

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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 of Incorporation)

(IRS Employer Identification Number)

ONE WILLIAMS CENTER
TULSA, OKLAHOMA

74172

(Address of principal executive office)

(Zip Code)

Registrant's telephone number: (918) 573-2000

NO CHANGE

Former name, former address and former fiscal year,
if changed since last report.

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 No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock as of the latest practicable date.

Class

Outstanding at July 31, 2001

Common Stock, \$1 par value

485,008,984 Shares

The Williams Companies, Inc.
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Exhibit 10.1 --Form of Limited Waiver and Second Amendment to Credit Agreement dated as of July 25, 2000 with the financial institutions from time to time party thereto, The Chase Manhattan Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, and Citibank, N.A., as Agent, which Credit Agreement has been amended by a Waiver and First Amendment to Credit Agreement dated as of January 31, 2001.	
Exhibit 12 --Computation of Ratio of Earnings to Fixed Charges	

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

Forward-looking statements can be identified by words such as "anticipates," "believes," "expects," "planned," "scheduled" or similar expressions. Although Williams believes these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document. Additional information about issues that could lead to material changes in performance is contained in The Williams Companies, Inc.'s 2000 Form 8-K dated May 22, 2001.

The Williams Companies, Inc.
Consolidated Statement of Income
(Unaudited)

(Dollars in millions, except per-share amounts)	Three months ended June 30,		Six months ended June 30,	
	2001	2000*	2001	2000*
Revenues:				
Gas Pipeline	\$ 415.5	\$ 492.0	\$ 884.1	\$ 973.3
Energy Services	2,591.0	1,959.8	5,434.9	3,499.0
Other	20.6	17.0	39.1	33.3
Intercompany eliminations	(206.5)	(119.1)	(449.5)	(256.6)
Total revenues	2,820.6	2,349.7	5,908.6	4,249.0
Segment costs and expenses:				
Costs and operating expenses	1,977.5	1,489.4	4,018.9	2,799.4
Selling, general and administrative expenses	196.2	213.4	422.3	393.3
Other (income) expense-net	(89.0)	14.8	(77.8)	15.7
Total segment costs and expenses	2,084.7	1,717.6	4,363.4	3,208.4
General corporate expenses	27.0	23.7	56.4	47.1
Operating income:				
Gas Pipeline	207.0	215.2	411.0	412.5
Energy Services	524.8	413.5	1,125.3	621.8
Other	4.1	3.4	8.9	6.3
General corporate expenses	(27.0)	(23.7)	(56.4)	(47.1)
Total operating income	708.9	608.4	1,488.8	993.5
Interest accrued	(171.0)	(157.2)	(361.0)	(325.8)
Interest capitalized	11.2	14.6	20.9	23.8
Investing income	21.7	16.0	58.8	38.1
Minority interest in income and preferred returns of consolidated subsidiaries	(20.4)	(13.9)	(44.6)	(27.0)
Other income-net	6.1	1.1	11.5	5.6
Income from continuing operations before income taxes	556.5	469.0	1,174.4	708.2
Provision for income taxes	217.0	182.6	456.6	282.9
Income from continuing operations	339.5	286.4	717.8	425.3
Income (loss) from discontinued operations	--	65.4	(179.1)	26.2
Net income	\$ 339.5	\$ 351.8	\$ 538.7	\$ 451.5
Basic earnings per common share:				
Income from continuing operations	\$.70	\$.64	\$ 1.48	\$.96
Income (loss) from discontinued operations	--	.15	(.37)	.06
Net income	\$.70	\$.79	\$ 1.11	\$ 1.02
Average shares (thousands)	487,211	443,778	483,173	443,331
Diluted earnings per common share:				
Income from continuing operations	\$.69	\$.63	\$ 1.47	\$.95
Income (loss) from discontinued operations	--	.15	(.37)	.06
Net income	\$.69	\$.78	\$ 1.10	\$ 1.01
Average shares (thousands)	491,698	448,617	487,527	448,361
Cash dividends per common share	\$.15	\$.15	\$.30	\$.30

*Certain amounts have been restated or reclassified as described in Note 2 of Notes to Consolidated Financial Statements.

See accompanying notes.

The Williams Companies, Inc.
Consolidated Balance Sheet
(Unaudited)

(Dollars in millions, except per-share amounts)

	June 30, 2001	December 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,014.6	\$ 996.8
Accounts and notes receivable less allowance of \$23.4 (\$9.8 in 2000)	3,855.6	3,357.3
Inventories	751.3	848.4
Energy trading assets	4,914.9	7,879.8
Deferred income taxes	26.6	64.9
Margin deposits	217.5	730.9
Other	462.5	319.3
	-----	-----
Total current assets	11,243.0	14,197.4
Net assets of discontinued operations	--	2,290.2
Investments	2,769.6	1,368.6
Property, plant and equipment, at cost	19,684.7	19,028.8
Less accumulated depreciation and depletion	(4,871.5)	(4,589.5)
	-----	-----
	14,813.2	14,439.3
Energy trading assets	3,810.4	1,831.1
Other assets and deferred charges	989.5	789.0
	-----	-----
Total assets	\$ 33,625.7	\$ 34,915.6
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 1,515.0	\$ 2,036.7
Accounts payable	3,714.1	3,088.0
Accrued liabilities	1,640.8	1,560.4
Energy trading liabilities	4,513.8	7,597.3
Long-term debt due within one year	1,623.2	1,634.1
	-----	-----
Total current liabilities	13,006.9	15,916.5
Long-term debt	6,983.2	6,830.5
Deferred income taxes	3,101.3	2,863.9
Energy trading liabilities	2,606.3	1,302.8
Other liabilities and deferred income	952.0	944.0
Contingent liabilities and commitments (Note 11)		
Minority and preferred interests in consolidated subsidiaries	1,074.4	976.0
Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures	--	189.9
Stockholders' equity:		
Preferred stock, \$1 per share par value, 30 million shares authorized	--	--
Common stock, \$1 per share par value, 960 million shares authorized, 488.1 million issued in 2001, 447.9 million issued in 2000	488.1	447.9
Capital in excess of par value	3,674.0	2,473.9
Retained earnings	1,635.2	3,065.7
Accumulated other comprehensive income	210.5	28.2
Other	(66.5)	(81.2)
	-----	-----
	5,941.3	5,934.5
Less treasury stock (at cost), 3.4 million shares of common stock in 2001 and 3.6 million in 2000	(39.7)	(42.5)
	-----	-----
Total stockholders' equity	5,901.6	5,892.0
	-----	-----
Total liabilities and stockholders' equity	\$ 33,625.7	\$ 34,915.6
	=====	=====

See accompanying notes.

The Williams Companies, Inc.
Consolidated Statement of Cash Flows
(Unaudited)

(Millions)	Six months ended June 30,	
	2001	2000*
OPERATING ACTIVITIES:		
Income from continuing operations	\$ 717.8	\$ 425.3
Adjustments to reconcile to cash provided by operations:		
Depreciation, depletion and amortization	358.1	313.9
Provision for deferred income taxes	221.2	170.2
Provision for loss on property and other assets	25.1	4.2
Gain on dispositions of assets	(101.5)	(16.3)
Minority interest in income and preferred returns of consolidated subsidiaries	44.6	27.0
Tax benefit of stock-based awards	21.4	13.2
Cash provided (used) by changes in assets and liabilities:		
Accounts and notes receivable	(553.5)	(315.5)
Inventories	97.2	(180.7)
Margin deposits	513.4	(38.6)
Other current assets	(104.8)	(95.4)
Accounts payable	561.1	402.5
Accrued liabilities	(46.5)	(59.9)
Changes in current energy trading assets and liabilities	(118.7)	(263.6)
Changes in non-current energy trading assets and liabilities	(675.8)	(195.6)
Other, including changes in non-current assets and liabilities	64.3	59.7
	1,023.4	250.4
FINANCING ACTIVITIES:		
Proceeds from notes payable	1,430.0	314.0
Payments of notes payable	(2,751.0)	(445.1)
Proceeds from long-term debt	1,695.6	900.0
Payments of long-term debt	(731.7)	(553.2)
Proceeds from issuance of common stock	1,380.8	34.2
Dividends paid	(145.3)	(132.6)
Proceeds from sale of limited partner units of consolidated partnership	92.5	--
Payment of Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures	(194.0)	--
Other--net	(50.4)	(.6)
	726.5	116.7
INVESTING ACTIVITIES:		
Property, plant and equipment:		
Capital expenditures	(750.3)	(673.0)
Proceeds from dispositions	21.2	20.4
Changes in accounts payable and accrued liabilities	27.1	(14.2)
Purchase of investment in Barrett Resources	(1,241.4)	--
Acquisition of business, net of cash acquired	--	(147.7)
Purchases of investments/advances to affiliates	(232.0)	(90.9)
Proceeds from disposition of investments and other assets	391.4	.9
Other--net	32.2	15.4
	(1,751.8)	(889.1)
DISCONTINUED OPERATIONS:		
Net cash provided (used) by operating activities	7.6	(112.7)
Net cash provided by financing activities	1,343.4	1.4
Net cash used by investing activities	(1,448.7)	(28.5)
Cash of discontinued operations at spinoff	(96.5)	--
	(194.2)	(139.8)
Decrease in cash and cash equivalents	(196.1)	(661.8)
Cash and cash equivalents at beginning of period**	1,210.7	1,081.6
Cash and cash equivalents at end of period**	\$ 1,014.6	\$ 419.8

* Amounts have been restated or reclassified as described in Note 2 of Notes to Consolidated Financial Statements.

** Includes cash and cash equivalents of discontinued operations of \$213.9

million, \$483.9 million and \$287.7 million at December 31, 2000 and 1999 and June 30, 2000, respectively.

See accompanying notes.

The Williams Companies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying interim consolidated financial statements of The Williams Companies, Inc. (Williams) do not include all notes in annual financial statements and therefore should be read in conjunction with the consolidated financial statements and notes thereto in Williams' Current Report on Form 8-K dated May 22, 2001. The accompanying financial statements have not been audited by independent auditors, but include all normal recurring adjustments and others, which, in the opinion of Williams' management, are necessary to present fairly its financial position at June 30, 2001, its results of operations for the three and six months ended June 30, 2001 and 2000, and cash flows for the six months ended June 30, 2001 and 2000.

Segment profit of operating companies may vary by quarter. Based on current rate structures and/or historical maintenance schedules of certain of its pipelines, Gas Pipeline generally experiences lower segment profits in the second and third quarters as compared to the first and fourth quarters.

While the amounts recorded in the Consolidated Balance Sheet related to certain receivables from California power sales reflect management's best estimate of collectibility, future events or circumstances could change those estimates either positively or negatively.

2. Basis of presentation

As a result of the April 23, 2001, tax-free spinoff of Williams Communications Group, Inc. (WCG), WCG has been accounted for as discontinued operations and, accordingly, the accompanying consolidated financial statements and notes have been restated to reflect the results of operations, net assets and cash flows of WCG as discontinued operations. Unless indicated otherwise, the information in the Notes to Consolidated Financial Statements relates to the continuing operations of Williams (see Note 6).

During first-quarter 2001, Williams Energy Partners L.P. (WEP) completed an initial public offering. WEP, including Williams' general partnership interest, is now reported as a separate segment within Energy Services and consists primarily of certain terminals and an ammonia pipeline previously reported within Petroleum Services and Midstream Gas & Liquids, respectively. Also during first-quarter 2001, management of international activities, previously reported in Other, was transferred and the international activities are now reported as a separate segment under Energy Services. Prior year segment information has been reclassified to conform to this presentation.

Effective February 2001, management of certain operations, previously conducted by Energy Marketing & Trading, was transferred to Petroleum Services. These operations included the procurement of crude oil and marketing of refined products produced from the Memphis refinery for which prior year segment information has been restated to reflect the transfer. Additionally, the refined product sales activities surrounding certain terminals located throughout the United States were transferred. This sales activity was previously included in the trading portfolio of Energy Marketing & Trading and was therefore reported net of related costs of sales. Following the transfer, these sales are reported on a "gross" basis.

Certain other income statement, balance sheet and cash flow amounts have been reclassified to conform to the current classifications.

3. Asset sales, impairments and other accruals

Included in other (income) expense-net within segment costs and expenses and Petroleum Services' segment profit for the three and six months ended June 30, 2001, is a pre-tax gain of \$72.1 million from the sale of certain convenience stores.

Included in other (income) expense-net within segment costs and expenses and Gas Pipeline's segment profit for the three and six months ended June 30, 2001, is a pre-tax gain of \$27.5 million for the sale of Williams' limited partnership interest in Northern Border Partners, L.P. Williams retained a general partnership interest.

Included in other (income) expense-net within segment costs and expenses and Energy Marketing & Trading's segment profit for the three and six months ended June 30, 2000, is a \$25.9 million guarantee loss accrual. The accrual results from the decision to discontinue mezzanine lending services and represents the estimated liability associated with guarantees of third-party lending activities.

4. Barrett acquisition

Through a series of transactions, Williams acquired all of the outstanding stock of Barrett Resources Corporation, an independent natural gas and oil exploration and production company with producing properties located principally in the Rocky Mountain and Mid-Continent regions of the United States. On June 11, 2001, Williams acquired 50 percent of Barrett Resources' outstanding common stock in a cash tender offer of \$73 per share for a total of 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.

At June 30, 2001, Williams' 50 percent ownership in Barrett is recorded as an equity method investment and is included in investments in Williams' Consolidated Balance Sheet. Williams' 50 percent share of Barrett's results of operations beginning June 11, 2001, as well as amortization of Williams' investment that is in excess of Williams' underlying equity in Barrett's net assets, is included in equity earnings within Exploration & Production's revenues and segment profit in Williams' Consolidated Statement of Income.

Subsequent to the August 2, 2001 acquisition of the remaining 50 percent of Barrett's common stock, Williams' acquisition of Barrett will be accounted for as a purchase business combination.

5. Provision for income taxes

The provision (benefit) for income taxes includes:

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Current:				
Federal	\$ 104.7	\$ 20.2	\$ 194.0	\$ 95.1
State	20.8	5.0	35.1	18.5
Foreign	--	(4.2)	6.3	(.9)
	-----	-----	-----	-----
	125.5	21.0	235.4	112.7
Deferred:				
Federal	84.4	155.3	203.1	141.1
State	4.2	17.7	15.9	41.7
Foreign	2.9	(11.4)	2.2	(12.6)
	-----	-----	-----	-----
	91.5	161.6	221.2	170.2
	-----	-----	-----	-----
Total provision	\$217.0	\$182.6	\$ 456.6	\$ 282.9
	=====	=====	=====	=====

The effective income tax rate for the three and six months ended June 30, 2001 and 2000, is greater than the federal statutory rate due primarily to the effect of state income taxes.

6. Discontinued operations

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 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. The distribution was recorded as a dividend and resulted in a decrease to stockholders' equity of approximately \$1.8 billion, which included an increase to accumulated other comprehensive income of approximately \$21.3 million. The WCG shares retained by Williams are included in investments in the Consolidated Balance Sheet and had a carrying value of approximately \$96 million and an estimated fair value of \$63 million at June 30, 2001. Additionally, receivables include amounts due from WCG of approximately \$109 million at June 30, 2001. Williams has extended the payment term of up to \$100 million of the outstanding balance which was due March 31, 2001 to March 15, 2002.

Williams is providing indirect credit support for \$1.4 billion of WCG's structured notes through a commitment to issue Williams' equity in the event of WCG's default, or to the extent proceeds from WCG's refinancing or remarketing of certain structured notes prior to March 2004 produces proceeds of less than

\$1.4 billion. The ability of WCG to make payments on the notes is dependent on its ability to raise additional capital and its subsidiaries' ability to dividend cash to WCG. WCG however, is obligated to reimburse Williams for any payment Williams is required to make in connection with these notes. Williams is also considering the purchase from WCG of its headquarters building currently under construction, and would enter into a long-term lease arrangement with WCG being the sole occupant of the building.

Williams has received an initial private letter ruling from the Internal Revenue Service (IRS) stating that the distribution of WCG common stock 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 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, has committed to the IRS to dispose of all of the WCG common stock that it retains as soon as market conditions allow, but in any event not longer than five years after the spinoff. As part of a separation agreement, and 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 has agreed not to dispose of the retained WCG shares for three years from the date of distribution and must notify WCG of an intent to dispose of such shares.

Summarized results of discontinued operations are as follows:

(Millions)	Period ending April 23, 2001 -----	Three months ended June 30, 2000 -----	Six months ended June 30, 2000 -----
Revenues	\$ 329.5	\$ 175.3	\$ 335.6
Income (loss) from operations:			
Income (loss) before income taxes	(271.3)	120.1	76.4
(Provision) benefit for income taxes	92.2	(54.7)	(28.6)
Cumulative effect of change in accounting principle	--	--	(21.6)
	-----	-----	-----
Total income (loss) from discontinued operations	\$ (179.1)	\$ 65.4	\$ 26.2
	=====	=====	=====

Notes (Continued)

7. Earnings per share

Basic and diluted earnings per common share are computed as follows:

(Dollars in millions, except per-share amounts; shares in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Income from continuing operations for basic and diluted earnings per share	\$ 339.5	\$ 286.4	\$ 717.8	\$ 425.3
Basic weighted-average shares	487,211	443,778	483,173	443,331
Effect of dilutive securities: Stock options	4,487	4,839	4,354	5,030
Diluted weighted-average shares	491,698	448,617	487,527	448,361
Earnings per common share from continuing operations:				
Basic	\$.70	\$.64	\$ 1.48	\$.96
Diluted	\$.69	\$.63	\$ 1.47	\$.95

8. Inventories

(Millions)	June 30, 2001	December 31, 2000
Raw materials:		
Crude oil	\$ 103.9	\$ 70.0
Other	1.4	1.6
	105.3	71.6
Finished goods:		
Refined products	217.7	269.6
Natural gas liquids	100.6	200.2
General merchandise	7.2	12.5
	325.5	482.3
Materials and supplies	127.2	122.9
Natural gas in underground storage	191.8	169.0
Other	1.5	2.6
	\$ 751.3	\$ 848.4

9. Debt and banking arrangements

Notes payable

Williams has a \$1.7 billion commercial paper program backed by a short-term bank-credit facility. At June 30, 2001, \$35 million of commercial paper was outstanding under the program. Interest rates vary with current market conditions. Subsequent to June 30, 2001, the commercial paper program and related short-term bank-credit facility were increased to \$2.2 billion.

In June 2001, Williams entered into a \$200 million short-term debt

obligation expiring June 2002. The interest rate varies with current market conditions and was 4.6 percent at June 30, 2001.

In connection with the cash portion of the Barrett acquisition, Williams entered into a \$1.5 billion short-term credit agreement expiring November 2001 (Note 4). At June 30, 2001, \$1.2 billion was borrowed under this agreement. The interest rate varies with current market conditions and was 4.9 percent at June 30, 2001. Williams expects to replace this credit agreement with long-term financing before the end of 2001.

Debt

(Millions)	Weighted- average interest rate*	June 30, 2001	December 31, 2000
	-----	-----	-----
Revolving credit loans	5.0%	\$ 29.6	\$ 350.0
Debentures, 6.25% -10.25%, payable 2003 - 2031 (1)	7.1	1,759.3	1,103.5
Notes, 5.1% - 9.45%, payable through 2031 (2)	7.1	5,395.2	4,856.8
Notes, adjustable rate, payable through 2004	4.9	1,355.9	2,080.4
Other, payable through 2009	6.6	66.4	73.9
	-----	8,606.4	8,464.6
Current portion of long-term debt		(1,623.2)	(1,634.1)
		-----	-----
		\$ 6,983.2	\$ 6,830.5
		=====	=====

* At June 30, 2001, including the effects of interest-rate swaps.

(1) \$200 million, 7.08% debentures, payable 2026, are subject to redemption at par at the option of the debtholder in 2001. \$192.5 million was redeemed in July 2001.

(2) \$240 million, 6.125% notes, payable 2012, are subject to redemption at par at the option of the debtholder in 2002.

Under the terms of Williams' \$700 million revolving credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line and Texas Gas Transmission have access to varying amounts of the facility, while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions.

In January 2001, Williams issued \$1.1 billion in debt obligations consisting of \$700 million of 7.5 percent debentures due 2031 and \$400 million of 6.75 percent Puttable Asset Term Securities, puttable/callable in 2006.

In June 2001, Williams issued \$480 million of 7.75 percent notes due 2031.

10. Derivative instruments and hedging activities

On January 1, 2001, Williams adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

This standard requires that all derivative financial instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings if the derivative is not a hedge. If a derivative is a hedge, changes in the fair value of the derivative will either be recognized in earnings, along with the change in the fair value of the hedged asset, liability or firm commitment also recognized in earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. For a derivative recognized in other comprehensive income, the ineffective portion of the derivative's change in fair value will be recognized immediately in earnings.

At adoption, Williams recorded a cumulative effect of an accounting change associated with the adoption of SFAS No. 133 to record all derivatives at fair value. The cumulative effect of the accounting change was not material to net income, 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 commodity transactions. Of the transition adjustment recorded in other comprehensive income at January 1, 2001, net losses of approximately \$90 million (net of income tax benefits of \$56 million) will be reclassified into earnings during 2001 (including approximately \$17 million and \$66 million of net after-tax losses reclassified for the three and six months ended June 30, 2001, respectively) offsetting net gains expected to be realized in earnings from favorable market movements associated with the underlying transactions being hedged.

11. 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 \$50 million for potential refund as of June 30, 2001.

In 1997, the Federal Energy Regulatory Commission (FERC) issued orders addressing, among other things, the authorized rates of return for three of Williams' interstate natural gas pipeline subsidiaries. All of the orders involve rate cases that became effective between 1993 and 1995 and, in each instance, these cases were superseded by more recently filed rate cases. In the three orders, the FERC continued its practice of utilizing a methodology for calculating rates of return that incorporates a long-term growth rate component. However, the long-term growth rate component used by the FERC is now a projection of U.S. gross domestic product growth rates. Generally, calculating rates of return utilizing a methodology which includes a long-term growth rate component results in rates of return that are lower than they would be if the long-term growth rate component were not included in the methodology. Each of the three pipeline subsidiaries challenged its respective FERC order in an effort to have the FERC change its rate-of-return methodology with respect to these and other rate cases. On January 30, 1998, the FERC

convened a public conference to consider, on an industry-wide basis, issues with respect to pipeline rates of return. In July 1998, the FERC issued orders in two of the three pipeline subsidiary rate cases, again modifying its rate-of-return methodology by adopting a formula that gives less weight to the long-term growth component. Certain parties appealed the FERC's action, because the most recent formula modification results in somewhat higher rates of return compared to the rates of return calculated under the FERC's prior formula. The appeals have been denied. Similarly, in July, 2001, the Court of Appeals denied a petition for review, attaching the application of the weighting of the growth factors to a still pending rate proceeding involving a Williams interstate pipeline. In June and July 1999, the FERC applied the new methodology in the third pipeline subsidiary rate case, as well as in a fourth case involving the same pipeline subsidiary. In March 2000, the FERC applied the new methodology in a fifth case involving a Williams interstate pipeline subsidiary, and certain parties sought rehearing before the FERC in this proceeding. In January 2001, the FERC denied the rehearing requests in this proceeding.

As a result of FERC Order 636 decisions in prior years, each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims.

Williams Energy Marketing & Trading subsidiaries are engaged in power marketing in various geographic areas, including in 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 2000, the FERC issued an order which provided that, for the period between October 2, 2000 and December 31, 2002, it 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. Beginning on March 9, 2001, the FERC issued a series of orders directing Williams and other similarly situated companies to provide refunds for any prices charged in excess of FERC established proxy prices in January, February, March, April and May 2001, or to provide justification for the prices charged during those months. According to the FERC, Williams' total potential refund liability for January through May 2001 is approximately \$30 million. Williams has filed justification for its prices with the FERC and calculated its refund liability under the methodology used by the FERC to compute refund amounts at approximately \$11 million. However, in its FERC filings, Williams continues its objections to refunds in any amount.

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, back to May 1, 2000, and possibly earlier. Although Williams believes these requests are ill-founded and will be rejected by the FERC, there can be no assurance of such action.

In an order issued June 19, 2001, the FERC has 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 will be in effect from June 20, 2001 through September 30, 2002, establishes a market clearing price for spot sales in all hours of the day that is based on the bid of the highest-cost gas-fired California generating unit that is needed to serve the California Independent System Operator's load. When generation operating reserves fall below 7 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 is the market clearing price. When generation operating reserves rise to 7 percent or above in California, absent cost based justification for a higher price, Williams' maximum price will be limited to 85 percent of the highest hourly price that was in effect during the most recent reserve deficiency period. The June 19 order also implemented multiparty settlement talks regarding refunds for past periods that concluded without resolution of the issues. Absent settlement, the presiding administrative law judge issued a report to the Commission that, with some variations, recommends applying the methodology of the June 19 order to determine refunds for prior periods.

On July 25, 2001, the Commission issued an order adopting, to a significant extent, the Judge's recommendation and establishing an expedited hearing to establish the facts necessary to determine refunds under the approved methodology. Refunds under this order will cover the period of October 2, 2000 through June 20, 2001. They will be paid as offsets against outstanding bills and are inclusive of any amounts previously noticed for refund for that period.

On March 14, 2001, the FERC issued a Show Cause Order directing Williams Energy Marketing & Trading Company 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

Notes (Continued)

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 California Independent System Operator 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.

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 June 30, 2001, these subsidiaries had accrued liabilities totaling approximately \$35 million for these costs.

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

Transcontinental Gas Pipe Line, Texas Gas and Williams Gas Pipelines Central (Central) have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Central have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Central, Texas Gas and Transcontinental Gas Pipe Line. As of June 30, 2001, Central had accrued a liability for approximately \$10 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. Texas Gas and Transcontinental Gas Pipe Line likewise had accrued liabilities for these costs which are included in the \$35 million liability mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Central have deferred these costs as incurred pending recovery through future rates and other means.

In July 1999, Transcontinental Gas Pipe Line received a letter stating that the U.S. Department of Justice (DOJ), at the request of the EPA, intends to file a civil action against Transcontinental Gas Pipe Line arising from its waste management practices at Transcontinental Gas Pipe Line's compressor stations and metering stations in 11 states from Texas to New Jersey. The DOJ stated in the letter that its complaint will seek civil penalties and injunctive relief under federal environmental laws. The DOJ and Transcontinental Gas Pipe Line are discussing a settlement. While no specific amount was proposed, the DOJ stated that any settlement must include an appropriate civil penalty for the alleged violations. Transcontinental Gas Pipe Line cannot reasonably estimate the amount of its potential liability, if any, at this time. However, Transcontinental Gas Pipe Line believes it has substantially addressed environmental concerns on its system through ongoing voluntary remediation and management programs.

Williams Energy Services (WES) and its subsidiaries 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, WES owns a discontinued petroleum refining facility that is being evaluated for potential remediation efforts. At June 30, 2001, WES and its subsidiaries had accrued liabilities totaling approximately \$40 million. WES accrues 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 June 30, 2001, WES and its subsidiaries had accrued receivables totaling \$3 million.

Williams Field Services (WFS), a WES subsidiary, received a Notice of Violation (NOV) from the EPA in February 2000. WFS received a contemporaneous

letter from the DOJ indicating that the DOJ will also be involved in the matter.
The NOV alleged violations of the Clean Air Act at a gas processing

Notes (Continued)

plant. WFS, the EPA and the DOJ agreed to settle this matter for a penalty of \$850,000. In the course of investigating this matter, WFS discovered a similar potential violation at the plant and disclosed it to the EPA and the DOJ. The EPA is currently evaluating the violation and is expected to propose a monetary penalty.

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 June 30, 2001, Williams had approximately \$11 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Other legal matters

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. As a result of such settlements, Transcontinental Gas Pipe Line is currently defending two lawsuits brought by producers. In one of the cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay a producer damages of \$23.3 million including \$3.8 million in attorneys' fees. In addition, through June 30, 2001, post judgement interest was approximately \$9.0 million. Transcontinental Gas Pipe Line's appeals have been 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 which is pending. In the other case, a producer has asserted damages, including interest calculated through June 30, 2001, of \$9.2 million. In August 2000, a producer asserted a claim for approximately \$6.7 million against Transcontinental Gas Pipe Line. Producers have received and may receive other demands, which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

On June 8, 2001, 14 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. The Williams entities will join other defendants in filing at least two dispositive motions, along with contesting class certification in the next several months.

In 1998, the United States Department of Justice informed Williams that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against Williams and certain of its wholly owned subsidiaries including Williams Gas Pipelines Central, Kern River Gas Transmission, Northwest Pipeline, Williams Gas Pipeline Company, Transcontinental Gas Pipe Line Corporation, Texas Gas, Williams Field Services Company and Williams Production Company. Mr. Grynberg has also filed claims against approximately 300 other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, a civil penalty, attorneys' fees, and costs. On April 9, 1999, the United States Department of Justice announced that it was declining to intervene in any of the Grynberg qui tam cases, including the action filed against the Williams entities in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred all of the Grynberg qui tam cases, including the ones filed against Williams, to the United States District Court for the District of Wyoming for pre-trial purposes. Motions to dismiss the complaints filed by various defendants, including Williams, were denied on May 18, 2001.

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 believes that WCG's installation of the cable containing the single fiber network that crosses over or near the putative class members' land does not infringe on their property rights. Williams also does not believe that the plaintiffs have sufficient basis for certification of a class action. It is likely that Williams will be subject to other putative class action suits challenging WCG's railroad or pipeline rights of way. However,

Notes (Continued)

Williams has a claim for indemnity from WCG for damages resulting from or arising out of the businesses or operations conducted or formerly conducted or assets owned or formerly owned by any subsidiary of WCG.

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 Williams Energy Marketing & Trading Company, 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. The defendants removed these cases to federal district courts. The multi-district litigation panel consolidated the cases in the Southern District of California before Judge Whaley. Judge Whaley subsequently ruled in favor of the plaintiffs in their petitions to remand and the cases are now pending in San Diego and San Francisco Superior Courts.

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 including Williams Energy Marketing & Trading and fourteen executive officers, including 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. Neither Williams Energy Marketing & Trading nor the named individuals has been served. This case has been consolidated with the class actions.

On May 17, 2001, the Department of Justice advised Williams that it had commenced an antitrust investigation relating to an agreement between a subsidiary of Williams and AES Southland alleging that the agreement limits the expansion of electric generating capacity at or near the AES Southland plants that are subject to a long-term tolling agreement between Williams and AES. In connection with that investigation, the Department of Justice issued a Civil Investigative Demand to Williams requesting answers to certain interrogatories and the production of documents. Williams is cooperating with the investigation.

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

Summary

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

Commitments

Energy Marketing & Trading has entered into certain contracts giving Williams the right to receive fuel conversion 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. At June 30, 2001, annual estimated committed payments under these contracts range from approximately \$20 million to \$424 million, resulting in total committed payments over the next 21 years of approximately \$7 billion.

Notes (Continued)

12. Williams obligated mandatorily redeemable preferred securities

On April 6, 2001, an affiliate of Ferrellgas Partners, L.P. (Ferrellgas) purchased the Ferrellgas Partners L.P. senior common units from Williams for \$199.1 million. Williams recognized no gain or loss associated with this transaction as the purchase price of the units sold approximated their carrying value. The proceeds of this sale were used primarily to redeem the Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures.

13. Equity offering

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.

14. Comprehensive income

Comprehensive income is as follows:

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Net income	\$ 339.5	\$ 351.8	\$ 538.7	\$ 451.5
Other comprehensive income (loss):				
Unrealized gains (losses) on securities	33.5	222.9	(53.2)	363.5
Realized gains on securities in net income	(.1)	(251.3)	(20.7)	(282.8)
Cumulative effect of a change in accounting for derivative instruments	--	--	(153.4)	--
Unrealized gains on derivative instruments	442.4	--	457.1	--
Net reclassification into earnings of derivative instrument losses	36.5	--	45.7	--
Foreign currency translation adjustments	7.4	(10.4)	(24.4)	(15.5)
Other comprehensive income (loss) before taxes and minority interest	519.7	(38.8)	251.1	65.2
Income tax benefit (provision) on other comprehensive income (loss)	(191.4)	11.2	(100.1)	(31.2)
Minority interest in other comprehensive income (loss)	(2.5)	6.1	10.0	(2.9)
Other comprehensive income (loss)	325.8	(21.5)	161.0	31.1
Comprehensive income	\$ 665.3	\$ 330.3	\$ 699.7	\$ 482.6

Components of other comprehensive income (loss) before minority interest and taxes related to discontinued operations are as follows:

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000

Unrealized gains (losses) on securities	\$ 34.5	\$ 199.3	\$ (56.2)	\$ 339.9
Realized gains on securities in net income	(.1)	(251.3)	(20.7)	(282.8)
Foreign currency translation adjustments	(2.7)	(9.6)	(22.1)	(14.9)
Other comprehensive income (loss) before minority interest and taxes related to discontinued operations	\$ 31.7	\$ (61.6)	\$ (99.0)	\$ 42.2
	=====	=====	=====	=====

Notes (Continued)

15. Segment disclosures

Williams evaluates performance based upon segment profit (loss) from operations which includes revenues from external and internal customers, equity earnings (losses), operating costs and expenses, depreciation, depletion and amortization and income (loss) from investments. Intersegment sales are generally accounted for as if the sales were to unaffiliated third parties, that is, at current market prices.

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.

The following table reflects the reconciliation of operating income as reported in the Consolidated Statement of Income to segment profit (loss), per the tables on pages 15 and 16:

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Segment profit:				
Gas Pipeline	\$ 207.0	\$ 215.2	\$ 411.0	\$ 412.5
Energy Services	524.8	413.5	1,125.3	621.8
Other	4.1	3.4	8.9	6.3
Total	735.9	632.1	1,545.2	1,040.6
General corporate expenses	(27.0)	(23.7)	(56.4)	(47.1)
Operating income	\$ 708.9	\$ 608.4	\$ 1,488.8	\$ 993.5

Notes (Continued)

15. Segment disclosures (continued)

(Millions)	Revenues				Segment Profit (Loss)
	External Customers	Inter-segment	Equity Earnings (Losses)	Total	
FOR THE THREE MONTHS ENDED JUNE 30, 2001					
GAS PIPELINE	\$ 394.7	\$ 10.7	\$ 10.1	\$ 415.5	\$ 207.0
ENERGY SERVICES					
Energy Marketing & Trading	539.5	(135.8)*	(.9)	402.8	273.2
Exploration & Production International	10.2	86.5	5.9	102.6	40.3
Midstream Gas & Liquids	27.9	--	4.0	31.9	3.5
Petroleum Services	331.9	153.3	(5.4)	479.8	40.8
Williams Energy Partners	1,474.0	78.0	.2	1,552.2	160.2
Merger-related costs and non-compete amortization	18.1	3.6	--	21.7	6.9
	--	--	--	--	(.1)
TOTAL ENERGY SERVICES	2,401.6	185.6	3.8	2,591.0	524.8
OTHER	10.8	10.2	(.4)	20.6	4.1
ELIMINATIONS	--	(206.5)	--	(206.5)	--
TOTAL	\$ 2,807.1	\$ --	\$ 13.5	\$ 2,820.6	\$ 735.9
FOR THE THREE MONTHS ENDED JUNE 30, 2000					
GAS PIPELINE	\$ 471.3	\$ 14.3	\$ 6.4	\$ 492.0	\$ 215.2
ENERGY SERVICES					
Energy Marketing & Trading	611.7	(158.2)*	.1	453.6	272.6
Exploration & Production International	16.5	55.2	--	71.7	10.0
Midstream Gas & Liquids	16.4	--	.1	16.5	1.7
Petroleum Services	164.8	157.7	(.8)	321.7	71.1
Williams Energy Partners	1,043.3	35.6	(.2)	1,078.7	57.0
Merger-related costs and non-compete amortization	12.7	4.9	--	17.6	2.6
	--	--	--	--	(1.5)
TOTAL ENERGY SERVICES	1,865.4	95.2	(.8)	1,959.8	413.5
OTHER	7.4	9.6	--	17.0	3.4
ELIMINATIONS	--	(119.1)	--	(119.1)	--
TOTAL	\$ 2,344.1	\$ --	\$ 5.6	\$ 2,349.7	\$ 632.1

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

15. Segment disclosures (continued)

(Millions)	Revenues				
	External Customers	Inter-segment	Equity Earnings (Losses)	Total	Segment Profit (Loss)
FOR THE SIX MONTHS ENDED JUNE 30, 2001					
GAS PIPELINE	\$ 848.5	\$ 17.4	\$ 18.2	\$ 884.1	\$ 411.0
ENERGY SERVICES					
Energy Marketing & Trading	1,360.7	(300.0)*	1.7	1,062.4	757.7
Exploration & Production	19.1	211.8	5.9	236.8	90.9
International	51.1	--	(1.1)	50.0	(5.0)
Midstream Gas & Liquids	770.0	320.5	(12.7)	1,077.8	78.6
Petroleum Services	2,793.6	172.2	.1	2,965.9	192.3
Williams Energy Partners	34.3	7.7	--	42.0	12.3
Merger-related costs and non-compete amortization	--	--	--	--	(1.5)
TOTAL ENERGY SERVICES	5,028.8	412.2	(6.1)	5,434.9	1,125.3
OTHER	19.6	19.9	(.4)	39.1	8.9
ELIMINATIONS	--	(449.5)	--	(449.5)	--
TOTAL	\$5,896.9	\$ --	\$ 11.7	\$5,908.6	\$1,545.2
FOR THE SIX MONTHS ENDED JUNE 30, 2000					
GAS PIPELINE	\$ 932.1	\$ 28.9	\$ 12.3	\$ 973.3	\$ 412.5
ENERGY SERVICES					
Energy Marketing & Trading	903.4	(293.5)*	.1	610.0	350.4
Exploration & Production	24.4	103.1	--	127.5	21.4
International	33.0	--	.5	33.5	5.0
Midstream Gas & Liquids	333.5	312.4	.2	646.1	153.6
Petroleum Services	1,969.6	77.2	(.2)	2,046.6	85.9
Williams Energy Partners	25.9	9.4	--	35.3	9.7
Merger-related costs and non-compete amortization	--	--	--	--	(4.2)
TOTAL ENERGY SERVICES	3,289.8	208.6	.6	3,499.0	621.8
OTHER	14.2	19.1	--	33.3	6.3
ELIMINATIONS	--	(256.6)	--	(256.6)	--
TOTAL	\$4,236.1	\$ --	\$ 12.9	\$4,249.0	\$1,040.6

(Millions)	TOTAL ASSETS	
	June 30, 2001	December 31, 2000
GAS PIPELINE	\$ 8,985.4	\$ 8,956.2
ENERGY SERVICES		
Energy Marketing & Trading	13,541.9	14,609.7
Exploration & Production	2,133.4	671.5
International	2,263.3	2,214.4
Midstream Gas & Liquids	4,303.4	4,293.5
Petroleum Services	2,912.2	2,666.5
Williams Energy Partners	404.3	349.8
TOTAL ENERGY SERVICES	25,558.5	24,805.4
OTHER	5,830.3	7,019.9
ELIMINATIONS	(6,748.5)	(8,156.1)
NET ASSETS OF DISCONTINUED OPERATIONS	33,625.7	32,625.4
TOTAL	\$ 33,625.7	\$ 34,915.6

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

Notes (Continued)

16. Recent accounting standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 establishes accounting and reporting standards for business combinations and requires all business combinations to be accounted for by the purchase method. The Statement is effective for all business combinations initiated after June 30, 2001, and any business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. SFAS No. 142 addresses accounting and reporting standards for goodwill and other intangible assets. Under this Statement, intangible assets with indefinite useful lives and goodwill will no longer be amortized, but will be tested annually for impairment. The Statement becomes effective for all fiscal years beginning after December 15, 2001. The effect of these standards on Williams' results of operations and financial position is being evaluated.

ITEM 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATION

In March 2001, the board of directors of Williams approved a tax-free spinoff of Williams' communications business, Williams Communications Group, Inc. (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 have been restated to present WCG as discontinued operations (see Note 6 of Notes to Consolidated Financial Statements). 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.

RESULTS OF OPERATIONS

SECOND QUARTER 2001 VS. SECOND QUARTER 2000

Williams' revenues increased \$470.9 million, or 20 percent, due primarily to higher petroleum products and natural gas sales prices and volumes, revenues from Canadian operations acquired in fourth-quarter 2000 and the \$163 million impact of reporting certain revenues net of the related costs in 2000 related to sales activity surrounding certain terminals. These revenues are reported "gross" subsequent to the transfer of management over the sales activity from Energy Marketing & Trading to Petroleum Services effective February 2001 (see Note 2). Partially offsetting these increases was the effect of a \$64 million reduction of Gas Pipeline's rate refund liabilities in 2000.

Segment costs and expenses increased \$367.1 million, or 21 percent, due primarily to higher costs related to increased petroleum products average per unit costs and higher related volumes, costs associated with Canadian operations acquired in fourth-quarter 2000 and the impact of reporting certain sales activity costs net with related revenues in 2000.

Operating income increased \$100.5 million, or 17 percent, due primarily to the \$72.1 million pre-tax gain on the sale of the convenience stores in May 2001, higher margins at refining and marketing operations, higher realized average natural gas sales prices from production and marketing activities, \$27.5 million gain on sale of limited partnership interests at Gas Pipeline and the \$25.9 million effect in 2000 of the guarantee loss accrual at Energy Marketing & Trading. These increases were partially offset by the \$64 million effect in 2000 of rate refund liability reductions, lower per unit natural gas liquids margins and volumes and a \$10.9 million impairment charge at Midstream Gas & Liquids.

Income from continuing operations before income taxes increased \$87.5 million from \$469.0 million in 2000 to \$556.5 million in 2001, due primarily to \$100.5 million higher operating income. Partially offsetting the higher operating income is \$17.2 million higher net interest expense reflecting increased debt in support of continued expansion and new projects.

GAS PIPELINES

GAS PIPELINE'S revenues decreased \$76.5 million, or 16 percent, due primarily to the effect of a \$64 million reduction of rate refund liabilities in 2000 following the settlement of prior rate proceedings and \$21 million lower gas exchange imbalance settlements (offset in costs and operating expenses). Partially offsetting these decreases were \$4 million higher revenues from a liquefied natural gas storage facility acquired in June 2000 and \$4 million higher equity investment earnings from pipeline joint venture projects.

Costs and expenses decreased \$37.9 million, or 17 percent, due primarily to the \$21 million lower gas exchange imbalance settlements and \$15 million resulting from the FERC's approval for recovery from customers of fuel costs incurred in prior periods by Transco.

Other (income) expense-net for the three months ended June 30, 2001, within segment costs and expenses includes a \$27.5 million pre-tax gain from the sale of Williams' limited partnership interest in Northern Border Partners, L.P.

Segment profit decreased \$8.2 million, or 4 percent, due primarily to the lower revenues discussed previously, partially offset by the lower segment costs and expenses and the \$27.5 million pre-tax gain.

Based on current rate structures and/or historical maintenance schedules of certain of its pipelines, Gas Pipeline generally experiences lower segment profits in the second and the third quarters as compared with the first and fourth quarters.

ENERGY SERVICES

ENERGY MARKETING & TRADING'S revenues decreased \$50.8 million, or 11 percent, due to a \$26 million decrease in trading revenues and a \$25 million decrease in non-trading revenues. The \$26 million decrease in trading revenues is due primarily

Management's Discussion & Analysis (Continued)

to \$25 million lower gas and electric power services margins and \$11 million lower crude and refined trading margins partially offset by \$10 million higher natural gas liquids margins. The lower gas and electric power services margins reflect net unfavorable changes in the overall fair value of the gas and electric power portfolio resulting from lower margins on additional price risk management services as compared to last year, partially offset by favorable results from proprietary trading activities around existing portfolio positions. Approximately 1,100 megawatts of notional volumes in the southeast and western regions of the United States were added in 2001 to Energy Marketing & Trading through price risk management services offered through structured transactions. These contracts include agreements to market capacity of electricity generation facilities, as well as agreements to provide load following and/or full requirements services. The lower crude and refined margins and higher natural gas liquids margins result from price movements in relation to current trading positions.

The \$25 million decrease in non-trading revenues is due primarily to \$31 million lower natural gas liquids revenues from lower sales prices.

Costs and operating expenses decreased \$24 million, or 28 percent, due primarily to \$22 million lower natural gas liquids costs. This variance is associated with the corresponding change in non-trading revenues discussed above.

Other (income) expense - net in 2000 includes a \$25.9 million guarantee loss accrual (see Note 3) and a \$12.4 million gain on the sale of certain natural gas liquids contracts.

Segment profit of \$273.2 million in 2001 is comparable to the \$272.6 million of segment profit in 2000. Decreases attributable to \$26 million lower trading revenues discussed above and \$9 million lower margins from non-trading natural gas liquids operations were partially offset by a \$14 million decrease in selling, general and administrative expenses and the impact in 2000 of the \$25.9 million guarantee loss accrual and the \$12.4 million gain on sale of certain natural gas liquids contracts. The lower selling, general and administrative costs reflect lower variable compensation levels associated with the decrease in operating profit for the quarter.

CALIFORNIA

At June 30, 2001, Energy Marketing & Trading had net accounts receivable of approximately \$302 million for power sales to the California Independent Service Operator (ISO) and the California Power Exchange Corporation (CPEC). While the amount recorded reflects management's best estimate of collectibility, future events or circumstances could change those estimates. 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. In addition, Southern California Edison (SCE) has engaged in talks with the State of California regarding various arrangements that could prevent its bankruptcy. Williams does not believe its credit exposure to these bankruptcies and potential bankruptcy will result in a material adverse effect on its results of operations or financial condition.

The prices that Williams charges for power in California and other western markets have been challenged in various proceedings, including those before the Federal Energy Regulatory Commission (FERC). In December 2000, the FERC issued an order which provided that for the period between October 2, 2000 and December 31, 2002, it 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. Beginning on March 9, 2001, the FERC issued a series of orders directing Williams and other similarly situated companies to provide refunds for any prices charged in excess of FERC established proxy prices in January, February, March, April and May 2001 or to provide justification for the prices charged during those months. According to the FERC, Williams' total potential refund liability for this period is approximately \$30 million. Williams has filed justification for its prices with the FERC and calculated its refund liability under the methodology used by the FERC to compute refund amounts at approximately \$11 million. However, in its FERC filings, Williams continues its objections to refunds in any amount.

Certain parties 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, back to May 1, 2000, and possibly earlier. Although Williams believes these requests are ill-founded and will be rejected by the FERC, there can be no assurance of such action.

In an order issued June 19, 2001, the FERC has 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 will be in effect from June 20, 2001 through September 30, 2002, establishes a market clearing price for spot sales in all hours of the day that is based on the bid of the highest-cost

Management's Discussion & Analysis (Continued)

California generating unit that is needed to serve the California Independent System Operator's load. When generation operating reserves fall below 7 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 is the market clearing price. When generation operating reserves rise to 7 percent or above in California, absent cost based justification for a higher price, Williams' maximum price will be limited to 85 percent of the highest hourly price that was in effect during the most recent reserve deficiency period. The June 19 order also implemented multi-party settlement talks regarding refunds for past periods that concluded without resolution of the issues. Absent settlement, the presiding administrative law judge issued a report to the Commission that, with some variations, recommends applying the methodology of the June 19 order to determine refunds for prior periods. On July 25, 2001, the Commission issued an order adopting, to a significant extent, the Judge's recommendation and establishing an expedited hearing to establish the facts necessary to determine refunds under the approved methodology. Refunds under this order will cover the period of October 2, 2000 through June 20, 2000. They will be paid as offsets against outstanding bills and are inclusive of any amounts previously noticed for refund for that period.

In March 2001, FERC issued a Show Cause Order directing Williams 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, 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 California 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.

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 resulted from the exercise of market power and collusion of the power generators and sellers, such as Williams. These allegations have resulted in multiple state and federal investigations as well as the filing of class-action lawsuits in which Williams is a named defendant (see Note 11). In May 2001, the Department of Justice advised Williams that it had commenced an antitrust investigation relating to an agreement between a subsidiary of Williams and AES Southland alleging that the agreement limits the expansion of electric generating capacity at or near the AES Southland plants that are subject to a long-term tolling agreement between Williams and AES. In connection with that investigation, the Department of Justice issued a Civil Investigative Demand to Williams requesting answers to certain interrogatories and the production of documents. Williams is cooperating with the investigation. Most of these initiatives, investigations and proceedings are in their preliminary stages and their likely outcome cannot be estimated. There can be no assurance that these initiatives, investigations and proceedings will not have an adverse effect on Williams' results of operations or financial condition.

EXPLORATION & PRODUCTION'S revenues increased \$30.9 million, or 43 percent, due primarily to \$18 million from increased realized average natural gas sales prices (including the effect of hedge positions) and \$5 million associated with an increase in volumes from production and marketing activities. Approximately 66 percent of production in second-quarter 2001 was hedged. In addition, revenues increased \$5.9 million from equity earnings from the 50 percent investment in Barrett Resources Corporation acquired in June 2001 (see Note 4 for further discussion of the Barrett acquisition).

Segment profit increased \$30.3 million, to \$40.3 million in 2001 from \$10 million in 2000, due primarily to the higher revenues discussed previously.

INTERNATIONAL'S revenues increased \$15.4 million, from \$16.5 million in 2000. The increase is attributable to \$7.3 million of revenue from Colorado soda ash production which began in October 2000, \$2.6 million higher Venezuelan gas compression revenues, and \$1.1 million from increased operating fees due to increased volumes at a Venezuelan crude oil storage and shiploading terminal. Equity earnings from the Lithuanian refinery, pipeline and terminal investment increased \$4.1 million, from an equity loss of \$2.7 million in 2000, due to higher volumes and better product mix and purchase costs.

Management's Discussion & Analysis (Continued)

Operating costs increased \$14.8 million primarily due to soda ash production which began operation in October 2000.

Segment profit increased \$1.8 million, from \$1.7 million in 2000, due primarily to the higher revenues discussed above and \$1.1 million lower general and administrative costs offset by the \$14.8 million increase in operating costs.

MIDSTREAM GAS & LIQUIDS' revenues increased \$158.1 million, or 49 percent, due primarily to \$182 million in revenues from Canadian operations acquired in October 2000. The \$182 million of revenues from Canadian operations consist primarily of \$84 million of natural gas liquids sales from processing activities, \$61 million of natural gas liquids sales from fractionation activities and \$35 million of processing revenues. Domestic natural gas liquids revenues decreased \$29 million, reflecting a \$33 million decrease from 27 percent decrease in domestic liquids volumes sold, partially offset by \$4 million increase due to higher average domestic natural gas liquids sales prices.

Costs and operating expenses increased \$181 million to \$400 million in second-quarter 2001, due primarily to \$182 million of costs and operating expenses related to the Canadian operations. Higher domestic maintenance, depreciation and power costs were offset by lower product costs related to natural gas liquids sales and lower operating costs.

General and administrative expenses decreased \$5 million, or 16 percent, due primarily to lower compensation expense and the absence of costs related to last year's reorganization.

Included in other (income) expense-net within segment costs and expenses for 2001 is a \$10.9 million impairment loss related to management's second-quarter 2001 decision and commitment to sell certain south Texas non-regulated gathering and processing assets. The \$10.9 million charge represents the impairment of the assets to fair value based on expected proceeds from the sale.

Segment profit decreased \$30.3 million, or 43 percent due primarily to \$10 million from decreased domestic natural gas liquids volumes sold, \$9 million from lower average domestic per-unit natural gas liquids margins and the \$10.9 million impairment loss discussed above.

PETROLEUM SERVICES' revenues increased \$473.5 million, or 44 percent, due primarily to \$322 million higher refining and marketing revenues (excluding a \$26 million increase to revenues due to lower intra-segment sales to the travel center/convenience stores which are eliminated) and \$71 million higher travel center/convenience store sales. Effective February 2001, management of refined product sales activities surrounding certain terminals throughout the United States was transferred to Petroleum Services from Energy Marketing & Trading (see Note 2). The sales activity was previously included in the trading portfolio of Energy Marketing & Trading and is therefore reported net of related cost of sales along with other refined product trading gains and losses within Energy Marketing & Trading prior to February 2001. After the transfer of management of these activities to Petroleum Services, these sales activities are reported "gross" within the Petroleum Services segment. Energy Marketing and Trading's revenue for the three months ended June 30, 2000 includes approximately \$163 million for both the sales and cost of sales related to this activity. The \$322 million increase in refining and marketing revenues includes the \$163 million impact previously discussed, \$125 million from a 14 percent increase in refined product volumes sold and \$34 million from three percent higher average refined product sales prices. The \$71 million increase in travel center/convenience store sales reflects \$78 million from a 55 percent increase in diesel sales volumes, \$11 million from four percent higher average gasoline and diesel sales prices, partially offset by \$16 million from 13 percent decrease in gasoline sales volumes and \$2 million lower merchandise sales. The increase in diesel sales volumes is partly due to a higher number of travel centers in 2001. In addition, revenues increased due to \$40 million higher bio-energy sales reflecting an increase in ethanol volumes sold and average ethanol sales prices and \$11 million higher revenues from Williams' 3.1 percent undivided interest in Trans Alaska Pipeline System (TAPS) acquired in late June 2000. Partially offsetting these increases were \$7 million lower fleet management revenues.

Costs and operating expenses increased \$445.4 million, or 45 percent, due primarily to \$295 million higher refining costs and \$79 million higher travel center/convenience store costs (excluding a \$26 million increase due to lower intra-segment purchases from the refineries which are eliminated). The \$295 million increase in refining and marketing costs includes the \$163 million impact of the transfer of management from Energy Marketing & Trading to Petroleum Services discussed above, \$113 million associated with increased volumes sold through refining and marketing operations, \$10 million from higher crude supply costs and other related per-unit cost of sales, and \$9 million higher other operating costs at the refinery. The \$79 million increase in travel center/convenience store costs is primarily from \$75 million increased diesel sales volumes, \$12 million higher average diesel and gasoline purchase prices, \$5 million higher store operating costs and \$2 million higher merchandise costs, partially offset by \$15 million due to decreased gasoline volumes sold. In addition, costs and operating expenses increased due to \$29 million higher

bio-energy product and operating costs and \$5 million higher costs from Williams' 3.1 percent undivided interest in TAPS.

Management's Discussion & Analysis (Continued)

Included in other (income) expense - net within segment costs and expenses for 2001, is a \$72.1 million pre-tax gain from the sale of 198 convenience stores, primarily in the Tennessee metropolitan areas of Memphis and Nashville. Revenues related to the stores which were sold approximated \$77 million and \$121 million for 2001 and 2000, respectively.

Segment profit increased \$103.2 million, to \$160.2 million in 2001 from \$57.0 million in 2000 due primarily to the \$72.1 million gain on the sale of convenience stores and \$27 million from refining and marketing operations. The refining and marketing operations increase was due primarily to \$24 million higher margins and \$12 million due to higher refining and marketing volumes sold, partially offset by \$9 million higher other operating costs at the refineries. In addition, segment profit increased due to \$6 million from Williams' interest in TAPS acquired in late June 2000.

WILLIAMS ENERGY PARTNERS' revenue increased \$4.1 million from \$17.6 million to \$21.7 million and segment profit increased \$4.3 million from \$2.6 million to \$6.9 million, due primarily to acquisition of the Wyatt terminal facilities acquired in September 2000 and additional ammonia pipeline revenues.

CONSOLIDATED

INTEREST ACCRUED increased \$13.8 million, or 9 percent, due primarily to a \$9 million increase in interest expense on rate refunds reflecting the effect in 2000 of an \$11.2 million reduction to interest accruals related to Gas Pipeline's rate refund liabilities reductions in 2000 and a \$4 million increase related to interest on deposits received from customers relating to energy trading and hedging activities. Slightly higher borrowing levels resulted in a \$5 million increase to interest expense, however, the increase was largely offset by the effect of lower average interest rates. Investing income increased \$5.7 million, or 36 percent, due primarily to interest income on margin deposits of \$8 million, partially offset by a decrease in dividend income of \$4 million due to the sale of Ferrellgas Senior common units in second-quarter 2001. Minority interest in income and preferred returns of consolidated subsidiaries increased \$6.5 million, or 47 percent, due primarily to preferred returns of Snow Goose LLC, formed in December 2000 offset by a \$3 million decrease related to Williams obligated mandatorily redeemable preferred securities of Trust which were redeemed by Williams in second-quarter 2001.

The provision for income taxes increased \$34.4 million, or 19 percent, primarily as a result of higher pre-tax income. The effective income tax rates for 2001 and 2000 are greater than the federal statutory rate due primarily to the effects of state income taxes.

SIX MONTHS ENDED JUNE 30, 2001 VS. SIX MONTHS ENDED JUNE 30, 2000

CONSOLIDATED OVERVIEW

Williams' revenues increased \$1,659.6 million, or 39 percent, due primarily to higher gas and electric power services, revenues from Canadian operations acquired in fourth-quarter 2000, higher petroleum products and natural gas sales prices and volumes and the \$316 million impact of reporting certain revenues net of the related costs in 2000 related to sales activity surrounding certain terminals. These revenues are reported "gross" subsequent to the transfer of management over the sales activity from Energy Marketing & Trading to Petroleum Services effective February 2001 (see Note 2). Partially offsetting these increases was the effect in 2000 of a \$71 million reduction of Gas Pipeline's rate refund liabilities.

Segment costs and expenses increased \$1,155 million, or 36 percent, due primarily to higher costs related to increased petroleum products average prices and volumes, costs associated with Canadian operations acquired in fourth-quarter 2000 and the impact of reporting certain sales activity costs net with related revenues in 2000 (discussed above). Partially offsetting these increases was a \$72.1 million gain on the sale of certain convenience stores.

Operating income increased \$495.3 million, or 50 percent, due primarily to higher gas and electric power services margins, the \$72.1 million pre-tax gain on the sale of the convenience stores in May 2001, higher margins at refining and marketing operations, increased realized natural gas sales prices, \$27.5 million pre-tax gain on sale of limited partnership interests at Gas Pipeline and the effect in 2000 of a \$25.9 million guarantee loss accrual at Energy Marketing & Trading. Partially offsetting these increases was lower per-unit natural gas liquids margins and the \$71 million effect in 2000 of rate refund liabilities and approximately \$22 million of impairment charges within Energy Services.

Income from continuing operations before income taxes increased \$466.2 million from \$708.2 million in 2000 to \$1,174.4 million in 2001, due primarily to \$495.3 million higher operating income and \$21 million higher investing income primarily from interest on margin deposits. Partially offsetting the increases are \$38.1 million higher net interest expense reflecting increased debt in support of continued expansion and new projects and \$17.6 million higher minority interest in income and preferred returns of subsidiaries related primarily to the preferred returns of Snow Goose LLC formed in December 2000.

Management's Discussion & Analysis (Continued)

GAS PIPELINE

GAS PIPELINE'S revenues decreased \$89.2 million, or 9 percent, due primarily to the effect of a \$71 million reduction of rate refund liabilities in 2000 following the settlement of prior rate proceedings and \$39 million lower gas exchange imbalance settlements (offset in costs and operating expenses). Partially offsetting these decreases were \$8 million higher revenues from a liquefied natural gas storage facility acquired in June 2000, \$6 million higher equity investment earnings from pipeline joint venture projects and \$4 million higher transportation demand revenues at Transco.

Costs and expenses decreased \$47 million, or 11 percent, due primarily to the \$39 million lower gas exchange imbalance settlements (offset in revenues) and \$15 million resulting from the FERC's approval for recovery from customers of fuel costs incurred in prior periods by Transco. Offsetting these decreases to cost and expenses was \$12 million in higher depreciation expense due to increased property, plant & equipment.

Other (income) expense-net for the six months ended June 30, 2001, within segment costs and expenses includes a \$27.5 million pre-tax gain from the sale of Williams' limited partnership interest in Northern Border Partners L.P. and a \$3 million gain from an insurance settlement in 2001 for storage gas losses.

Segment profit decreased \$1.5 million, due primarily to the lower revenues discussed previously, partially offset by lower costs and expenses, the \$27.5 million pre-tax gain on the sale of limited partner interests and \$12 million lower general and administrative expenses. The lower general and administrative costs result primarily from the 2000 headquarters consolidation of two of the gas pipelines, lower tracked costs which are passed through to customers and lower employee benefits costs.

Based on current rate structures and/or historical maintenance schedules of certain of its pipelines, Gas Pipeline generally experiences lower segment profits in the second and third quarters as compared to the first and fourth quarters.

ENERGY SERVICES

ENERGY MARKETING & TRADING'S revenues increased \$452.4 million, or 74 percent, due to a \$461 million increase in trading revenues offset by a \$9 million decrease in non-trading revenues. The \$461 million increase in trading revenues is due primarily to \$481 million higher gas and electric power services margins and \$14 million increased natural gas liquids margins slightly offset by \$34 million lower crude and refined trading margins. The higher gas and electric power services margins primarily result from a net favorable change in the overall fair value of the gas and electric portfolio resulting from proprietary trading activities around existing portfolio positions. In addition, the increased gas and electric power services margins reflect the benefit of additional price risk management services offered through structured transactions. These new structured transactions included the addition of approximately 3,710 megawatts of notional volumes to Energy Marketing & Trading in the mid-continent, northeast and southeast regions of the United States. These contracts include agreements to market capacity of electricity generation facilities, as well as agreements to provide load following and/or full requirements services.

The \$9 million decrease in non-trading revenues is due primarily to \$21 million lower natural gas liquids revenues resulting from lower sales prices partially offset by \$10 million higher non-trading power services revenues.

Costs and operating expenses increased \$8 million, or 6 percent, due primarily to higher cogeneration costs of sales and increased operating expenses. These variances are associated with the corresponding changes in non-trading revenues discussed above.

Other (income) expense - net in 2000 includes a \$25.9 million guarantee loss accrual (see Note 3) and a \$12.4 million gain on the sale of certain natural gas liquids contracts.

Segment profit increased \$407.3 million, from \$350.4 million in 2000 to \$757.7 million in 2001, due primarily to the \$481 million higher gas and electric power services margins and the effect of the \$25.9 million guarantee loss accrual in 2000. Partially offsetting the increases were \$51 million higher selling, general and administrative costs, \$34 million lower crude and refined trading margins and \$20 million lower margins from non-trading natural gas liquids operations and the \$12.4 million effect of the 2000 gain on sale of certain natural liquids contracts. The higher selling, general and administrative costs primarily reflect higher variable compensation levels associated with improved operating performance, \$10 million of bad debt expense related to California electric power sales to a customer that had unexpectedly filed for bankruptcy, and start-up of a London trading location.

EXPLORATION & PRODUCTION'S revenues increased \$109.3 million, or 86 percent, due primarily to \$83 million from increased realized average natural gas sales prices (including the effect of hedge positions)

Management's Discussion & Analysis (Continued)

and \$15 million associated with an increase in volumes from production and marketing activities. Approximately 63 percent of production through second-quarter 2001 was hedged. Exploration & Production has entered into contracts that hedge approximately 78 percent of estimated production for the remainder of the year. At June 30, 2001, the contracted future hedge prices are in excess of the spot market, resulting in an unrealized gain reflected in other comprehensive income. In addition, revenues increased \$5.9 million from equity earnings from the 50 percent investment in Barrett Resources Corporation acquired in June 2001 (see Note 4 for further discussion of Barrett acquisition).

Segment profit increased \$69.5 million, to \$90.9 million in 2001 from \$21.4 in 2000, due primarily to the higher revenues discussed previously, partially offset by \$21 million higher gas purchase costs related to the marketing of natural gas from the Williams Coal Seam Royalty Trust and royalty interest owners, \$8 million higher production-related taxes and \$8 million higher operating and maintenance expenses.

INTERNATIONAL'S revenues increased \$16.5 million, or 49 percent, from \$33.5 million in 2000. The increase is attributable to \$11.2 million of revenue from Colorado soda ash production which began in October 2000, \$3.5 million higher Venezuelan gas compression revenues, and \$2.9 million from increased operating fees due to increased volumes at a Venezuelan crude oil storage and shiploading terminal. These increases were partially offset by \$1.2 million higher equity losses from the Lithuanian refinery.

Operating costs increased \$29.8 million primarily due to soda ash production which began operation in October 2000.

Segment profit decreased \$10 million from segment profit of \$5 million in 2000 to a segment loss of \$5 million in 2001. The soda ash project had a segment loss of \$16.4 million reflecting initial operations start-up costs. Partially offsetting the loss from soda ash production were the effects of the higher Venezuelan revenues discussed above and lower general and administrative costs.

MIDSTREAM GAS & LIQUIDS' revenues increased \$431.7 million, or 67 percent, due primarily to \$465 million in revenues from Canadian operations acquired in October 2000. The \$465 million of revenues from Canadian operations consist primarily of \$208 million of natural gas liquids sales from processing activities, \$166 million of natural gas liquids sales from fractionation, and \$87 million of processing revenues. Domestic natural gas liquids revenues decreased \$26 million reflecting a \$64 million decrease from a 27 percent decrease in volumes sold, partially offset by a \$38 million increase due to higher average domestic natural gas liquids sales prices. In addition, equity method investments had \$12.7 million in equity losses during 2001 compared to equity earnings of \$.2 million in 2000.

Costs and operating expenses increased \$507 million to \$935 million, due primarily to \$465 million of costs and operating expenses related to the Canadian operations, \$44 million higher liquids fuel and replacement gas purchases, and \$10 million higher power costs related to the natural gas liquids pipeline, partially offset by the effect in 2000 of \$12 million of losses associated with certain propane storage transactions in first-quarter 2000.

General and administrative expenses decreased \$16 million, or 24 percent, due primarily to \$12 million of reorganization and early retirement costs occurring in 2000 and \$2 million lower compensation expense.

Included in other (income) expense-net within segment costs and expenses for 2001 is a \$10.9 million impairment loss related to management's second-quarter 2001 decision and commitment to sell certain south Texas non-regulated gathering and processing assets. The \$10.9 million charge represents the impairment of the assets to fair value based on expected proceeds from the sale.

Segment profit decreased \$75 million, or 49 percent, due primarily to \$43 million from lower average per-unit domestic natural gas liquids margins, \$23 million from decreased domestic natural gas liquids volumes sold, \$17 million decrease from natural gas liquids pipeline operations, \$13 million from higher equity investment losses, and \$10.9 million due to an impairment loss discussed above. Partially offsetting these decreases to segment profit were \$16 million lower general and administrative expenses and \$12 million of losses associated with certain propane storage transactions in first-quarter 2000.

PETROLEUM SERVICES' revenues increased \$919.3 million, or 45 percent, due primarily to \$636 million higher refining and marketing revenues (excluding a \$61 million increase to revenues due to lower intra-segment sales to the travel centers/convenience stores which are eliminated) and \$145 million higher travel center/convenience store sales. The \$636 million increase in refining and marketing revenues includes the \$316 million impact of the transfer of management from Energy Marketing & Trading to Petroleum Services effective February 2001 of refined product sales activities surrounding certain terminals, \$157 million from nine percent higher average refined product sales prices and \$163 million resulting from a 10 percent increase in refined product volumes sold. The \$145 million increase in travel center/convenience store sales reflects \$133 million from a 47 percent increase in diesel sales

Management's Discussion & Analysis (Continued)

volumes, \$14 million from two percent higher average gasoline and diesel sales prices and \$6 million higher merchandise sales, partially offset by \$8 million due to a four percent decrease in gasoline volumes sold. In addition, revenues increased due to \$62 million higher bio-energy sales reflecting increases in ethanol volumes sold and average ethanol sales prices, \$22 million higher revenues from Williams' 3.1 percent undivided interest in TAPS acquired in late June 2000 and \$8 million higher commodity sales from transportation activities. Slightly offsetting these increases were \$8 million lower revenues related to the petrochemical plant due to a plant turnaround in first quarter 2001.

Costs and operating expenses increased \$876 million, or 46 percent, due primarily to \$579 million higher refining costs and \$160 million higher travel center/convenience store costs (excluding a \$61 million increase to costs due to lower intra-segment purchases from the refineries which are eliminated). The \$579 million increase in refining and marketing costs includes the \$316 million impact of the transfer of management from Energy Marketing & Trading to Petroleum Services effective February 2001 of refined product sales activities surrounding certain terminals (see discussion above) and the remaining increase reflects \$105 million from higher crude supply costs and other related per-unit cost of sales and \$148 million associated with increased volumes sold through refining and marketing operations and \$10 million increase in other operating costs at the refineries. The \$160 million increase in travel center/convenience store costs is primarily from \$127 million increased diesel sales volumes, \$15 million higher average diesel and gasoline purchase prices, \$10 million higher merchandise costs and \$16 million higher store operating costs, partially offset by \$8 million due to decreased gasoline sales volumes. In addition, costs and operating expenses increased due to \$55 million higher bio-energy product and operating costs, \$11 million higher cost of commodity sales from transportation activities and \$10 million of cost related to Williams' 3.1 percent undivided interest in TAPS.

Included in other (income) expense-net within segment costs and expenses for 2001, is a \$72.1 million pre-tax gain from the sale of 198 convenience stores, primarily in the Tennessee metropolitan areas of Memphis and Nashville. Revenues related to the stores which were sold approximated \$182 million and \$234 million for 2001 and 2000. Also included in other (income) expense-net within segment costs and expenses is an \$11 million impairment charge related to an end-to-end mobile computing systems business.

Segment profit increased \$106.4 million, to \$192.3 million in 2001 from \$85.9 million in 2000. An increase of \$57 million from refining and marketing operations resulted from \$52 million higher refinery gross margins and \$15 million higher refinery volumes, partially offset by \$10 million higher other operating costs at the refineries. In addition, segment profit increased \$72.1 million from the gain on the sale of convenience stores and \$13 million from Williams' interest in TAPS acquired in late June 2000. Partially offsetting these increases were an \$11 million impairment charge related to an end-to-end mobile computing systems business, \$16 million higher operating costs from the travel centers/convenience stores and \$8 million lower revenues from activities at the petrochemical plant.

WILLIAMS ENERGY PARTNERS' revenue increased \$6.7 million from \$35.3 million to \$42 million and segment profit increased \$2.6 million from \$9.7 million to \$12.3 million, due primarily to acquisition of the Wyatt terminal facilities acquired in September 2000.

CONSOLIDATED

GENERAL CORPORATE EXPENSES increased \$9.3 million, or 20 percent, primarily due to an increase in outside legal costs and higher compensation levels. Interest accrued increased \$35.2 million, or 11 percent, due primarily to the \$15 million effect of higher borrowing levels combined with the \$5 million effect of higher average interest rates, a \$10 million increase in interest expense related to deposits received from customers relating to energy trading and hedging activities and a \$7 million increase in interest expense on rate refund liabilities. The increased borrowing levels reflect an increase in long-term debt levels partially offset by a decrease in commercial paper levels as compared to 2000. Long-term debt includes \$1.1 billion of senior unsecured debt securities issued in January 2001. Notes payable includes \$1.2 million borrowed under a \$1.5 million short-term credit agreement originated June 2001 which expires November 2001. Investing income increased \$20.7 million, or 54 percent, due primarily to interest income on margin deposits. Minority interest in income and preferred returns of consolidated subsidiaries increased \$17.6 million, or 65 percent, due primarily to preferred returns of Snow Goose LLC, formed in December 2000.

The provision for income taxes increased \$173.7 million, or 61 percent, primarily as a result of higher pre-tax income offset slightly by a decrease in the effective tax rate. The effective income tax rates for 2001 and 2000 are greater than the federal statutory rate due primarily to the effects of state income taxes.

Loss from discontinued operations for the six months ended June 30, 2001, includes \$179.1 million after-tax loss from operations of WCG (see Note 6). The \$26.2 million income from operations for the six months ended June 30, 2000 represents the after-tax income from the operations of WCG.

Management's Discussion & Analysis (Continued)

FINANCIAL CONDITION AND LIQUIDITY

Liquidity

Williams considers its liquidity to come from both internal and external sources. Certain of those sources are available to Williams (parent) and certain of its subsidiaries. Williams' unrestricted sources of liquidity, which can be utilized without limitation under existing loan covenants, consist primarily of the following:

- o Available cash-equivalent investments of \$830 million at June 30, 2001, as compared to \$854 million at December 31, 2000.
- o \$700 million available under Williams' \$700 million bank-credit facility at June 30, 2001, as compared to \$350 million at December 31, 2000.
- o \$1.67 billion available under Williams' \$1.7 billion commercial paper program at June 30, 2001, as compared to \$4 million at December 31, 2000. Subsequent to June 30, 2001, the commercial paper program and related short-term bank-credit facility were increased to \$2.2 billion.
- o Cash generated from operations.
- o Short-term uncommitted bank lines of credit can also be used in managing liquidity.

In June 2001, Williams filed a \$1.9 billion shelf registration statement with the Securities and Exchange Commission to issue a variety of debt and equity securities. This registration statement became effective in July 2001. In addition, there are outstanding registration statements filed with the Securities and Exchange Commission for Northwest Pipeline, Texas Gas Transmission and Transcontinental Gas Pipe Line (each a wholly owned subsidiary of Williams). At August 1, 2001, 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 and market conditions will affect amounts borrowed, if any, under these arrangements. Williams believes additional financing arrangements, if required, can be obtained on reasonable terms.

In 2001, capital expenditures and investments, excluding the Barrett Resources acquisition, are estimated to total approximately \$2.3 billion. Williams expects to fund capital and investment expenditures, debt payments and working-capital requirements through (1) cash generated from operations, (2) the use of the available portion of Williams' \$700 million bank-credit facility, (3) commercial paper, (4) short-term uncommitted bank lines, (5) private borrowings, (6) sale or disposal of existing businesses and/or (7) debt or equity public offerings.

WCG Separation

Currently, Williams does not believe that the separation of WCG and Williams will negatively impact liquidity or the financial condition of Williams. Since the initial equity offering by WCG in October 1999, the sources of liquidity for WCG had been separate from Williams' sources of liquidity. The reduction to Williams' stockholders' equity as a result of the separation in April 2001 was approximately \$1.8 billion. Williams, with respect to shares of WCG's common stock that Williams will retain, has committed to the Internal Revenue Service (IRS) to dispose of all of the WCG shares that it retains as soon as market conditions allow, but in any event not longer than five years after the spinoff. As part of a separation agreement and subject to a 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 has agreed not to dispose of the retained WCG shares for three years from the date of distribution and must notify WCG of an intent to dispose of such shares. For further discussion of separation agreements and potential tax exposure as a result of the WCG separation, see Note 6.

Additionally, 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 a building under construction. In return, Williams received 24.3 million newly issued common shares of WCG. Williams is providing indirect credit support for \$1.4 billion of WCG's structured notes through a commitment to issue Williams' equity in the event of WCG's default, or to the extent proceeds from WCG's refinancing or remarketing of certain structured notes prior to March 2004 produces proceeds of less than \$1.4 billion. The ability of WCG to make payments on the notes is dependent on its ability to raise additional capital and its subsidiaries ability to dividend cash to WCG. WCG, however, is obligated to reimburse Williams for any payment Williams is required to make in connection with these notes. Additionally, receivables include amounts due from WCG of approximately \$109 million at June 30, 2001. Williams has extended the payment term of up to \$100 million of the outstanding balance due March 31, 2001 to March 15, 2002. Williams is also considering the purchase from WCG of its

Management's Discussion & Analysis (Continued)

headquarters building currently under construction, and would enter into a long-term lease arrangement with WCG being the sole occupant of the building.

Financing Activities

In January 2001, Williams issued \$1.1 billion of senior unsecured debt securities, of which \$500 million in proceeds was used to retire temporary financing obtained in September 2000. Also in January 2001, Williams issued approximately 38 million shares of common stock in a public offering at \$36.125 per share. Net proceeds were \$1.33 billion. Williams has and will continue to use the remaining proceeds that were received from the debt offering and equity offerings to expand Williams' capacity for funding of the energy-related capital program, repay commercial paper, repay debt, including a portion of floating rate notes due December 15, 2001 and other general corporate purposes.

Williams Energy Partners L.P. (WEP), owns and operates a diversified portfolio of energy assets. The partnership is principally engaged in the storage, transportation and distributions of refined petroleum products and ammonia. On February 9, 2001, WEP completed an initial public offering of approximately 4.6 million common units at \$21.50 per unit for net proceeds of approximately \$92 million. The initial public offering represents 40 percent of the units, and Williams retained a 60 percent interest in the partnership, including its general partner interest.

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 Partners L.P. senior common units held by Williams were used for this redemption.

In June 2001, Williams issued \$480 million of 7.75 percent notes due 2031. Also in June 2001, Williams issued a \$200 million short-term debt obligation expiring June 2002. Interest rates are based on the adjusted Eurodollar rate. The proceeds from these issuances will be used for general corporate purposes. Additionally, Williams, in advance of the cash tender of Barrett Resource Corporation, entered into a \$1.5 billion short-term credit agreement expiring in November 2001. At June 30, 2001, approximately \$1.2 billion was borrowed under this agreement at an initial rate of approximately 4.9 percent, based on the adjusted Eurodollar rate. For further discussion of the Barrett Resources Corporation, see Note 4.

The long term debt to debt-plus-equity ratio was 54.1 percent at June 30, 2001, compared to 53.5 percent at December 31, 2000 (63.7 percent at December 31, 2000 if WCG debt is included). If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 63.1 percent at June 30, 2001 and 63.9 percent at December 31, 2000 (70.5 percent at December 31, 2000 if WCG debt is included).

INVESTING ACTIVITIES

On June 11, 2001, Williams acquired 50 percent of Barrett Resources' outstanding common stock in a cash tender offer of \$73 per share for a total of approximately \$1.2 billion. At June 30, 2001, this investment was recorded as an equity method investment and is included in investments in the Consolidated Balance Sheet. On August 2, 2001, Williams completed the acquisition of Barrett Resources by exchanging each remaining share of Barrett Resources for 1.767 shares of Williams common stock.

ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Williams' interest rate risk exposure associated with the debt portfolio was impacted by new debt issuances in first-quarter 2001. In January 2001, Williams issued \$1.1 billion in debt obligations consisting of \$700 million of 7.5 percent debentures due 2031 and \$400 million of 6.75 percent Puttable Asset Term Securities, puttable/callable in 2006. A portion of the proceeds was used to retire \$500 million of temporary financing obtained in September 2000. In June 2001, Williams issued \$480 million of 7.75 percent notes due 2031. Also in June 2001, Williams issued a \$200 million short-term debt obligation expiring June 2002. Interest rates are based on the adjusted Eurodollar rate. Additionally, Williams, in advance of the cash tender of Barrett Resources Corporation, entered into a \$1.5 billion short-term credit agreement expiring in November 2001. At June 30, 2001, approximately \$1.2 billion was borrowed under this agreement at an initial rate of approximately 4.9 percent, based on the adjusted Eurodollar rate.

COMMODITY PRICE RISK

At June 30, 2001, the value at risk for the trading operations was \$74 million compared to \$90 million at December 31, 2000. This decrease of approximately 18 percent reflects the impact of the additional price risk management services offered in 2001 through structured transactions. These structured transactions decrease risk on an aggregated portfolio basis. Value at risk requires a number of key assumptions and is not necessarily representative of actual losses in fair value that could be incurred from the trading portfolio. Energy Marketing & Trading's value-at-risk model includes all financial instruments and physical positions and commitments in its trading portfolio and assumes that as a result of changes in commodity prices, there is a 95 percent probability that the one-day loss in the fair value of the trading portfolio will not exceed the value at risk. The value-at-risk model uses historical 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 our trading portfolio in response to market conditions could affect market prices and could take longer to execute than the one-day holding period assumed in the value-at-risk model.

FOREIGN CURRENCY RISK

As it relates to the continuing operations of Williams, international investments accounted for under the cost method totaled approximately \$146 million and \$144 million at June 30, 2001 and December 31, 2000. These international investments 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.

In addition, the net assets of continuing consolidated foreign operations, located primarily in Canada, are approximately 12 percent and 11 percent of Williams' net assets at June 30, 2001 and December 31, 2000, respectively. These foreign operations, whose functional currency is the local currency, do not have significant transactions or financial instruments denominated in other currencies. However, these investments do have the potential to impact Williams' financial position, due to fluctuations in these local currencies arising from the process of re-measuring the local functional currency into the U.S. dollar. As an example, a 20 percent change in the respective functional currencies against the U.S. dollar could have changed stockholders' equity by approximately \$137 million at June 30, 2001.

EQUITY PRICE RISK

Williams' exposure to equity price risk was primarily from investments held by WCG. As a result of the spinoff of WCG, Williams' exposure to equity price risk as it existed prior to the distribution date was significantly reduced, however, following the distribution date, Williams will be exposed to potential impairment valuations with respect to the WCG common stock retained. As of June 30, 2001, the WCG shares retained by Williams had a carrying value of approximately \$96 million and an estimated fair value of \$63 million.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on May 17, 2001. At the Annual Meeting, six individuals were elected as directors of the Company and eight individuals continue to serve as directors pursuant to their prior election. In addition, the appointment of Ernst & Young LLP as the independent auditor of the Company for 2001 was ratified.

A tabulation of the voting at the Annual Meeting with respect to the matters indicated is as follows:

Election of Directors

Name - - - - -	For - - -	Withheld - - - - -
Glenn A. Cox	408,025,196	5,618,349
Thomas H. Cruikshank	405,797,674	7,845,871
Charles M. Lillis	408,104,384	5,539,161
George A. Lorch	407,956,854	5,686,691
Gordon R. Parker	408,094,142	5,549,403
Joseph H. Williams	397,195,772	16,447,773

Ratification of Appointment of Independent Auditors

For - - -	Against - - - - -	Abstain - - - - -
407,843,860	3,577,975	2,221,710

Item 6. Exhibits and Reports on Form 8-K

(a) The exhibits listed below are filed as part of this report:

Exhibit 10.1--Form of Limited Waiver and Second Amendment to Credit Agreement dated as of July 25, 2000 with the financial institutions from time to time party thereto, The Chase Manhattan Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, and Citibank, N.A., as Agent which Credit Agreement has been amended by a Waiver and First Amendment to Credit Agreement dated as of January 31, 2001.

Exhibit 12 --Computation of Ratio of Earnings to Fixed Charges

(b) During second-quarter 2001, the Company filed a Form 8-K on April 2, 2001; April 12, 2001; April 27, 2001; May 1, 2001; May 3, 2001; May 7, 2001; May 22, 2001; and June 13, 2001, which reported significant events under Item 5 of the Form and included the Exhibits required by Item 7 of the Form.

SIGNATURE

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

THE WILLIAMS COMPANIES, INC.

(Registrant)

Gary R. Belitz

Gary R. Belitz
Controller
(Duly Authorized Officer and
Principal Accounting Officer)

August 10, 2001

INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1	Form of Limited Waiver and Second Amendment to Credit Agreement dated as of July 25, 2000 with the financial institutions from time to time party thereto, The Chase Manhattan Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, and Citibank, N.A., as Agent which Credit Agreement has been amended by a Waiver and First Amendment to Credit Agreement dated as of January 31, 2001.
12	Computation of Ratio of Earnings to Fixed Charges

FORM OF

LIMITED WAIVER AND SECOND AMENDMENT TO CREDIT AGREEMENT

THIS LIMITED WAIVER AND SECOND AMENDMENT TO CREDIT AGREEMENT (herein called this "Amendment"), dated as of _____, 2001, is entered into by and among The Williams Companies, Inc., a Delaware corporation, as Borrower pursuant to the Credit Agreement (as hereinafter defined), the Banks from time to time party to the Credit Agreement, the Co-Syndication Agents as named therein, the Co-Documentation Agents as named therein and Citibank, N.A., as agent for the Banks (in such capacity, the "Agent"). Except as otherwise defined or as the context requires, terms defined in the Credit Agreement are used herein as therein defined.

WITNESSETH:

WHEREAS, The Williams Companies, Inc. ("TWC" or the "Borrower") has entered into a certain Credit Agreement dated as of July 25, 2000 with the financial institutions from time to time party thereto (the "Banks"), The Chase Manhattan Bank and Commerzbank AG, as Co-Syndication Agents, Credit Lyonnais New York Branch, as Documentation Agent, and Citibank, N.A., as Agent (the "Original Credit Agreement"), which Credit Agreement has been amended by a Waiver and First Amendment to Credit Agreement dated as of January 31, 2001 (the Original Credit Agreement, as so amended, the "Credit Agreement");

WHEREAS, the Borrower and the Banks now desire to amend the Credit Agreement in certain respects, as hereinafter provided;

WHEREAS, the Borrower has requested waivers of certain provisions of the Credit Agreement; and

WHEREAS, the Banks wish to name Bank of America, N.A. and Credit Lyonnais as Co-Documentation Agents and to replace the Documentation Agent with the Co-Documentations for purposes of the Credit Agreement and each document related thereto;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the Borrower and the Banks hereby agree as follows:

SECTION 1. Amendment of Section 1.1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) The following definitions of "B of A" and "Co-Documentation Agent" are added to such Section 1.1 in appropriate alphabetical order:

"B of A" means Bank of America, National Association.

"Co-Documentation Agent" means either of B of A or Credit Lyonnais, together with the successors and assigns of each in such capacity.

(b) The definition of "Commitment" in such Section 1.1 is hereby amended and restated to read in its entirety as follows:

"Commitment" of any Bank means at any time the amount set opposite such Bank's name on Schedule IV or as reflected for such Bank in the relevant Transfer Agreement to which it is a party, as such amount may be terminated, reduced or increased after the date hereof pursuant to Section 2.4, Section 2.17, Section 6.1 or Section 8.6(a).

(c) The definition of "Consolidated" in such Section 1.1 is hereby amended and restated to read in its entirety as follows:

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

(d) The definition of "Consolidating" in such Section 1.1 is hereby deleted in its entirety.

(e) The definition of "Designated Minority Interests" in such Section 1.1 is hereby amended and restated to read in its entirety as follows:

"Designated Minority Interests" of the Borrower means, as of any date of determination, the total of the minority interests in the following Subsidiaries: (i) El Furrrial, (ii) PIGAP II, (iii) Nebraska Energy, (iv) Seminole, (v) American Soda, (vi) the Midstream Asset MLP, and (vii) other Subsidiaries, as presented in the Consolidated balance sheet of the Borrower, in an amount not to exceed in the aggregate \$9,000,000 for such other Subsidiaries not referred to in items (i) through (vi); provided that minority interests which provide for a stated preferred cumulative return shall not be included in "Designated Minority Interests."

(f) The definition of "Designating Bank" in such Section 1.1 is amended and restated in its entirety to read as follows:

"Designating Bank" has the meaning specified in Section 8.6(g).

(g) The definition of "Documentation Agent" in such Section 1.1 is hereby deleted.

(h) The definition of "Domestic Lending Office" in such Section 1.1 is amended and restated in its entirety to read as follows:

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the relevant Transfer Agreement delivered pursuant to Section 8.6(a), or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

(i) The following definition of "Eligible Assignee" is added to Section 1.1 of the Credit Agreement in appropriate alphabetical order:

"Eligible Assignee" means (i) any Bank, (ii) any affiliate of any Bank, and (iii) any other Person not covered by clause (i) or (ii) of this definition (A) so long as no Event of Default has occurred and is continuing, with the consent of the Borrower and the Agent (which consent shall not be unreasonably withheld) or (B) if any Event of Default has occurred and is continuing, without any requirement for consent by the Agent or the Borrower; provided, however, that neither the Borrower nor any affiliate of the Borrower shall be an Eligible Assignee.

(j) The definition of "Eurodollar Lending Office" in such Section 1.1 of the Credit Agreement is amended and restated to read in its entirety, as follows:

"Eurodollar Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the relevant Transfer Agreement delivered pursuant to Section 8.6(a) (or, if no such office is specified, its Domestic Lending Office) or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

(k) The following definition of "Register" is added to Section 1.1 of the Credit Agreement in appropriate alphabetical order:

"Register" shall mean the books and accounts maintained by the Agent of the interests of each Bank under this Agreement and its Commitments and Advances, including records of transfers of any interests in this Agreement and the Commitment and Advances (if any) of any Bank pursuant to Section 8.6 and the records maintained by the Agent pursuant to Section 2.9.

(l) The definition of "SPC" in such Section 1.1 is hereby amended and restated to read in its entirety as follows:

"SPC" has the meaning specified in Section 8.6(g).

(m) The definition of "Subsidiary" in such Section 1.1 is hereby amended and restated in its entirety to read as follows:

"Subsidiary" of any Person means any corporation, partnership, joint venture or other entity of which more than 50% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such corporation, partnership, joint venture or other entity or others performing similar functions (irrespective of whether or not at the time capital stock or other equity interests of any other class or classes of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person.

(n) The definition of "Transfer Agreement" in such Section 1.1 is amended and restated in its entirety to read as follows:

"Transfer Agreement" means an agreement executed pursuant to Section 8.6 by an assignor Bank and assignee Bank substantially in the form of Exhibit F, which agreement shall be executed by the Borrower and the Agent to evidence the consent of each if such consent is required pursuant to the terms of Section 8.6.

SECTION 2. Amendment of Section 2.11. Clause (c) of Section 2.11 of the Credit Agreement is hereby amended by replacing the phrase "all of the provisions of the last sentence of Section 8.6(a)" in such clause (c) with the phrase "all of the provisions of the second and third sentences of Section 8.6(a), and clauses (b) and (d) of Section 8.6."

SECTION 3. Amendment of Section 4.1(e). Section 4.1(e) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(e) The Consolidated balance sheets of the Borrower and its Subsidiaries as at December 31, 2000, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of the Borrower and its Subsidiaries as at March 31, 2001, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of the Borrower, copies of which have been furnished to each Bank, fairly present, (in the case of such balance sheets as at March 31, 2001, and such statements of income and cash flows for the three months then ended, subject to year-end audit adjustments) the Consolidated financial condition of the Borrower and its Subsidiaries as at such dates and the Consolidated results of operations of the Borrower and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 2001, there has been no material adverse change in the condition or operations of the Borrower or its Subsidiaries.

SECTION 4. Amendment of Section 4.1(h). The last sentence of Section 4.1(h) of the Credit Agreement is hereby amended by deleting the parenthetical "(including the WCG Subsidiaries)" therefrom.

SECTION 5. Amendment of Section 4.1(j). Section 4.1(j) of the Credit Agreement is hereby amended by deleting the parenthetical "(including any material WCG Subsidiaries)" wherever it appears in such Section.

SECTION 6. Amendment of Section 4.1(k). The first sentence of Section 4.1(k) of the Credit Agreement is hereby amended to read in its entirety as follows: "As of July ____, 2001, the United States federal income tax returns of the Borrower and its material Subsidiaries have been examined through the fiscal year ended December 31, 1993."

SECTION 7. Amendment of Section 4.1(m). Section 4.1(m) of the Credit Agreement is hereby amended by deleting the last sentence thereof.

SECTION 8. Amendment of Section 5.1(b)(ii). Section 5.1(b)(ii) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(ii) as soon as available and in any event not later than 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, the Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such quarter and the Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments) by an authorized financial officer of the Borrower as having been prepared in accordance with generally accepted accounting principles; provided that, if any financial statement referred to in this clause (ii) of Section 5.1(b) is readily available on-line through EDGAR, the Borrower shall not be obligated to furnish copies of such financial statement. An authorized financial officer of the Borrower shall furnish a certificate (a) stating that he has no knowledge that an Event of Default, or an event which, with notice or lapse of time or both, would constitute an Event of Default has occurred and is continuing or, if an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof and the action, if any, which the Borrower proposes to take with respect thereto, and (b) showing in detail the calculation supporting such statement in respect of Section 5.2(b).

SECTION 9. Amendment of Section 5.1(b)(iii). Section 5.1(b)(iii) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(iii) as soon as available and in any event not later than 105 days after the end of each fiscal year of the Borrower, a copy of the annual audit report for such year for the Borrower and its Subsidiaries, including therein Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year, in each case prepared in accordance with generally accepted accounting principles and certified by Ernst & Young, LLP or other independent certified public accountants of recognized standing acceptable to the Majority Banks; provided that if any financial statement referred to in this clause (iii) of Section 5.1(b) is readily available on-line through EDGAR, the Borrower shall not be obligated to furnish copies of such financial statement. The Borrower shall also deliver in conjunction with such financial statements, a certificate of such accounting firm to the Banks (a) stating that, in the course of the regular audit of the business of the Borrower and its Subsidiaries, which audit

was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that an Event of Default or an event which, with notice or lapse of time or both, would constitute an Event of Default, has occurred and is continuing, or if, in the opinion of such accounting firm, an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof, and (b) showing in detail the calculations supporting such statement in respect of Section 5.2(b).

SECTION 10. Amendment of Section 5.1(b)(vi). Section 5.1(b)(vi) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(vi) as soon as possible and in any event within 30 Business Days after the Borrower or any ERISA Affiliate knows or has reason to know (A) that any Termination Event described in clause (i) of the definition of Termination Event with respect to any Plan has occurred that could have a material adverse effect on the Borrower or any material Subsidiary of the Borrower or any ERISA Affiliate 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 Borrower or any material Subsidiary of the Borrower or any ERISA Affiliate, a statement of the chief financial officer or chief accounting officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such Subsidiary or ERISA Affiliate proposes to take with respect thereto;

SECTION 11. Amendment of Section 5.2(g) of the Credit Agreement. Section 5.2(g) of the Credit Agreement is hereby amended by deleting the parenthetical "(including any material WCG Subsidiary)" in each of clauses (i) and (ii) thereof.

SECTION 12. Amendment of Section 7.2. Clause (i) of Section 7.2 of the Credit Agreement is hereby amended by replacing the reference to "the last sentence of Section 8.6(a)" in such clause (i) with a reference to "the second and third sentences of Section 8.6(a)."

SECTION 13. Amendment of Section 8.2. Section 8.2 is hereby amended by replacing the phrase "specified pursuant to Section 8.6(a)" each time it appears therein with "specified in a Transfer Agreement for any assignee Bank delivered pursuant to Section 8.6(a)."

SECTION 14. Amendment of Section 8.6. Clause (d) of Section 8.6 of the Credit Agreement is redesignated clause (g). Clauses (a) through (c) of Section 8.6 of the Credit Agreement shall be amended, restated and replaced in their entirety as follows:

SECTION 8.6 Binding Effect; Transfers. (a) This Agreement shall become effective when it shall have been executed by the Borrower, the Co-Syndication Agents, Credit Lyonnais in its former capacity as the documentation agent and the Agent and when each Bank listed on the signature pages hereof has delivered an executed counterpart hereof to the Agent, has sent to the Agent a facsimile copy of its signature hereon or has notified the Agent that such Bank has executed this Agreement and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors

and assigns; provided that the Borrower shall not have the right to assign any of its rights hereunder or any interest herein without the prior written consent of all of the Banks. Each Bank may assign to one or more banks, financial institutions or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, the Advances owing to it and any Note or Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement, (ii) except in the case of an assignment of all of a Bank's rights and obligations under this Agreement or an assignment to another Bank, the amount of the Commitment of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Transfer Agreement with respect to such assignment) shall in no event be less than \$10,000,000 in the aggregate or such lesser amount as may be consented to by the Agent and the Borrower, (iii) each such assignment shall be to an Eligible Assignee, and (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register maintained by the Agent, a Transfer Agreement together with any Note or Notes subject to such assignment and, unless the assignment is to an affiliate of such Bank, a processing and recordation fee of \$3,500. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Transfer Agreement, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Transfer Agreement, have the rights and obligations of a Bank hereunder (including, without limitation, obligations to the Agent pursuant to Section 7.5) and (y) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Transfer Agreement, relinquish its rights and be released from its obligations under this Agreement, except for rights and obligations which continue after repayment of the Advances or termination of the Agreement pursuant to the express terms of this Agreement (and, in the case of a Transfer Agreement covering all of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) By executing and delivering a Transfer Agreement, the Bank assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Transfer Agreement, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement, any Note or Notes or any other instrument or document furnished pursuant hereto or in connection herewith or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any Note or Notes or any other instrument or document furnished pursuant hereto or in connection herewith; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any other Person or the performance or observance by the Borrower or any other Person of any of its respective obligations under this

Agreement, any Note or Notes or any other instrument or document furnished pursuant hereto or in connection herewith; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Transfer Agreement; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such financial statements and such other documents and information as it shall deem appropriate at the time, continue to make its own credit analysis and decisions in taking or not taking action under this Agreement, any Note or Notes or any other instrument or document; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to act as Agent on its behalf and to exercise such powers and discretion under the Agreement, any Note or Notes or any other document executed in connection herewith or therewith as are delegated to the Agent by the terms hereof or thereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) The Agent shall maintain at its address referred to in Section 2.13(a) a copy of each Transfer Agreement, delivered to and accepted by it and the Register for the recordation of the names and addresses of the Banks and the Commitment of, and the principal amount of the Advances owing to, each Bank from time to time.

(d) Upon its receipt of a Transfer Agreement executed and completed by an assigning Bank and an assignee representing that it is an Eligible Assignee (and, if required, consented to by the Borrower), the Agent shall (i) accept such Transfer Agreement, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice and the request of the assigning Bank and/or Eligible Assignee, the Borrower shall deliver, in replacement of any A Note of the Borrower then outstanding which may have been executed to the order of such assigning Bank or as may be requested by the assignee or the assigning Bank (A) to such assignee upon its request or as required by Section 2.9, a new A Note of the Borrower in the amount of the Commitment of such assigning Bank which is being so assumed by such assignee plus, in the case of any assignee which is already a Bank hereunder, the amount of such assignee's Commitment immediately prior to such assignment (any such assignee which is already a Bank hereunder agrees to mark "Exchanged" and return to the Borrower, with reasonable promptness following the delivery of such new A Note, any A Note being replaced thereby, if any), (B) to such assigning Bank as required by Section 2.9, a new A Note in the amount of the balance, if any, of the Commitment of such assigning Bank to the Borrower (without giving effect to any B Reduction) retained by such assigning Bank (and such assigning Bank agrees to mark

"Exchanged" and return to the Borrower, with reasonable promptness following delivery of such new A Notes, the A Note being replaced thereby), and (C) to the Agent, photocopies of such new A Notes, if any.

(e) Each Bank may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note or Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement (including without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note or any Notes for all purposes of this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) all amounts payable under this Agreement shall be calculated as if such Bank had not sold such participation, and (vi) the terms of any such participation shall not restrict such Bank's ability to consent to any departure by the Borrower therefrom without the approval of the participant, except that the approval of the participant may be required to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Advances or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Advances or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(f) Notwithstanding any other provisions set forth in this Agreement, any Bank may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and the Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Board.

SECTION 15. Replacement of Schedule IV; Addition of New Banks, etc. (a) Schedule IV of the Credit Agreement is hereby amended and restated in its entirety to read as set forth in Section IV hereto.

(b) The Commitments of DG Bank have terminated effective as of July 24, 2001, and as of such date such Bank shall not have any further obligation to make any Advance. Upon payment in full of all amounts owed to DG Bank by the Borrower in accordance with the terms and conditions of this Agreement and any Note or Notes issued by the Borrower to such Bank, DG Bank shall not have any rights or obligations under the Credit Agreement, any Note or Notes or other documents executed pursuant to the Credit Agreement except for those rights and obligations which, by the express terms of the Credit Agreement, continue after repayment in full of the obligations of the Borrower to any Bank.

(c) Each of United Missouri Bank, Lehman Brothers and Merrill Lynch Corporation (each a "New Bank" and collectively, the "New Banks"), by its signature to this

Amendment, agrees to become, and is hereby deemed to be a Bank pursuant to the terms of the Credit Agreement and any other documents executed pursuant thereto, with a Commitment in the amount shown on Schedule IV to this Amendment. Each New Bank agrees that (i) none of the Agent, the Co-Syndication Agents, the Co-Documentation Agents, the Arranger or any Bank has made any representation or warranty or assumed any responsibility with respect to any statements, warranties or representations, whether written or oral, made in or in connection with the Credit Agreement, any Note or Notes or any other instrument or document furnished pursuant hereto or thereto or in connection herewith or therewith or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any Note or Notes or any other instrument or document furnished pursuant hereto or thereto or in connection herewith; (ii) none of the Agent, the Co-Syndication Agents, the Co-Documentation Agents, the Arranger or any Bank makes any representation or warranty or assumes any responsibility with respect to the financial condition of the Borrower or any other Person or the performance or observance by the Borrower or any other Person of any of its respective obligations under the Credit Agreement, any Note or Notes or any other instrument or document furnished pursuant thereto or in connection therewith; (iii) such New Bank confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into the Credit Agreement; (iv) such New Bank will, independently and without reliance upon the Agent, or any Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement, any Note or Notes or any other instrument or document; (v) such New Bank appoints and authorizes the Agent to act as Agent on its behalf and to exercise such powers and discretion under the Credit Agreement, any Note or Notes or any other instrument or document furnished pursuant to the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; and (vi) such New Bank agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement, any Note or Notes or any other instrument or document furnished pursuant to the Credit Agreement are required to be performed by it as a Bank.

After giving effect to this Amendment, the Commitment of each Bank shall be as shown on Schedule IV hereto, effective as of July 24, 2001 and the aggregate total of all such Commitments is \$2,200,000,000.

SECTION 16. Extension of Stated Termination Date. Pursuant to Section 2.18 of the Credit Agreement, each of the Banks executing below agrees that the Stated Termination Date shall be extended to July 23, 2002.

SECTION 17. Replacement of Documentation Agent. Each Bank hereby designates each of B of A and Credit Lyonnais as a Co-Documentation Agent and B of A and Credit Lyonnais hereby accept such designation. Each of the Co-Documentation Agents and the Banks agrees that the Co-Documentation Agents shall replace the Documentation Agent for all purposes related to the Credit Agreement, the Notes and any other instrument or document related thereto. Each reference to the Documentation Agent in the Credit Agreement (including in the preface, recitals and any schedule or exhibit), any Note or any other document or

instrument related to the Credit Agreement shall be deemed to be a reference to the Co-Documentation Agents.

SECTION 18. Limited Waiver of Section 5.2(e). The Borrower has requested the waiver of, and each Bank by its signature hereby agrees to waive, Section 5.2(e) of the Credit Agreement for and in connection with the following:

(a) WCG and/or one or more of the Subsidiaries thereof owns the assets described on Annex A hereto. TWC anticipates that it or one of its Subsidiaries may enter into a Sale Lease-Back Transaction in which TWC or one of its Subsidiaries will purchase the assets described on Annex A and then lease such assets to WCG or a WCG Subsidiary. TWC hereby covenants that such transaction shall be entered into on terms and conditions reasonably fair in all material respects to TWC and its Subsidiaries. To the extent that such Sale Lease-Back Transaction may be, or may be deemed to be, an investment in WCG or a WCG Subsidiary, such transaction is prohibited by Section 5.2(e) of the Credit Agreement.

In connection with such Sale Lease-Back Transaction, and only for purposes of such transactions, TWC requests that the Banks waive the provisions of Section 5.2(e) of the Credit Agreement to allow TWC and/or its Subsidiaries to effect the Sale Lease-Back Transaction, described in the preceding paragraph. Nothing herein shall, or shall be deemed to, waive the provisions of Section 5.2(j) of the Credit Agreement, or any other provisions of the Credit Agreement applicable to the Sale Lease-Back Transaction, except as expressly set forth above with respect to Section 5.2(e) thereof.

By its signature hereto, each Bank agrees to waive and does hereby waive Section 5.2(e) (and only Section 5.2(e)) of the Credit Agreement to allow, and only to the extent necessary to allow, TWC and its Subsidiaries to acquire the assets described on Annex A and to act as lessor pursuant to the Sale Lease-Back Transaction described above involving such assets.

SECTION 19. Representations and Warranties. To induce the Agent and the Banks to enter into this Amendment, the Borrower hereby reaffirms, as of the date hereof, its representations and warranties contained in Article IV of the Credit Agreement (except to the extent such representations and warranties relate solely to an earlier date) and additionally represents and warrants as follows:

(a) The Borrower is duly organized, validly existing and in good standing under the laws of the State of Delaware and has all corporate or limited liability company powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals which the failure to have could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of the Borrower and its Subsidiaries taken as a whole. Each material Subsidiary of the Borrower is duly organized or validly formed, validly existing and (if applicable) in good standing under the laws of its jurisdiction of incorporation or formation, except where the failure to be so organized, existing and in good standing could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of the Borrower and its Subsidiaries taken as a whole. Each material Subsidiary of the Borrower has all corporate or

limited liability company powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals which the failure to have could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of the Borrower and its Subsidiaries taken as a whole.

(b) The execution, delivery and performance by the Borrower of this Amendment and the consummation of the transactions contemplated by this Amendment are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, do not contravene (i) the Borrower's charter or by-laws or (ii) any law or any contractual restriction binding on or affecting the Borrower and will not result in or require the creation or imposition of any Lien.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Amendment or the consummation of the transactions contemplated by this Amendment.

(d) This Amendment has been duly executed and delivered by the Borrower. This Amendment and the Credit Agreement as amended by this Amendment are the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and by general principles of equity.

(e) Except as set forth in the Public Filings, there is, as to the Borrower, no pending or, to the knowledge of the Borrower, threatened action or proceeding affecting the Borrower or any material Subsidiary of the Borrower before any court, governmental agency or arbitrator, which could reasonably be expected to materially and adversely affect the financial condition or operations of the Borrower and its Subsidiaries taken as a whole or which purports to affect the legality, validity, binding effect or enforceability of this Amendment, the Credit Agreement or any Note. For the purposes of this Section, "Public Filings" shall mean the Borrower's annual report on Form 10-K for the year ended December 31, 2000, and the Borrower's quarterly reports on Form 10-Q for the quarter ended March 31, 2001.

(f) Upon giving effect to this Amendment, no event has occurred and is continuing which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

SECTION 20. Conditions to Effectiveness. The effectiveness of this Amendment is conditioned upon receipt by the Agent of all the following documents, each in form and substance satisfactory to the Agent:

(a) Counterparts of this Amendment executed by the Borrower, the Agent and each of the Banks;

(b) A certificate of the Secretary or Assistant Secretary of the Borrower as to (i) any changes (or the absence of changes) since July 25, 2000 to its certificate of incorporation and its by-laws as of the date hereof, (ii) the resolutions of the Borrower authorizing the execution of this Amendment and (iii) the names and true signatures of the officers authorized to execute this Amendment;

(c) An opinion of William G. von Glahn, General Counsel of the Borrower, substantially in the form of Exhibit A hereto; and

(d) Such other documents as the Agent shall have reasonably requested.

SECTION 21. Effect. This Amendment shall be deemed to be an amendment to the Credit Agreement, and the Credit Agreement, as amended hereby, is hereby ratified, approved and confirmed in each and every respect. All references to the Credit Agreement in any other document, instrument, agreement or writing shall hereafter be deemed to refer to the Credit Agreement as amended hereby.

SECTION 22. Governing Law, Etc. THIS AMENDMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK. Whenever possible each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Amendment.

SECTION 23. Counterpart Execution. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Amendment by signing one or more counterparts.

SECTION 24. Successors and Assigns. This Amendment shall be binding upon the Borrower, the Agent and the Banks and their respective successors and assigns, and shall inure to the benefit of each of the Borrower, the Agent and the Banks and the successors and assigns of the Banks.

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

BORROWER:

THE WILLIAMS COMPANIES, INC.

By:

Name: James G. Ivey
Title: Treasurer

AGENT:

CITIBANK, N.A., as Agent

By:

Authorized Officer

Date: _____, 2001

CO-SYNDICATION AGENTS:

THE CHASE MANHATTAN BANK,
as Co-Syndication Agent

By:

Authorized Officer

Date: _____, 2001

COMMERZBANK AG, as Co-Syndication Agent

By:

Authorized Officer

By:

Authorized Officer

Date: _____, 2001

CO-DOCUMENTATION AGENTS:

CREDIT LYONNAIS NEW YORK BRANCH,
as Co-Documentation Agent and as a Bank

By: _____
Authorized Officer

Date: _____, 2001

BANK OF AMERICA,
as Co-Documentation Agent and as a Bank

By: _____
Authorized Officer

Date: _____, 2001

BANKS:

CITIBANK, N.A.

By: _____
Authorized Officer

Date: _____, 2001

THE BANK OF NOVA SCOTIA

By: _____
Authorized Officer

Date: _____, 2001

BANK ONE, NA (CHICAGO)

By: -----
Authorized Officer
Date: _____, 2001

THE CHASE MANHATTAN BANK

By: -----
Authorized Officer
Date: _____, 2001

COMMERZBANK AG,
NEW YORK AND GRAND CAYMAN BRANCHES

By: -----
Authorized Officer
By: -----
Authorized Officer
Date: _____, 2001

CREDIT LYONNAIS NEW YORK BRANCH

By: -----
Authorized Officer
Date: _____, 2001

THE FUJI BANK, LIMITED

By: _____
Authorized Officer

Date: _____, 2001

NATIONAL WESTMINSTER BANK PLC
NEW YORK BRANCH

By: _____
Name: _____

Title: _____

Date: _____, 2001

NATIONAL WESTMINSTER BANK PLC
NASSAU BRANCH

By: _____
Name: _____

Title: _____

Date: _____, 2001

ABN AMRO BANK, N.V.

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

BANK OF MONTREAL

By: -----
Authorized Officer
Date: _____, 2001

THE BANK OF NEW YORK

By: -----
Authorized Officer
Date: _____, 2001

BARCLAYS BANK PLC

By: -----
Authorized Officer
Date: _____, 2001

CIBC INC.

By: -----
Authorized Officer
Date: _____, 2001

CREDIT SUISSE FIRST BOSTON

By: -----
Authorized Officer

By: -----
Authorized Officer

Date: _____, 2001

ROYAL BANK OF CANADA

By: -----
Authorized Officer

Date: _____, 2001

THE BANK OF TOKYO-MITSUBISHI, LTD.,
HOUSTON AGENCY

By: -----
Authorized Officer

Date: _____, 2001

FLEET NATIONAL BANK
f/k/a Bank Boston, N.A.

By: -----
Authorized Officer

Date: _____, 2001

SOCIETE GENERALE, SOUTHWEST AGENCY

By: _____
Authorized Officer

Date: _____, 2001

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY

By: _____
Authorized Officer

Date: _____, 2001

TORONTO DOMINION (TEXAS), INC.

By: _____
Authorized Officer

Date: _____, 2001

UBS AG, STAMFORD BRANCH

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

WELLS FARGO BANK TEXAS, N.A.

By: _____
Authorized Officer
Date: _____, 2001

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH

By: _____
Authorized Officer
By: _____
Authorized Officer
Date: _____, 2001

CREDIT AGRICOLE INDOSUEZ

By: _____
Authorized Officer
By: _____
Authorized Officer
Date: _____, 2001

SUNTRUST BANK

By: _____
Authorized Officer
Date: _____, 2001

THE DAI-ICHI KANGYO BANK, LTD.

By: _____
Authorized Officer

Date: _____, 2001

ARAB BANKING CORPORATION (B.S.C.)

By: _____
Authorized Officer

Date: _____, 2001

BANK OF CHINA, NEW YORK BRANCH

By: _____
Authorized Officer

Date: _____, 2001

BANK OF OKLAHOMA, N.A.

By: _____
Authorized Officer

Date: _____, 2001

BNP PARIBAS, HOUSTON AGENCY

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

DG BANK DEUTSCHE
GENNOSENSCHAFTSBANK AG

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

KBC BANK N.V.

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

SUMITOMO MITSUI BANKING CORPORATION

By: _____
Authorized Officer

Date: _____, 2001

COMMERCE BANK, N.A.

By: _____
Authorized Officer

Date: _____, 2001

RZB FINANCE LLC

By: _____
Authorized Officer

By: _____
Authorized Officer

Date: _____, 2001

FIRST UNION NATIONAL BANK

By: _____
Authorized Officer

Date: _____, 2001

UNITED MISSOURI BANK

By: _____
Authorized Officer

Date: _____, 2001

MERRILL LYNCH CORPORATION

By: _____
Authorized Officer

Date: _____, 2001

LEHMAN BROTHERS

By: _____
Authorized Officer

Date: _____, 2001

Executed for purposes of acknowledging
Section 15(b) only:

DG BANK

By: _____
Name: _____
Title: _____

SCHEDULE IV

COMMITMENTS

AS OF _____, 2001

BANKS

COMMITMENT

Bank of America, N.A.
The Bank of Nova Scotia
Bank One, NA
The Chase Manhattan Bank
Citibank, N.A.
Commerzbank AG
Credit Lyonnais
The Fuji Bank, Limited
National Westminster Bank PLC
ABN Amro Bank N.V.
Bank of Montreal
The Bank of New York
Barclays Bank PLC
CIBC Inc.
Credit Suisse First Boston
Royal Bank of Canada
The Bank of Tokyo-Mitsubishi, Ltd.
Fleet National Bank
Societe Generale
The Industrial Bank of Japan Trust Company
Toronto Dominion (Texas), Inc.
UBS AG, Stamford Branch
Wells Fargo Bank Texas, N.A.
Westdeutsche Landesbank Girozentrale
Credit Agricole Indosuez
Suntrust Bank
The Dai-Ichi Kangyo Bank, Ltd.
Arab Banking Corporation (B.S.C.)
Bank of China
Bank of Oklahoma, N.A.
BNP Paribas, Houston Agency
DG Bank
KBC Bank, N.V.
The Sumitomo Bank, Limited

Sch IV -- 1

BANKS

COMMITMENT

Commerce Bank, N.A.
RZB Finance LLC

COMMITMENTS

\$2,200,000,000.00
=====

ANNEX A

Assets to be subject to the Sale and Lease-back transaction:

WILLIAMS TECHNOLOGY CENTER

The (a) real property and structures located east of the existing Bank of Oklahoma Tower at One Williams Center, Tulsa, Oklahoma commonly known as the Williams Technology Center (the "Center"), Tech Center Parking Garage (including the "La Pente" parcel) (located at First Street and Cincinnati Avenue), Skywalk, Skywalk Support and Skywalk Support Parcel (the "Realty") and (b) the personal property and fixtures generally comprised of the furniture, fixtures and equipment as are located or to be located upon or affixed or to be affixed to the Realty (the "FF&E").

AIRCRAFT

The Aircraft shall include the three (3) aircraft identified as follows:

Citation X (N358WC)
Citation V (N352WC)
Citation Excel (N359WC)

The aggregate value of the assets described above is approximately \$277,000,000.

EXHIBIT A
FORM OF OPINION

Exhibit A -- 1

The Williams Companies, Inc. and Subsidiaries
 Computation of Ratio of Earnings to Fixed Charges
 (Dollars in millions)

	Six months ended June 30, 2001 -----
Earnings:	
Income from continuing operations before income taxes	\$ 1,174.4
Add:	
Interest expense - net	340.1
Rental expense representative of interest factor	15.5
Minority interest in income and preferred returns of consolidated subsidiaries	44.6
Interest accrued - 50% owned company	4.7
Equity losses in less than 50% owned companies	11.7
Other	3.4

Total earnings as adjusted plus fixed charges	\$ 1,594.4 =====
Fixed charges:	
Interest expense - net	\$ 340.1
Capitalized interest	20.9
Rental expense representative of interest factor	15.5
Pretax effect of preferred returns of subsidiaries	36.4
Interest accrued - 50% owned company	4.7

Total fixed charges	\$ 417.6 =====
 Ratio of earnings to fixed charges	 3.82 =====