders or underwriter and stated to be specifically for use therein.

(ii) Each of the Holders will, indemnify the Company, each of its officers, directors, employees, agents and attorneys, and each underwriter, if any, of the Company's securities covered by registration statement in which such Holder's Registrable Securities are included, each person who controls the Company or such underwriter, each Other Stockholder and each of their officers, directors, and partners, and each person controlling such Other Stockholder against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document made by such Holder, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements by such Holder therein not misleading, and will reimburse the Company and such Other Stockholders, officers, directors, employees, agents, attorneys underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by such Holder and stated to be specifically for use therein; provided, however, that the obligations of each of the Holders hereunder shall be limited to an amount equal to the net proceeds to such Holder of securities sold as contemplated herein.

(iii) Promptly after receipt by an Indemnified Party under this Section 2(f) (an "Indemnified Party") of notice of the commencement of any action for which such Indemnified Party is entitled to indemnification under this Section 2(f), such Indemnified Party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 2(1) (the "Indemnifying Party"), notify the Indemnifying Party of the commencement thereof in writing; but the omission to so notify the Indemnifying Party will not relieve it from any liability under clauses (i) or (ii) above unless and to the extent such failure results in the forfeiture by the Indemnifying Party of substantial rights and defenses. In case any such action is brought against any Indemnified Party, and it notifies the Indemnifying Party of the commencement thereof, the Indemnifying Party will be entitled to participate therein and, to the extent that it may wish, jointly with any other Indemnifying Party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such Indemnified Party; provided, however, that if (i) the use of counsel chosen by the Indemnifying Party to represent the Indemnified Party would present such counsel with a conflict of interest, (ii) the defendants in any such action include both the Indemnified Party and the Indemnifying Party and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it and/or other Indemnified Parties that are different from or additional to those available to the Indemnifying Party, or (iii) the Indemnifying Party shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after receipt by the Indemnifying Party of notice of the institution of such action, then, in each such case, the

Indemnifying Party shall not have the right to direct the defense of such action on behalf of such Indemnified Party or parties and such Indemnified Party or parties shall have the right to select separate counsel to defend such action on behalf of such Indemnified Party or parties. After notice from the Indemnifying Party to such Indemnified Party of its election so to assume the defense thereof and approval by such Indemnified Party of counsel appointed to defend such action, the Indemnifying Party will not be liable to such Indemnified Party under this 2(f) for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such Indemnified Party in connection with the defense thereof, unless (i) the Indemnified Party shall have employed separate counsel in accordance with the proviso to the immediately preceding sentence (it being understood, however, that in connection with such action the Indemnifying Party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances representing the Indemnified Parties who are parties to such action or actions) or (ii) the Indemnifying Party has authorized in writing the employment of counsel for the Indemnified Party at the expense of the Indemnifying Party. After such notice from the Indemnifying Party to such Indemnified Party, the Indemnifying Party will not be liable for the costs and expenses of any settlement of such action effected by such Indemnified Party without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed). Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(iv) If the indemnification provided for in this Section 2(f) is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue (or alleged untrue) statement of a material fact or the omission (or alleged omission) to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(v) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with any underwritten public offering contemplated by this Agreement are in conflict with the foregoing provisions, the provisions in such underwriting agreement shall be controlling.

(g) Information by the Holders. A Holder holding Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder and the distribution proposed by such Holder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Section 2.

(h) Rule 144 Reporting. With a view to making available to the Holder the benefits of certain rules and regulations of the Commission which may permit the sale of restricted securities to the public without registration, until the earlier of (A) such date as all of the Registrable Securities, held by such Holder have been sold in a registration pursuant to the Securities Act or pursuant to Rule 144 (or any similar rule then in effect) or (B) such date as all of the Registrable Securities held by such Holder are eligible to be sold without restriction pursuant to Rule 144(k), the Company agrees to:

(i) make and keep public information available as those terms are understood and defined in Rule 144 at all times;

(ii) use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements; and

(iii) so long as the Holder owns any Registrable Securities, furnish to the Holder upon request, a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (or any similar rule then in effect), and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as the Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing the Holder to sell any such securities without registration.

(i) Termination. The registration rights set forth in this Section 2 shall not be available to any Holder if all of the Registrable Securities held by such Holder have been sold in a registration pursuant to the Securities Act or pursuant to Rule 144 (or any similar rule then in effect) or in the case of the piggyback registration rights set forth in Section 2(b), if all of the Registrable Securities held be such Holder are eligible to be sold pursuant to Rule 144(k).

SECTION 3. MISCELLANEOUS

(a) Directly or Indirectly. Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

(b) Governing Law. This Agreement shall be governed by and construed in accordance with the internal and substantive laws of Delaware and without regard to any Conflicts of Laws concepts which would apply the substantive law of some other jurisdiction.

(c) Section Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof.

(d) Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if delivered personally or sent by overnight courier or sent by facsimile (with evidence of confirmation of receipt) to the parties at the following addresses:

(i) If to the Company, to:

The Williams Companies, Inc.
One Williams Center
Tulsa, Oklahoma 74172

Attention: William von Glahn, Esq.
Facsimile: (918) 573-5942

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036

Attention: Nancy A. Lieberman, Esq.
Facsimile: (212) 735-2000

(ii) If to the Holder, to:

MEHC Investment, Inc.
do MidAmerican Energy Holdings Company
320 South 36th St.
Suite 400
Omaha, NE 68131

Attention: Douglas L. Anderson, Esq.
Facsimile: (402) 231-1658

With a copy to:

Willkie Farr & Gallagher
787 Seventh Avenue
New York, NY 10019

Attention: Peter J. Hanlon, Esq. / William N. Dye, Esq.
Facsimile: (212) 728-8111

Or to such other persons or at such other addresses as shall be furnished by either party by like notice to the other, and such notice or communication shall be deemed to have been given or made as of the date so delivered or mailed. No change in any of such addresses shall be effective insofar as notices under this Section 3(d) are concerned unless such changed address is

located in the United States of America and notice of such change shall have been given to such other party hereto as provided in this Section 3(d).

(e) Reproduction of Documents. This Agreement and all documents relating thereto, including, without limitation, any consents, waivers and modifications which may hereafter be executed may be reproduced by the Holders by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and the Holders may destroy any original document so reproduced. The parties hereto agree and stipulate that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Holders in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

(f) Successors and assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties.

(g) Entire Agreement. This Agreement represents the entire agreement and understanding of the parties with respect to the subject matter hereof and no representations or warranties have been made in connection with this Agreement other than those expressly set forth herein or in certificates and other documents delivered in accordance herewith. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understanding and agreements between the parties relating to the subject matter of this Agreement and all prior drafts of this Agreement, all of which are merged into this Agreement. No prior drafts of this Agreement and no words or phrases from any such prior drafts shall be admissible into evidence in any action or suit involving this Agreement.

(h) Waivers and Amendments. This Agreement may be amended, and the observance of any term of this Agreement may be waived, only with the written consent of the Company and the Holders holding a majority of the then outstanding Registrable Securities (calculated on an as-converted basis).

(i) Severability. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

(j) Counterparts. Facsimile transmission of any signed original document and/or retransmission of any signed facsimile transmission shall be the same as delivery of any original. At the request of the Company or the Holder, the parties will confirm facsimile transmission by signing a duplicate original document. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

(k) Registration Rights. The Company represents, warrants and agrees that it is not, and will not be, bound by the provisions of any registration rights agreement which are in conflict with this Agreement.

(l) Nominees for Beneficial Owners. In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the holder of such Registrable Securities for purposes of any request or other action by any holder or holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any holder or holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.

(m) Consent to Jurisdiction; Exclusive Forum. With respect to any suit, action or proceeding initiated by a party to this Agreement arising out of, under or in connection with this Agreement or the transactions contemplated hereby, each of the Company and the Holder hereby submit to the exclusive jurisdiction of any state or federal court sitting in the State of Delaware and irrevocably waive, to the fullest extent permitted by law, any objection that they may now have or hereafter obtain to the laying of venue in any such court in any such suit, action or proceeding.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above.

THE WILLIAMS COMPANIES, INC.

By: /s/ Steven J. Malcolm
Name:
Title:

MEHC INVESTMENT, INC.

By: /s/ Douglas L. Anderson
Name: Douglas L. Anderson
Title: Vice President

EXHIBIT 12

THE WILLIAMS COMPANIES, INC. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDEND REQUIREMENTS

YEARS ENDED DECEMBER 31,	2002	2001*	2000*	1999*	1998*
(DOLLARS IN MILLIONS) Earnings: Income (loss) from continuing operations before income taxes and extraordinary gain (loss)	$ (696.5)	$1,412.3	$1,361.9	$385.2	$209.7
Add: Interest expense -- net	1,200.5	682.2	606.9	495.7	425.1
Rental expense representative of interest factor	26.6	25.1	23.9	25.7	20.9
Minority interest in income and preferred returns of consolidated subsidiaries	79.3	80.7	56.8	33.1	3.6
Interest accrued -- 50% owned companies	3.2	9.0	8.7	7.5	6.2
Equity losses in less than 50% owned companies	20.6	27.9	16.5	13.0	--
Other	18.5	6.6	(8.7)	(4.1)	7.4
Total earnings as adjusted plus fixed charges	$ 652.2	$2,243.8	$2,066.0	$956.1	$672.9
Fixed charges and preferred stock dividend requirements: Interest expense -- net	$1,200.5	$ 682.2	$ 606.9	$495.7	$425.1
Capitalized interest	29.0	38.4	34.3	21.5	11.3
Rental expense representative of interest factor	27.0	25.1	23.9	25.7	20.9
Pre-tax effect of preferred stock dividend requirements of the Company	33.6	--	--	5.1	12.4
Pre-tax effect of preferred returns of subsidiaries	15.2	59.1	44.2	26.7	--
Interest accrued -- 50% owned companies	3.2	9.0	8.7	7.5	6.2
Combined fixed charges and preferred stock dividend requirements	$1,308.5	$ 813.8	$ 718.0	$582.2	$475.9
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	(a) 2.76	2.88	1.64	1.41	

- ---

* Certain amounts have been restated or reclassified as described in Note 1 of Notes to Consolidated Financial Statements.

(a) Earnings were inadequate to cover combined fixed charges and preferred stock dividend requirement by $656.3 million for the year ended December 31, 2002.

EXHIBIT 21

ENTITY	JURISDICTION
898389 Alberta Ltd.	Alberta
ACCROSERV SRL	Barbados
ACCROVEN SRL	Barbados
Alliance Canada Marketing L.P.	Alberta
Alliance Canada Marketing LTD	Alberta
American Soda, L.L.P.	Colorado
Apco Argentina, Inc.	Cayman Islands
Apco Properties Ltd.	Cayman Islands
Arctic Fox Assets, L.L.C.	Delaware
Aspen Products Pipeline LLC	Delaware
Aux Sable Canada Ltd.	Alberta
Aux Sable Canada LP	Alberta
Aux Sable Liquid Products Inc.	Delaware
Aux Sable Liquid Products LP	Alberta
Bargath Inc.	Colorado
Barrett 1997 Trust	Delaware
Barrett Fuels Corporation	Delaware
Barrett Resources International Corporation	Delaware
Barrett Resources Peru Corporation	Delaware
Baton Rouge Fractionators LLC	Delaware
Baton Rouge Pipeline LLC	Delaware
Beaver Dam Wash Energy, LLC	Delaware
Beech Grove Processing Company	Tennessee
Bison Royalty LLC	Delaware
Black Marlin Pipeline Company	Texas
Buccaneer Gas Pipeline Company, L.L.C.	Delaware
Cannon Pipeline L.L.C.	Oklahoma
Carbon County UCG, Inc.	Delaware
Cardinal Operating Company	Delaware
Cardinal Pipeline Company, LLC	North Carolina
Castle Associates, L.P.	Delaware
Chacahoula Natural Gas Storage, LLC	Delaware
Choctaw Natural Gas Storage, LLC	Delaware
ChoiceSeat, L.L.C.	Delaware
Cross Bay Operating Company	Delaware
Cross Bay Pipeline Company, L.L.C.	Delaware
Cumberland Gas Pipeline Company	Delaware
Cumberland Operating Company	Delaware
Discovery Gas Transmission LLC	Delaware
Discovery Producer Services LLC	Delaware
Distributed Power Solutions L.L.C.	Delaware

Dogwood Ventures Company, LLC	Delaware
Eagle Gas Services, Inc.	Ohio
E-Birchtree, LLC	Delaware
EM&T NPC Co., LLC	Delaware
Energy International Corporation	Pennsylvania
Energy News Live, LLC	Delaware
Energy Tech, Inc.	Delaware
E-Oaktree, LLC	Delaware
Erie & Hudson Development Company	Ohio
ESPAGAS USA, Inc.	Delaware
ESPAGAS, S.A. de C.V.	Mexico
F T & T, Inc.	Delaware
Fishhawk Ranch, Inc.	Florida
FleetOne Inc.	Delaware
FPT Marketing Company Limited	Bermuda
Free Port Terminal Company Limited	Bermuda
Fulton Energy Center, LLC	Delaware
Garrison, L.L.C.	Delaware
Gas Supply, L.L.C.	Delaware
Georgia Strait Crossing Pipeline LP	Utah
Goebel Gathering Company, L.L.C.	Delaware
Great Basin Energy Resources, LLC	Delaware
GSX Canada Limited Partnership	British Columbia
GSX Operating Company, LLC	Delaware
GSX Pipeline, LLC	Delaware
GSX Western Pipeline Company	Delaware
Gulf Liquids Holdings LLC	Delaware
Gulf Liquids New River Project LLC	Delaware
Gulf Stream Natural Gas System, L.L.C.	Delaware
Gulfstream Management & Operating Services, L.L.C.	Delaware
Halgas, Inc.	Oklahoma
Hazleton Fuel Management Company	Delaware
Hazleton Pipeline Company	Delaware
HI-BOL Pipeline Company	Delaware
Independence Operating Company	Delaware
Independence Pipeline Company	Delaware
Inland Ports, Inc.	Tennessee
Juarez Pipeline Company	Delaware
Kern River Acquisition, LLC	Delaware
Kiowa Gas Storage, L.L.C.	Delaware
Langside Limited	Bermuda
Laughton, L.L.C.	Delaware
Liberty Operating Company	Delaware
Littlefield Energy, LLC	Delaware
Longhorn Enterprises of Texas, Inc.	Delaware
Longhorn Partners GP, L.L.C.	Delaware

Longhorn Partners Pipeline, L.P.	Delaware
Magnolia Methane Corp.	Delaware
MAPCO Alaska Inc.	Alaska
MAPCO Canada Energy Inc.	Canada
MAPCO Energy Services, L.L.C.	Delaware
MAPCO Impressions Inc.	Oklahoma
MAPCO Inc. DE	Delaware
MAPCO Indonesia Inc.	Delaware
MAPL Investments, Inc.	Delaware
Marsh Resources, Inc.	Delaware
Memphis Generation, L.L.C.	Delaware
Meteetse Joint Venture	
Millennium Energy Fund, L.L.C.	Delaware
Moriche Bank Ltd.	Barbados
Nebraska Energy, L.L.C.	Kansas
NESP Supply Corp.	Delaware
North Padre Island Spindown, Inc.	Delaware
Northwest Alaskan Pipeline Company	Delaware
Northwest Argentina Corporation	Utah
Northwest Land Company	Delaware
Northwest Pipeline Corporation	Delaware
NWP Enterprises, Inc.	Delaware
NWP Enterprises, LLC	Delaware
Pacesetter/MVHC, Inc.	Texas
Pan-Alberta Resources Inc.	Canada
Parkco, L.L.C.	Oklahoma
Petrolera Perez Companc	Argentina
Piceance Production Holdings LLC	Delaware
Pine Needle LNG Company, LLC	North Carolina
Pine Needle Operating Company	Delaware
Piper Power Company, LLC	Delaware
Plains Petroleum Gathering Company	Delaware
Rainbow Resources, Inc.	Colorado
Realco of Crown Center, Inc.	Delaware
Realco of San Antonio, Inc.	Delaware
Realco Realty Corp.	Delaware
Reserveco Inc.	Delaware
Rio Grande Pipeline Company	Texas
Rio Vista Energy Marketing Company, L.L.C.	Delaware
Rulison Gas Company, LLC	Colorado
Rulison Production Company LLC	Delaware
Servicios Williams International de Mexico S.A. de C.V.	Mexico
Silver State Resources Management, LLC	Delaware
Snow Goose Associates, L.L.C.	Delaware
Sociedad Williams Enbridge y Compania	Venezuela
Solutions EMT, Inc.	Texas

SPV, L.L.C.	Oklahoma
Tennessee Processing Company	Delaware
Terrebonne Pipeline Company	Delaware
Texas Gas Transmission Corporation	Delaware
TGPL Enterprises, Inc.	Delaware
TGPL Enterprises, LLC	Delaware
TGT Enterprises, Inc.	Delaware
TGT Enterprises, LLC	Delaware
The Tennessee Coal Company	Delaware
Thermogas Energy, LLC	Delaware
TM Cogeneration Company	Delaware
Touchstar Energy Technologies, Inc.	Texas
Touchstar Technologies Pty Ltd.	South Africa
TouchStar Technologies, L.L.C.	Delaware
TransCardinal Company	Delaware
TransCarolina LNG Company	Delaware
Transco Coal Gas Company	Delaware
Transco Cross Bay Company	Delaware
Transco Energy Company	Delaware
Transco Energy Investment Company	Delaware
Transco Energy Marketing Company	Delaware
Transco Exploration Company	Delaware
Transco Gas Company	Delaware
Transco Independence Pipeline Company	Delaware
Transco Liberty Pipeline Company	Delaware
Transco P-S Company	Delaware
Transco Resources, Inc.	Delaware
Transco Terminal Company	Delaware
Transco Tower Realty, Inc.	Delaware
Transcontinental Gas Pipe Line Corporation	Delaware
TransCumberland Pipeline Company	Delaware
Transeastern Gas Pipeline Company, Inc.	Delaware
TransNetwork Holding Company	Delaware
Tri-States NGL Pipeline, L.L.C.	Delaware
Tulsa Williams Company	Delaware
TXG Gas Marketing Company	Delaware
Valley View Coal, Inc.	Tennessee
Volunteer - Williams, L.L.C.	Delaware
WCG NOTE CORP., INC.	Delaware
WEG GP LLC	Delaware
WEM&T Trading GmbH	Austria
West Texas LPG Pipeline Limited Partnership	Texas
WFS - Liquids Company	Delaware
WFS - NGL Pipeline Company, Inc.	Delaware
WFS - OCS Gathering Co.	Delaware
WFS - Offshore Gathering Company	Delaware

WFS - Pipeline Company	Delaware
WFS Enterprises, Inc.	Delaware
WFS Gathering Company, L.L.C.	Delaware
WGP Enterprises, Inc.	Delaware
WGP Gulfstream Pipeline Company, L.L.C.	Delaware
WGP International Canada, Inc.	New Brunswick
WHBC Holdings, LLC	Delaware
WHBC, LLC	Delaware
WHD Enterprises, Inc.	Delaware
WHD Enterprises, LLC	Delaware
WilJet, L.L.C.	Arizona
Williams Acquisition Holding Company, Inc. (Del)	Delaware
Williams Acquisition Holding Company, Inc. (NJ)	New Jersey
Williams Aircraft Leasing, LLC	Delaware
Williams Aircraft, Inc.	Delaware
Williams Alaska Air Cargo Properties, L.L.C.	Alaska
Williams Alaska Petroleum, Inc.	Alaska
Williams Alaska Pipeline Company, L.L.C.	Delaware
Williams Alliance Canada Marketing, Inc.	New Brunswick
Williams Ammonia Pipeline, L.P.	Delaware
Williams Arkoma Gathering Company, LLC	Delaware
Williams Bio-Energy, LLC	Delaware
Williams Cove Point, Inc.	Delaware
Williams Customer Information Solution, Inc.	Delaware
Williams Distributed Power Services, Inc.	Delaware
Williams EnergIa Espana, S.L.	Spain
Williams Energia Italia SRL	Italy
Williams Energy Canada Pipeline, Inc.	New Brunswick
Williams Energy Canada, Inc.	New Brunswick
Williams Energy Company	Delaware
Williams Energy European Services Ltd.	United Kingdom
Williams Energy Management LLC	Delaware
Williams Energy Marketing & Trading Canada, Inc.	New Brunswick
Williams Energy Marketing & Trading Company	Delaware
Williams Energy Marketing & Trading Europe Ltd	England
Williams Energy Marketing & Trading Holdings UK Ltd.	United Kingdom
Williams Energy Network, Inc.	Delaware
Williams Energy Partners L.P.	Delaware
Williams Energy Services, LLC	Delaware
Williams Energy Solutions, Inc.	Delaware
Williams Energy, L.L.C.	Delaware
Williams Environmental Services Company	Delaware
Williams Equities, Inc.	Delaware
Williams Ethanol Services, Inc.	Delaware
Williams Exploration Company	Delaware
Williams Express, Inc. AK	Alaska

Williams Express, Inc.	Delaware
Williams Fertilizer, Inc.	Delaware
Williams Field Services - Gulf Coast Company, L.P.	Delaware
Williams Field Services - Matagorda Offshore Company, LLC	Delaware
Williams Field Services Company	Delaware
Williams Field Services Group, Inc	Delaware
Williams Flexible Generation, LLC	Delaware
Williams Gas Company	Delaware
Williams Gas Energy, Inc.	Delaware
Williams Gas Pipeline - Alliance Canada, Inc.	Alberta
Williams Gas Pipeline - Alliance U.S., Inc.	Delaware
Williams Gas Pipeline Company, LLC	Delaware
Williams Gas Pipeline Mexico, S.A. de C.V.	Mexico
Williams Gas Processing - Gulf Coast Company, L.P.	Delaware
Williams Gas Processing - Mid-Continent Region Company	Delaware
Williams Gas Processing - Wamsutter Company	Delaware
Williams Gas Processing Company	Delaware
Williams Gathering & Transportation, L.L.C.	Oklahoma
Williams Generating Memphis, LLC	Delaware
Williams Generation Company - Hazleton	Delaware
Williams Global Energy Cayman Limited	Cayman Islands
Williams Global Holdings Company	Delaware
Williams GmbH	Austria
Williams GP Inc.	Delaware
Williams GP LLC	Delaware
Williams GSR, L.L.C.	Delaware
Williams GSX Canada Inc.	New Brunswick
Williams Gulf Coast Gathering Company, LLC	Delaware
Williams Headquarters Acquisition Company	Delaware
Williams Headquarters Building Company	Delaware
Williams Headquarters Building, L.L.C.	Delaware
Williams Headquarters Management Company	Delaware
Williams Holdings GmbH	Austria
Williams Hugoton Compression Services, Inc.	Delaware
Williams Independence Marketing Company	Delaware
Williams Indonesia, L.L.C.	Delaware
Williams Information Technology, Inc.	Delaware
Williams Intercontinental Holdings Company	Delaware
Williams International Bermuda Limited	Bermuda
Williams International Communications, Inc.	Delaware
Williams International Company	Delaware
Williams International Cusiana-Cupiagua Limited	Cayman Islands
Williams International de Mexico, S.A. de C.V.	Mexico
Williams International Ecuador Cayman Limited	Cayman Islands
Williams International Ecuadorian Ventures Bermuda Limited	Bermuda
Williams International El Furrial Limited	Cayman Islands

Williams International Guara Limited	Cayman Islands
Williams International Holdings Limited	Cayman Islands
Williams International Investment Ventures Cayman Limited	Cayman Islands
Williams International Investments Cayman Limited	Cayman Islands
Williams International Jose Limited	Cayman Islands
Williams International Oil & Gas Venezuela Limited	Cayman Islands
Williams International Operations Ecuador Limited	Cayman Islands
Williams International Operations Venezuela Limited	Cayman Islands
Williams International Pigap Limited	Cayman Islands
Williams International Pipeline Company	Delaware
Williams International Services Company	Nevada
Williams International Telecom Limited	Delaware
Williams International Telecommunications Investments Cayman Limited	Cayman Islands
Williams International Venezuela Limited	Cayman Islands
Williams International Ventures Bermuda Ltd.	Bermuda
Williams Learning Center, Inc.	Delaware
Williams Lietuva	Lithuania
Williams Lynxs Alaska CargoPort, L.L.C.	Alaska
Williams Memphis Terminal, Inc.	Delaware
Williams Merchant Services Company, Inc.	Delaware
Williams Mid-South Pipelines, LLC	Delaware
Williams Midstream Marketing and Risk Management, LLC	Delaware
Williams Midstream Natural Gas Liquids, Inc.	Delaware
Williams Mobile Bay Producer Services, L.L.C.	Delaware
Williams Natural Gas Liquids Canada, Inc.	Alberta
Williams Natural Gas Liquids, Inc.	Delaware
Williams Natural Gas Storage, LLC	Delaware
Williams NGL, LLC	Delaware
Williams Northern NGL Pipeline, L.L.C.	Delaware
Williams Oil Gathering, L.L.C.	Delaware
Williams Olefins Feedstock Pipelines, L.L.C.	Delaware
Williams Olefins, L.L.C.	Delaware
Williams OLP, L.P.	Delaware
Williams One-Call Services, Inc.	Delaware
WILLIAMS PETROLEOS ESPANA, S.L.	Spain
Williams Petroleum Pipeline Systems, Inc.	Delaware
Williams Petroleum Services, LLC	Delaware
Williams Pipe Line Company, LLC	Delaware
Williams Pipeline Services Company	Delaware
Williams Pipelines Holdings, L.P.	Delaware
Williams Portfolio Holdings, LLC	Delaware
Williams Power Marketing, LLC	Delaware
Williams Production - Gulf Coast Company, L.P.	Delaware
Williams Production Company, LLC	Delaware
Williams Production Holdings LLC	Delaware
Williams Production Mid-Continent Company	Oklahoma

Williams Production RMT Company	Delaware
Williams Production Rocky Mountain Company	Delaware
Williams Refining & Marketing, L.L.C.	Delaware
Williams Relocation Management, Inc.	Delaware
Williams Resource Center, L.L.C.	Delaware
Williams Risk Holdings, L.L.C.	Delaware
Williams Risk Management L.L.C.	Delaware
Williams Sodium Products Company	Delaware
Williams Strategic Sourcing Company	Delaware
Williams Strategic Ventures, LLC	Delaware
Williams Terminals Holdings, L.P.	Delaware
Williams Trading UK Ltd.	United Kingdom
Williams TravelCenters, Inc.	Delaware
Williams Underground Gas Storage Company	Delaware
Williams Western Holding Company, Inc.	Delaware
Williams Western Pipeline Company, LLC	Delaware
Williams Wireless, Inc.	Delaware
Williams WPC - I, Inc.	Delaware
Williams WPC - II, Inc.	Delaware
Williams WPC International Company	Delaware
WilMart, Inc.	Delaware
WILPRISE Pipeline Company, L.L.C.	Delaware
WilPro Energy Services El Furrial Limited	Cayman Islands
WilPro Energy Services Pigap II Limited	Cayman Islands
Worldwide Services Limited	Cayman Islands
WPX Enterprises, Inc.	Delaware
WPX Gas Resources Company	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements on Form S-3 and Form S-4, and related prospectuses and in the following registration statements on Form S-8 of The Williams Companies, Inc. of our report dated March 5, 2003, 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, 2002:

Form S-3:
Registration No. 333-20929;
Registration No. 333-35097;
Registration No. 333-29185;
Registration No. 333-24683;
Registration No. 333-20927;
Registration No. 333-70394;
Registration No. 333-35101;
Registration No. 333-27311;
Registration No. 333-27359;
Registration No. 333-85540 Form S-4:
Registration No. 333-57416;
Registration No. 333-63202;
Registration No. 333-101788;
Registration No. 333-72982;
Registration No. 333-85566;
Registration No. 333-85568; Form S-8:
Registration No. 33-58971;
Registration No. 33-58969;
Registration No. 33-56521;
Registration No. 33-58671;
Registration No. 333-11151;
Registration No. 333-40721;
Registration No. 333-30095;
Registration No. 333-48945;
Registration No. 333-90265;
Registration No. 333-76929;
Registration No. 333-66474;
Registration No. 333-

85542;
Registration
No. 333-
03957;
Registration
No. 333-
51994;
Registration
No. 333-
33735;
Registration
No. 333-
85546
Registration
No. 333-
61597;

ERNST & YOUNG LLP

Tulsa, Oklahoma
March 14, 2003

NSA ~ NETHERLAND, SEWELL.
& ASSOCIATES, INC.

EXHIBIT 23.2

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the incorporation by reference to our reserve reports dated as of December 31, 2002, 2001 and 2000, each of which is included in the Annual Report on Form 10-K of The Williams Companies for the year ended December 31, 2002. We also consent to the reference to us under the heading of "Experts" in such Annual Report.

NETHERLAND, SEWELL & ASSOCIATES. INC.

By: /s/ Dan Paul Smith

Dan Paul Smith
Senior Vice President

Dallas, Texas
March 17, 2003

EXHIBIT 23.3

FAX (303) 683-4258

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

600 SEVENTEENTH STREET SUITE 1610 N. DENVER, COLORADO 80202-5416 TELEPHONE (303) 623-9147

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

We hereby consent to the incorporation by reference to our reserve reports dated as of December 31, 2002, 2001 and 2000, each of which is included in the Annual Report on Form 10-K of The Williams Companies for the year ended December 31, 2002. We also consent to the reference to us under the heading of "Experts" in such Annual Report.

/s/ Ryder Scott Company, L.P.

Ryder Scott Company, L.P.

1100 LOUISIANA SUITE 3800 HOUSTON, TEXAS 77002-5216 TEL (713) 651-9191 FAX (713) 651-0849
3700. 700 2ND STREET, SW CALGARY, ALBERTA T2P 2we TEL (403) 262-2799 FAX (403) 262-2790

EXHIBIT 23.4

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the incorporation by reference to our reserve reports dated as of December 31, 2002, 2001, and 2000, each of which is included in the Annual Report on Form 10-K of The Williams Companies for the year ended December 31, 2002. We also consent to the reference to us under the heading of "Experts" in such Annual Report.

MILLER AND LENTS, LTD.

By: /s/ S. John Stieber

S. John Stieber
Senior Vice President

EXHIBIT 24

THE WILLIAMS COMPANIES, INC.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned individuals, in their capacity as a director or officer, or both, as hereinafter set forth below their signature, of THE WILLIAMS COMPANIES, INC., a Delaware corporation ("Williams"), does hereby constitute and appoint JAMES J. BENDER and BRIAN K. SHORE 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, 2002, 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 JAMES J. BENDER and BRIAN K. SHORE 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, 2003.

/s/ Steven J. Malcolm	/s/ Gary R. Belitz
Steven J. Malcolm Chairman of the Board President and Chief Executive Officer (Principal Executive Officer)	Gary R. Belitz Controller (Principal Financial Officer) (Principal Accounting Officer)
/s/ Hugh M. Chapman	/s/ Thomas H. Cruikshan
Hugh M. Chapman Director	Thomas H. Cruikshank Director
/s/ William E. Green	/s/ W. R. Howell
William E. Green Director	W. R. Howell Director

/s/ James C. Lewis
James C. Lewis
Director

/s/ Charles M. Lillis
Charles M. Lillis
Director

/s/ George A. Lorch
George A. Lorch
Director

/s/ Frank T. MacInnis
Frank T. MacInnis
Director

/s/ Gordon R. Parker
Gordon R. Parker
Director

/s/ Janice D. Stoney
Janice D. Stoney
Director

/s/ Joseph H. Williams
Joseph H. Williams
Director

THE WILLIAMS COMPANIES, INC.

By /s/ James J. Bender
James J. Bender
Senior Vice President

ATTEST:

/s/ Brian K.Shore
Brian K. Shore
Secretary

THE WILLIAMS COMPANIES, INC.

Secretary's Certificate

I, the undersigned, BRIAN K. SHORE, Secretary of THE WILLIAMS COMPANIES, INC., a Delaware corporation (hereinafter called the "Company"), do hereby certify that at a special meeting of the Board of Directors of the Company, duly convened and held on January 25, 2003, at which a quorum of said Board was present and acting throughout, the following resolutions were duly adopted:

> RESOLVED that the Chairman of the Board, the President, any Senior Vice President and the Controller 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, 2002.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of The Williams Companies, Inc. this 25th day of January, 2003.

/s/ Brian K. Shore

Brian K. Shore
Secretary

[S E A L]