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May 27, 1998

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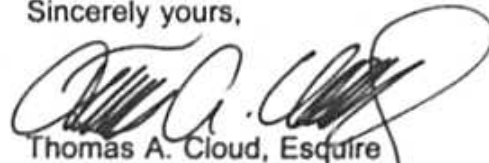
**Re: Application Form for Authority to Provide  
Interexchange Telecommunications Service  
within the State of Florida by Williams  
Communications**

980697-TI

Dear Ms. Bayo:

Enclosed herewith for filing is the application referenced above, a Petition for Waiver of Bond Requirement, and a check from Williams Communications in the amount of \$250 to cover the cost of filing. Thank you for your assistance in this matter.

Sincerely yours,



Thomas A. Cloud, Esquire

GRAY, HARRIS & ROBINSON, P.A.

Enclosures

cc: William H. Gault, Esquire

*Application*  
DOCUMENT NUMBER-DATE

05797 MAY 28 88

FPSC-RECORDS/REPORTING  
(407) 843-8880

MELBOURNE  
(407) 727-8100

*Petition*  
DOCUMENT NUMBER-DATE

05798 MAY 28 88

FPSC-RECORDS/REPORTING  
(850) 222-7717

RECEIVED  
MAY 28 1998  
FPSC - Records/Reporting

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

In re: Application of )  
Williams Communications, Inc. )  
d/b/a Vyvx, Inc. for authority )  
to provide interexchange )  
telecommunications service )  
within the State of Florida )

Docket No. 980697-7Z

PETITION FOR WAIVER OF BOND REQUIREMENT

WILLIAMS COMMUNICATIONS, INC. d/b/a VYVX, INC. ("Williams"), by and through its undersigned counsel, hereby petitions the Florida Public Service Commission ("FPSC") for waiver of the bond requirement for interexchange carriers requiring deposits from customers for amounts greater than the estimated charges for one month's service. Pursuant to Florida Administrative Code Rule 25-24.490(2), "a company may apply to the Commission for a waiver of the bond requirement by demonstrating the financial resources and income to provide assurance of continued operation under its certificate over the long term." As described below and demonstrated in the financial materials attached hereto as *Exhibit A*, Williams has more than ample financial resources to start-up and sustain operations over the long term and to assure that all prepaid amounts will be fulfilled and deposits will be reimbursed during the normal course of business. Pursuant to Section 120.542, Florida Statutes, Williams also submits that application of the bond requirement rule would create a "substantial hardship" for Williams and that the pro-consumer purposes of Florida Administrative Code Rule 25-24.490 would be well served by the FPSC's grant of this petition. Thus, Williams believes that the grant of its petition for waiver is warranted.

**I. Williams' Capitalization, Financial Commitments and Projected Income for Florida Operations Demonstrate that a Waiver Should Be Granted.**

As described in the Application, Williams seeks authority to provide interexchange telecommunications service within the State of Florida. Williams is a wholly-owned subsidiary of Williams Communications Group, Inc., which in turn is a wholly-owned subsidiary of Williams Holdings of Delaware, Inc. The Williams Companies, Inc. is a publicly traded Fortune 500 company and is solidly profitable. The Williams Companies, Inc. has total assets of almost \$14 billion. The Williams Companies is financing Williams for the construction of all necessary facilities covered by this Application, as well as the construction of the network set forth in the map attached as *Attachment E* to the Application. The Williams Companies has agreed to finance the construction of the facilities necessary to provide services under this Application. Nationwide, Williams has plans to invest an additional \$2.7 billion to expand its fiber-optic network 32,000 miles by the end of 2001.

Williams will be initially investing approximately \$35 million in 1998 for the construction or acquisition of its Florida facilities as mapped in its Application. Such a substantial investment in Florida's telecommunications infrastructure provides additional evidence that Williams is committed to continued operation under its certificate over the long term.

**II. Section 120.542 Showing**

Pursuant to § 120.542(2), Florida Statutes, Williams submits that an application of the bond requirement rule would create a "substantial hardship" for Williams. For purposes of § 120.542(5), Florida States, "substantial hardship" means a demonstrated economic,

technological, legal, or other type of hardship to the person requesting the variance or the waiver." In this case, application of the bond requirement will create a "substantial hardship" for Williams inasmuch as it will cause Williams to: (1) tie up thousands of dollars in a bond; (2) incur the cost of administrative expenses associated with maintaining the bond; and (3) suffer a competitive disadvantage vis-à-vis competing carriers that have been granted waivers of the bond requirement in the past.

Pursuant to § 120.542(5), Florida Statutes, Williams sets forth the following:

- (1) Williams requests that the FPSC grant it a waiver of Florida Administrative Code Rule 25-24.490(2),
- (2) The type of action requested by Williams is the FPSC's grant of this Petition for Waiver,
- (3) Grant of such waiver is justified by the following facts: (a) Williams has more than adequate capitalization, financial commitments and projected income to start-up and sustain operations over the long term and to assure that all prepaid amounts will be fulfilled and deposits will be reimbursed during the normal course of business; and (b) application of the bond requirement will create a "substantial hardship" for Williams because it will cause Williams to (i) tie-up thousands of dollars in a bond, (ii) incur the costs of and administrative expenses associated with maintaining the bond, and (iii) suffer a competitive disadvantage vis-à-vis competing carriers that have been granted waivers of the bonding requirement in the past, and
- (4) Grant of the waiver requested would serve the pro-consumer purposes of Florida Administrative Code Rule 25.24.490(2) because Williams has demonstrated that a bond is not necessary to protect consumers' interests. Moreover, grant of the requested waiver will allow Williams to compete more effectively with other providers of long distance services by ensuring that Williams' regulatory/administrative burdens are similar to those of its competitors.

### **III. Conclusion**

Williams' nearly \$2.7 billion in capital expansion by 2001, and its substantial investment in Florida facilities should provide the FPSC with adequate assurance that it will

be able to launch and sustain operations over the long term. Consistent with § 120.542, Florida Statutes, Petitioner hereby respectfully requests that the FPSC grant the requested waiver of bond requirement.

Respectfully submitted  
this 26<sup>th</sup> day of May, 1998,

**WILLIAMS COMMUNICATIONS, INC.**  
d/b/a VYVX, INC.

By: \_\_\_\_\_

  
Thomas A. Cloud  
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# Form 10-K

## SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934 (FEE REQUIRED)  
For the fiscal year ended December 31, 1995
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-4174

# The Williams Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

73-0569878  
(I.R.S. Employer Identification No.)

One Williams Center  
Tulsa, Oklahoma  
(Address of principal executive office)

74172  
(Zip Code)

Registrant's Telephone Number:  
(918) 588-2000

### SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$1.00 par value	New York Stock Exchange and the
Preferred Stock Purchase Rights	Pacific Stock Exchange
\$2.21 Cumulative Preferred Stock, \$1.00 par value	New York Stock Exchange

### SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the registrant's voting stock held by nonaffiliates as of the close of business on March 22, 1996, was approximately \$5.1 billion.

The number of shares of the registrant's Common Stock outstanding at March 22, 1996, was 104,651,013, excluding 2,280,246 shares held by the Company.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 1996 are incorporated by reference in Part III.

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# THE WILLIAMS COMPANIES, INC.

## FORM 10-K

### PART I

#### Item 1. *Business*

##### (a) **General Development of Business**

The Williams Companies, Inc. (the "Company" or "Williams") was incorporated under the laws of the State of Nevada in 1949 and was reincorporated under the laws of the State of Delaware in 1987. The principal executive offices of the Company are located at One Williams Center, Tulsa, Oklahoma 74172 (telephone (918) 588-2000). Unless the context otherwise requires, references to the "Company" and "Williams" herein include The Williams Companies, Inc. and its subsidiaries.

On January 5, 1995, the Company sold the network services operations of Williams Telecommunications Group, Inc., its telecommunications subsidiary, to LDDS Communications, Inc. for \$2.5 billion in cash, (the "WNS Sale"). The Company retained Williams Telecommunications Systems, Inc., a telecommunications equipment supplier and service company, and Vyvx, Inc., which operates a video network specializing in broadcast television applications. The Company has reported the network services operations as discontinued operations for financial reporting purposes. See Note 3 of Notes to Consolidated Financial Statements. The Company used the proceeds from the WNS Sale to pay off short-term credit facilities, fund the acquisition of Transco Energy Company discussed below, finance its ongoing capital program and for other uses.

On December 12, 1994, the Company entered into a merger agreement with Transco Energy Company. Under the agreement, the Company acquired approximately 60 percent of Transco Energy Company's common stock through a cash tender offer completed in January 1995. On April 28, 1995, the Transco Energy Company stockholders approved an agreement and plan of merger whereby Transco Energy Company became a wholly owned subsidiary of the Company effective May 1, 1995. Total value of the transaction was more than \$3 billion, including cash, stock and the assumption of Transco Energy Company debt. As of May 1, 1995, the Company caused Transco Energy Company to declare and pay as dividends to the Company all of Transco Energy Company's interest in Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation. In addition, the Company continued Transco Energy Company's program of disposing of noncore assets. See Note 2 of Notes to Consolidated Financial Statements.

On January 16, 1996, the Company acquired a 49.9 percent interest from its partner in Kern River Gas Transmission Company giving the Company 99.9 percent ownership of this natural gas pipeline system. The purchase price was \$205 million. See Note 5 of Notes to Consolidated Financial Statements.

##### (b) **Financial Information About Industry Segments**

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

##### (c) **Narrative Description of Business**

The Company, through subsidiaries, is engaged in the transportation and sale of natural gas and related activities, natural gas gathering, processing and production activities, the transportation of petroleum products, natural gas trading, natural gas liquids marketing and provides a variety of other products and services to the energy industry and financial institutions. The Company also is engaged in the telecommunications business. In 1995, the Company's subsidiaries owned and operated: (i) four interstate natural gas pipeline systems and had a 50 percent interest in a fifth; (ii) a common carrier crude and petroleum products pipeline system; and (iii) natural gas gathering and processing facilities and production properties. The Company also trades natural gas and markets natural gas liquids. The Company's telecommunications subsidiaries offer data, voice

New York City metropolitan area. The system serves customers in Texas and the eleven southeast and Atlantic seaboard states mentioned above, including major metropolitan areas in Georgia, North Carolina, New York, New Jersey and Pennsylvania. Effective May 1, 1995, the operation of certain production area facilities were transferred to Williams Field Services Group, Inc., an affiliated company.

#### *Pipeline System and Customers*

At December 31, 1995, Transco's system had a mainline delivery capacity of approximately 3.7 Bcf of gas per day from production areas to its primary markets. Using its Leidy Line and market-area storage capacity, Transco can deliver an additional 2.7 Bcf of gas per day for a system-wide delivery capacity total of approximately 6.4 Bcf of gas per day. Excluding the production area facilities operated by Williams Field Services Group, Inc., Transco's system is composed of approximately 7,300 miles of mainline and branch transmission pipelines, 37 compressor stations and six storage locations. Compression facilities at a sea level rated capacity total approximately 1.2 million horsepower.

Transco's major gas transportation customers are public utilities and municipalities that provide residential service to approximately 35 million people and serve numerous commercial and industrial users. Shippers on Transco's pipeline system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. Transco's largest customer in 1995 accounted for approximately 14 percent of Transco's total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. Transco's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Transco's business. Additionally, Transco offers interruptible transportation services under agreements that are generally short term.

Transco has natural gas storage capacity in five underground storage fields located on or near its pipeline system and/or market areas and operates three of these storage fields and a liquefied natural gas (LNG) storage facility. The total storage capacity available to Transco and its customers from such storage fields and LNG facility is approximately 219 Bcf of gas. Storage capacity permits Transco's customers to inject gas into storage during the summer and off-peak periods for delivery during peak winter demand periods.

#### *Major Expansion Projects*

In August 1995, Transco announced its SeaBoard 97 Expansion Project. The project is expected to provide an additional 115 MMcf of gas per day of firm transportation capacity from points of receipt on Transco's Leidy Line to Transco's northeastern market area by the 1997-1998 winter heating season. To render this service, Transco will construct compression and pipeline looping facilities at an estimated cost of \$115 million. Transco plans to file in mid-1996 for FERC approval of the project.

In October 1995, Transco filed for FERC approval of the SunBelt Expansion Project. The project will provide additional firm transportation capacity to markets in Georgia, South Carolina and North Carolina. The SunBelt Expansion Project will provide a total of 146 MMcf of gas per day of firm transportation capacity to existing and new Transco customers by the 1997-1998 winter heating season. Transco's FERC application estimates the cost of the expansion to be approximately \$85 million.

In November 1995, Transco announced the filing for FERC approval of the Pine Needle LNG storage project. The facility is to be constructed and owned by Transco and several of its major customers and will be located near Transco's mainline system in Guilford, North Carolina. The project will have 4 Bcf of storage capacity and 400 MMcf of gas per day of withdrawal capacity. Transco will operate the facility and have a 35 percent ownership interest. The project is expected to be in service by the second quarter of 1999. The FERC application estimates the cost of the project to be \$107 million.

In December 1995, Transco and several major customers announced the Cardinal Pipeline System project. The project involves the acquisition of an existing 37-mile pipeline in North Carolina and construction of a 65-mile pipeline extension. Construction of the pipeline extension is expected to be completed by the end of 1999. Transco will operate the expanded pipeline system and have a 45 percent ownership interest. Total costs of the acquisition and extension are expected to be \$97 million.



accounted for more than 10 percent of total operating revenues. Northwest Pipeline's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Northwest Pipeline's business. Additionally, Northwest Pipeline offers interruptible transportation service under agreements that are generally short term. Northwest Pipeline's transportation services represented 100 percent of its total throughput in 1995.

Northwest Pipeline completed mainline expansion projects that were placed into service on December 1, 1995. These expansion projects increased system capacity by an additional 144 MMcf of gas per day and added 14,820 horsepower of new compression and 44 miles of pipeline loop line to Northwest Pipeline's system.

As a part of its transportation services, Northwest Pipeline utilizes underground storage facilities in Utah and Washington enabling it to balance daily receipts and deliveries. Northwest Pipeline also owns and operates a liquefied natural gas storage plant in Washington which provides a needle-peaking service for the system. These storage facilities have an aggregate delivery capacity of approximately 973 MMcf of gas per day.

#### *Operating Statistics*

The following table summarizes gas sales and transportation data for the periods indicated:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Gas Volumes (TBtu):			
Gas sales .....	—	—	18
Transportation .....	<u>826</u>	<u>679</u>	<u>606</u>
Total throughput .....	<u>826</u>	<u>679</u>	<u>624</u>
Average Daily Transportation Volumes (TBtu) .....	2.3	1.9	1.7
Average Daily Firm Reserved Capacity (TBtu) .....	2.4	2.4	—

#### **TEXAS GAS TRANSMISSION CORPORATION (TXG)**

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

#### *Pipeline System and Customers*

At December 31, 1995, TXG's system, having a mainline delivery capacity of approximately 2.7 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission pipelines and 32 compressor stations having a sea level rated capacity totaling approximately 548,000 horsepower.

In 1995, TXG transported gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois and Ohio and to customers in the Northeast served indirectly by TXG. Gas was transported for 130 distribution companies and municipalities for resale to residential, commercial and industrial users. Transportation services were provided to approximately 200 industrial customers and processing plants located along the system. At December 31, 1995, TXG had transportation contracts with approximately 625 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. The largest customer of TXG in 1995 accounted for approximately 11 percent of total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. TXG's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of TXG's business. Additionally, TXG offers interruptible transportation services under agreements that are generally short-term.

During 1995, a seasonal firm transportation contract was executed to deliver natural gas into the Las Vegas, Nevada, market area during the winter months. Deliveries of 10 MMcf of gas per day will be initiated in December 1997 and will escalate to 40 MMcf of gas per day on a seasonal basis in 1999.

#### *Operating Statistics*

The following table summarizes transportation data for the periods indicated:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Transportation Volumes (TBtu) .....	286	278	272
Average Daily Transportation Volumes (TBtu) .....	.78	.76	.75
Average Daily Firm Reserved Capacity (TBtu) .....	.72	.74	.74

#### **WILLIAMS NATURAL GAS COMPANY (Williams Natural Gas)**

Williams Natural Gas is an interstate natural gas transmission company which owns and operates a natural gas pipeline system located in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. The system serves customers in seven states, including major metropolitan areas of Kansas and Missouri, its chief market areas.

#### *Pipeline System and Customers*

At December 31, 1995, Williams Natural Gas' system, having a mainline delivery capacity of approximately 2.2 Bcf of gas per day, was composed of approximately 6,300 miles of mainline and branch transmission and storage pipelines and 41 compressor stations having a sea level rated capacity totaling approximately 240,000 horsepower.

In 1995, Williams Natural Gas transported gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. Gas was transported for 77 distribution companies and municipalities for resale to residential, commercial and industrial users in approximately 530 cities and towns. Transportation services were provided to approximately 350 industrial customers, federal and state institutions and agricultural processing plants located principally in Kansas, Missouri and Oklahoma. At December 31, 1995, Williams Natural Gas had transportation contracts with approximately 203 shippers. Transportation shippers included distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

In 1995, approximately 35 percent and 33 percent, respectively, of total operating revenues were generated from gas transportation services to Williams Natural Gas' two largest customers, Western Resources, Inc. and Missouri Gas Energy Company. Western Resources sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Kansas. Missouri Gas Energy sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Missouri. No other customer accounted for more than 10 percent of operating revenues during 1995.

A significant portion of the transportation services provided to Western Resources is pursuant to a twenty-year transportation service agreement. After the initial two-year period ending in November 1996, the contract allows Western Resources, on twelve months prior notice, to reduce contracted capacity if Williams Natural Gas does not meet the terms of a competing offer from another natural gas pipeline to serve such capacity. Transportation services are provided to Missouri Gas Energy under contracts primarily varying in terms from two to five years. These contracts do not have "competitive out" provisions as described in connection with the Western Resources' contract. During 1995, these two customers entered into contracts with a competitor as part of a litigation settlement. The Western Resources contracts are subject to state regulatory approval and hearings before the Kansas Corporation Commission (KCC) which were conducted in September 1995. A decision on whether to approve the contracts has been stayed by the KCC in light of an October 1995 FERC ruling asserting federal jurisdiction over the competitor. The competitor has appealed the FERC decision, as well as the authority of the KCC to stay the contracts approval proceeding. While the

ratable-take or minimum-take claims. For information on outstanding issues with respect to contract reformation, gas purchase deficiencies and related regulatory issues, see Note 17 of Notes to Consolidated Financial Statements.

## COMPETITION

Competition for natural gas transportation has intensified in recent years due to customer access to other pipelines, rate competitiveness among pipelines, customers' desire to have more than one supplier and regulatory developments. FERC's stated purpose for implementing Order 636 was to improve the competitive structure of the natural gas pipeline industry. Future utilization of pipeline capacity will depend on competition from other pipelines and alternative fuels, the general level of natural gas demand and weather conditions. Electricity and distillate fuel oil are primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric generation markets. Nuclear power and power purchased from grid arrangements among electric utilities also compete with gas-fired power generation in certain markets.

As mentioned, when restructured tariffs became effective under Order 636, all suppliers of natural gas were able to compete for any gas markets capable of being served by the pipelines using nondiscriminatory transportation services provided by the pipelines. As the Order 636 regulated environment has matured, many pipelines have faced reduced levels of subscribed capacity as contractual terms expire and customers opt to reduce firm capacity under contract in favor of alternative sources of transmission and related services. This issue, known as "capacity turnback" in the industry, is forcing the pipelines to evaluate the consequences of major demand reductions on system utilization and cost structure to remaining customers.

The Company is aware that several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level under Order 636. Such activity, frequently referred to as "LDC unbundling," has been most pronounced in the states of New York, New Jersey and Pennsylvania. In New York and New Jersey, regulations regarding "LDC unbundling" were enacted during the past year, and Pennsylvania is expected to act on an "LDC unbundling" program in 1996. It is expected that these regulations will encourage greater competition in the natural gas marketplace.

## OWNERSHIP OF PROPERTY

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

## ENVIRONMENTAL MATTERS

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

For a discussion of specific environmental issues involving the interstate pipelines, including estimated cleanup costs associated with certain pipeline activities, see "Environmental" under Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 17 of Notes to Consolidated Financial Statements.

Oklahoma and southwest Kansas, which are owned by Williams Natural Gas, an affiliated company, and operates natural gas gathering and processing facilities located both onshore and offshore in Texas and Louisiana, which are owned by Transco, an affiliated company. The facilities operated for affiliates are the subject of applications for orders permitting abandonment so the facilities can be transferred to Williams Field Services. Gathering services provided include the gathering of gas and treating of coal seam gas.

*Customers and Operations.* Facilities owned and operated by Williams Field Services consist of approximately 12,000 miles of gathering pipelines, 11 gas treating plants and 14 gas processing plants (five of which are partially owned) which have an aggregate daily inlet capacity of 6.7 Bcf of gas. Gathering and processing customers have direct access to interstate pipelines, including affiliated pipelines, which provide access to multiple markets.

During 1995, Williams Field Services gathered natural gas for 286 customers. The largest gathering customer accounted for approximately 18 percent of total gathered volumes. During 1995, natural gas was processed for a total of 108 customers. The three largest customers accounted for approximately 26 percent, 12 percent and 11 percent, respectively, of total processed volumes. No other customer accounted for more than 10 percent of gathered or processed volumes. Williams Field Services' gathering and processing agreements with large customers are generally long-term agreements with various expiration dates. These long-term agreements account for the majority of the gas gathered and processed by Williams Field Services.

Liquids extracted at the processing plants are ethane, propane, butane and natural gasoline. During 1995, liquid products were sold to a total of 52 customers under short-term contracts. The four largest customers accounted for approximately 32 percent, 18 percent, 16 percent and 15 percent, respectively, of total liquid products volumes sold. No other customer accounted for more than 10 percent of volumes sold.

*Operating Statistics.* The following table summarizes gathering, processing and natural gas liquid volumes for the periods indicated. The information includes operations attributed to facilities owned by affiliated entities but operated by Williams Field Services:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Gas volumes (TBtu, except where noted):			
Gathering .....	1,806	895	789
Processing .....	406	392	323
Natural gas liquid sales (millions of gallons) .....	298	281	295

#### *Production*

Williams Field Services, through a subsidiary, owns and operates producing gas leasehold properties in Colorado, Louisiana, New Mexico, Utah and Wyoming.

*Gas Reserves.* As of December 31, 1995, 1994 and 1993, Williams Field Services had proved developed natural gas reserves of 292 Bcf, 269 Bcf and 229 Bcf, respectively, and proved undeveloped reserves of 222 Bcf, 220 Bcf and 319 Bcf, respectively. Of Williams Field Services' total proved reserves, 96 percent are located in the San Juan Basin of Colorado and New Mexico. As discussed below, Williams Field Services conveyed gas reserves to the Williams Coal Seam Gas Royalty Trust in 1993. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year end.

### *Environmental Matters*

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

### **WILLIAMS ENERGY SERVICES COMPANY (WESCO)**

WESCO, through subsidiaries, offers a full range of products and services to energy markets throughout North America. WESCO's core business includes natural gas and energy commodity trading activities, energy-related price-risk management products and services and computer-based information products. WESCO was incorporated in 1993. See Note 15 of Notes to Consolidated Financial Statements.

#### *Trading Activities and Services*

In addition to its own natural gas trading operations, WESCO conducts certain natural gas trading operations formerly conducted by a subsidiary of Transco Energy Company as well as third party trading activities managed by an affiliate. WESCO trades natural gas throughout North America, primarily serving local distribution company markets in the eastern and midwestern United States. The Operating Statistics presented below, for periods prior to 1995, represent previously existing financial trading services conducted by Williams subsidiaries, coupled with third-party trading services provided by an affiliate and do not include operations previously conducted by the Transco Energy Company subsidiary.

WESCO serves a customer base of approximately 700 companies across its natural gas trading operations, with net revenues primarily derived from sales to local distribution companies, other gas marketers and certain end-users. WESCO's gas trading activities are conducted on both interstate and intrastate pipelines, with most sales activity coordinated with transportation along pipeline systems owned by Williams.

WESCO offers financial instruments and derivatives to producers and consumers of energy as well as to financial entities participating in energy price-risk management. WESCO also enters into energy-related financial instruments to manage market price fluctuations. The customer base for these activities is comprised of other gas marketing and trading companies, energy-based entities and brokers trading in energy commodities. See Note 15 of Notes to Consolidated Financial Statements.

#### *Information Products*

In 1995, WESCO marketed various computer-based trading and trader-match services including Chalkboard, an electronic trader-match system for buyers and sellers of liquid fuels, crude oil and refined products; Streamline, a physical cash forward gas trading system located at seven U.S. hubs; and Capacity Central, a natural gas pipeline capacity information system. These products are utilized primarily by a customer base of approximately 200 energy-based companies under short-term service commitments. The information products' architecture was developed in 1993 and introduced to the marketplace in 1994. These activities have not been profitable to date as costs of establishing marketing liquidity and product usage still outpace the returns from this developing market.

Effective January 1, 1996, Streamline and Capacity Central were contributed to a limited liability company along with the energy-related information services of a PanEnergy Corp. subsidiary. The new entity (Altra Energy Technologies, L.L.C.) is owned equally by WESCO and PanEnergy.

#### *Operating Statistics (dollars in millions, volumes in TBtu)*

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Operating profit .....	\$30.0	\$ .5	\$ 7.9
Natural gas physical trading .....	754	148	152

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

	1995	1994	1993
Shipments (thousands of barrels):			
Refined products:			
Gasolines .....	125,060	120,682	109,841
Distillates .....	61,238	61,129	51,508
Aviation fuels .....	12,535	9,523	11,123
LP-Gases .....	12,839	10,849	9,778
Lube extracted fuel oil .....	4,462	0	0
Crude oil .....	860	1,062	3,388
Total shipments .....	<u>216,994</u>	<u>203,245</u>	<u>185,638</u>
Daily average (thousands of barrels) .....	595	557	509
Average haul (miles) .....	269	284	279
Barrel miles (millions) .....	58,326	57,631	51,821
Revenues (millions):			
Transportation .....	\$177.0	\$168.0	\$153.0
Nontransportation .....	65.7	41.7	26.3
	<u>\$242.7</u>	<u>\$209.7</u>	<u>\$179.3</u>
Average transportation revenue per barrel .....	\$.82	\$.83	\$.82

Williams Pipe Line began moving a new lube extracted fuel oil product in 1995 from an Oklahoma refinery to Toledo, Ohio, through a joint movement with other carriers. Volume movements approximate 28 thousand barrels per day.

In 1995, 73 shippers transported volumes through the system. The seven largest shippers accounted for 54 percent of transportation revenues. The highest transportation revenue-producing shipper accounted for approximately 11 percent of transportation revenues in 1995. Nontransportation activities accounted for 27 percent of total revenues in 1995. The increase in nontransportation revenues is primarily due to expanded gas liquids operations.

At December 31, 1995, the system was directly connected to, and received products from, 11 operating refineries reported to have an aggregate crude oil refining capacity of over 900,000 barrels per day. Eight of these refineries are located in Kansas and Oklahoma, two in Minnesota and one in Wisconsin. The system also received products through connecting pipelines from other refineries located in Illinois, Indiana, Kansas, Louisiana, Montana, North Dakota, Oklahoma and Texas. Crude oil is received through connections in Kansas and Oklahoma. The refineries, which are connected directly or indirectly to the system, have access to a broad range of crude oil producing areas, including foreign sources. LP-gases are transported from gas producing and storage areas in central Kansas through connecting pipelines in Iowa, Kansas, Missouri, Illinois, Nebraska and South Dakota. In addition to making deliveries to company-owned terminals, the system delivers products to third-party terminals and connecting pipelines.

The refining industry continues to be affected by environmental regulations and changing crude supply patterns. The industry's response to environmental regulations and changing supply patterns will directly affect volumes and products shipped on the Williams Pipe Line system. EPA regulations, driven by the Clean Air Act, require refiners to change the composition of fuel manufactured. A pipeline's ability to respond to the effects of regulation and changing supply patterns will determine its ability to maintain and capture new market shares. Williams Pipe Line has successfully responded to changes in diesel fuel composition and product supply and has adapted to new gasoline additive requirements. Reformulated gasoline regulations have not yet significantly affected Williams Pipe Line. Williams Pipe Line will continue to position itself to respond to changing regulations and supply patterns, but it is not possible to predict how future changes in the marketplace will affect Williams Pipe Line's market areas.

marketing area, or conservation and conversion efforts by fuel consumers may adversely affect the volumes available for transportation by Williams Pipe Line.

#### *Ownership of Property*

Williams Pipe Line's system is owned in fee. However, a substantial portion of the system is operated, constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. The terminals, pump stations and all other facilities of the system are located on lands owned in fee or on lands held under long-term leases, permits or contracts. Management believes that the system is in such a condition and maintained in such a manner that it is adequate and sufficient for the conduct of business.

#### *Environmental Matters*

Williams Pipe Line's operations are subject to various federal, state and local laws and regulations relating to environmental quality control. Management believes that Williams Pipe Line's operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings and competitive position of Williams Pipe Line.

Williams Pipe Line has been named by the EPA as a potentially responsible party as defined in Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act, for a site in Sioux Falls, South Dakota. This site was placed on the National Priorities List in July 1990. In April 1991, Williams Pipe Line and the EPA executed an administrative consent order under which Williams Pipe Line agreed to conduct a remedial investigation and feasibility study for this site. The EPA issued its "No Action" Record of Decision in 1994 concluding that there were no significant hazards associated with the site subject to two additional years of monitoring for arsenic in certain existing monitoring wells. Monitoring should be complete in the first quarter of 1997.

#### **WILLIAMS ENERGY VENTURES, INC. (Williams Energy Ventures)**

Another subsidiary of Williams Holdings, Williams Energy Ventures, is combined for financial reporting purposes with Williams Pipe Line, although Williams Energy Ventures' activities are not included in the Williams Pipe Line operating statistics on page 15 herein. Williams Energy Ventures is engaged in the manufacturing and marketing of petroleum products and oxygenates. Williams Energy Ventures also owns an approximate 70 percent interest in a 30 million gallon per year ethanol plant in Nebraska that began operations in November 1995. Williams Energy Ventures operates the facility and markets the fuel ethanol output. In addition, on August 1, 1995, Williams Energy Ventures purchased Pekin Energy Company in Pekin, Illinois, for \$167 million. The Pekin Energy facility produces 100 million gallons annually of fuel-grade and industrial ethanol and various coproducts.

#### **WILLIAMS TELECOMMUNICATIONS SYSTEMS, INC. (WiTel)**

WiTel provides data, voice and video communications products and services to a wide variety of customers nationally. WiTel is strategically positioned in the marketplace with more than 100 sales and service locations throughout the United States, over 2,800 employees and over 1,200 stocked service vehicles. WiTel employs more than 1,300 technicians and more than 400 sales representatives and sales support personnel to serve an estimated 40,000 commercial, governmental and institutional customers. WiTel's customer base ranges from Fortune 500 corporations and the Federal Government to small privately-owned entities.

WiTel offers its customers a full array of data, voice and video network interconnect products including digital key systems (generally designed for voice applications with fewer than 100 lines), private branch exchange (PBX) systems (generally designed for voice applications with greater than 100 lines), voice processing systems, interactive voice response systems, automatic call distribution applications, call accounting systems, network monitoring and management systems, desktop video, routers, channel banks, intelligent

microwave communications services for a Federal agency, is subject to FCC regulations as a common carrier microwave licensee. These regulations have minimal impact on WilTel's operations.

#### THE WILTECH GROUP, INC. (WilTech)

WilTech, through subsidiaries, seeks to develop growth opportunities in the telecommunications and technology industries. WilTech currently conducts its business through two principal operating subsidiaries, Vyvx, Inc. and Williams Learning Network, Inc. In October 1995, WilTech acquired a 22 percent interest in ITCmediaConferencing Company. The investment is expected to expand WilTech's offerings in the videoconferencing, teleconferencing and enhanced fax services markets. The total cost of the ITC investment, together with the ICG Wireless Services' assets and NUS Training Corporation acquisitions discussed below, is approximately \$51 million.

#### VYVX, INC. (Vyvx)

Vyvx offers fiber-optic television transmission services nationwide. It provides these broadcast-quality services as an alternative to satellite and microwave television transmissions. Vyvx primarily provides backhaul or point-to-point transmission of news and other programming between two or more customer locations. For example, the Vyvx network is used for the broadcast coverage of major professional sporting events. Vyvx's customers include all of the major broadcast and cable networks. Vyvx also provides videoconferencing business television services.

In 1995, Vyvx announced the acquisition of four teleports (including satellite earth station facilities) from ICG Wireless Services. The teleports are located in Atlanta, Denver, Los Angeles and New York (Carteret, N.J.). The acquisition will enable Vyvx to provide both fiber-optic backhaul and satellite distribution services. The acquisition, which is subject to certain conditions, including the receipt of regulatory approvals, is expected to close in the first half of 1996.

*Regulatory Matters.* Vyvx is subject to FCC regulations as a common carrier with regard to certain of its existing and future transmission services and is subject to the laws of certain states governing public utilities. Operation of to-be-acquired satellite earth stations and certain other related transmission facilities are also subject to FCC licensing and other regulations. These regulations do not have a significant impact on Vyvx's operations.

*Competition.* Competition for Vyvx's fiber-optic television transmission operations is derived primarily from companies offering video transmission services by means of satellite facilities and to a lesser degree from companies offering transmission services via microwave facilities or fiber-optic cable.

Federal telecommunications reform legislation enacted in February 1996, is designed to increase competition in the long distance market by significantly liberalizing current restrictions on market entry. In particular, Regional Bell Operating Companies are permitted to provide long distance services, including but not limited to, video transmission services, subject to certain restrictions and conditions precedent. Moreover, public utilities are permitted to provide telecommunications services, including long distance services, through separate subsidiaries. The legislation also calls for tariff forbearance and relaxation of regulation over common carriers. Any impact such legislation may have on Vyvx cannot be predicted at this time.

#### WILLIAMS LEARNING NETWORK, INC. (Williams Learning Network)

Williams Learning Network, formerly Williams Knowledge Systems, provides computer-based operator training primarily to the energy industry. Williams Learning Network has licensing agreements with over 150 customers in the oil and gas pipeline, terminal and trucking industries.

In October 1995, Williams Learning Network acquired NUS Training Corporation. This acquisition gives Williams Learning Network a large library of video-based and multimedia training products for the chemical, refining and utility industries plus an expanded customer base and sales force.



### Item 3. Legal Proceedings

Other than as described under Item 1 — Business and in Note 17 of Notes to Consolidated Financial Statements, there are no material pending legal proceedings. Williams is subject to ordinary routine litigation incidental to its businesses.

With respect to the Dakota litigation described in Note 17, certain parties have subsequently filed a motion with FERC requesting that FERC establish an additional proceeding to consider claims for additional refunds. The claimed additional refunds pertain to amounts paid Dakota from November 1, 1988, through April 30, 1993. Net to Transco's interest, the claimed additional refunds approximate \$90 million. Transco has filed documents with FERC opposing the motion for additional refunds. The administrative law judge's initial decision in this case pertained only to periods after April 30, 1993, and, if sustained, would require Transco to refund to ratepayers approximately \$75 million.

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

Not applicable.

### Executive Officers of Williams

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

<u>Name</u>	<u>Age</u>	<u>Positions and Offices Held</u>	<u>Held Office Since</u>
Keith E. Bailey .....	53	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	05-19-94
John C. Bumgarner, Jr. ....	53	Senior Vice President — Corporate Development and Planning	01-01-79
James R. Herbster .....	54	Senior Vice President — Administration	01-01-92
J. Furman Lewis .....	61	Senior Vice President and General Counsel	07-15-86
Jack D. McCarthy .....	53	Senior Vice President — Finance (Principal Financial Officer)	01-01-92
Gary R. Belitz .....	46	Controller (Principal Accounting Officer)	01-01-92
Stephen L. Cropper .....	46	President — Williams Pipe Line, Williams Energy Services and Williams Energy Ventures	01-22-86
Lloyd A. Hightower .....	61	President — Williams Field Services	05-11-93
Henry C. Hirsch .....	53	President — Williams Telecommunications Systems	08-21-92
Howard E. Janzen .....	41	President — The WilTech Group, Inc.	12-01-94
Brian E. O'Neill .....	60	President — Transco, Northwest Pipeline, Kern River, TXG and Williams Natural Gas	01-01-88

All of the above officers have been employed by Williams or its subsidiaries as officers or otherwise for more than five years and have had no other employment during such period.

## Item 6. Selected Financial Data

The following financial data are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. Information concerning significant trends in the financial condition and results of operations is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages F-1 through F-9 of this report.

	1995	1994	1993	1992	1991
	(Millions, except per-share amounts)				
Revenues*	\$ 2,855.7	\$1,751.1	\$1,793.4	\$1,983.5	\$1,704.5
Income from continuing operations*	299.4	164.9	185.4	103.1	69.7
Income from discontinued operations**	1,018.8	94.0	46.4	25.2	40.3
Fully diluted earnings per share:					
Income from continuing operations	2.76	1.52	1.71	.97	.69
Income from discontinued operations	9.72	.92	.45	.28	.48
Cash dividends per common share	1.08	.84	.78	.76	.70
Total assets at December 31	10,494.8	5,226.1	5,020.4	4,982.3	4,247.4
Long-term obligations at December 31	2,874.0	1,307.8	1,604.8	1,683.2	1,541.9
Stockholders' equity at December 31	3,187.1	1,505.5	1,724.0	1,518.3	1,220.0

\* See Notes 5 and 6 of Notes to Consolidated Financial Statements for discussion of significant asset sales and write-off of project costs.

\*\* See Note 3 of Notes to Consolidated Financial Statements for discussion of the gain on the sale of discontinued operations.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

#### 1995 vs. 1994

Northwest Pipeline's revenues increased \$16.7 million, or 7 percent, due primarily to the \$16 million reversal of a portion of certain rate refund accruals and increased transportation rates put into effect in November 1994, partially offset by the completion in 1994 of billing contract-reformation surcharges. Mainline throughput increased 22 percent; however, revenues were not significantly affected due to the effects of the straight-fixed-variable rate design prescribed by the Federal Energy Regulatory Commission (FERC). Operating profit increased \$11.6 million, or 11 percent, due primarily to higher transportation rates and the approximate \$11 million net effect of two reserve accrual adjustments, partially offset by \$5 million, or 13 percent, higher operations and maintenance expenses. The reserve accrual adjustments involved a \$16 million adjustment to rate refund accruals because of favorable rate case developments, partially offset by a loss accrual (included in other income — net) in connection with a lawsuit involving a former transportation customer.

Williams Natural Gas' revenues decreased \$57 million, or 25 percent, and costs and operating expenses decreased \$62 million, or 40 percent, due primarily to \$36 million lower direct billing of purchased gas adjustments and lower contract-reformation recovery of \$21 million. Operating profit decreased \$3.8 million, or 8 percent, due primarily to the absence of the 1994 reversal of excess contract-reformation accruals of \$7.4 million and \$3.2 million from lower 1995 average firm reserved capacity, partially offset by \$4.6 million resulting from higher average firm reserved capacity rates, effective August 1, 1995, and higher storage revenues of \$3.7 million.

Transcontinental Gas Pipe Line's revenues were \$725.3 million in 1995, while costs and expenses were \$560 million and operating profit was \$165 million. Throughput was 1,410.9 TBtu in 1995 (for the period subsequent to the acquisition date). Transcontinental Gas Pipe Line placed new, higher rates into effect September 1, 1995, subject to refund. Market-area deliveries in 1995 and 1994 were approximately the same.

Phoenix. Williams Energy Ventures' results improved in 1995 with a \$400,000 operating loss compared to an \$8.1 million operating loss in 1994.

WilTel's revenues increased \$98.3 million, or 25 percent, due primarily to \$30 million from new systems, \$28 million from existing system enhancements and \$37 million from contract maintenance, moves, adds and changes. These amounts include the effect of the acquisitions of BellSouth Communications Systems in March 1994 and Jackson Voice Data, completed in October 1994. The number of ports in service at December 31, 1995, has increased 14 percent as compared to December 31, 1994. Costs and operating expenses increased \$79 million, or 26 percent, due primarily to the increase in volume of sales and services. While the \$11 million, or 15 percent, increase in selling, general and administrative expenses is due primarily to higher revenues, the selling, general and administrative expense to revenue percent declined from 19.2 percent to 17.7 percent, reflecting better leveraging of the company's existing infrastructure. Operating profit increased \$9.4 million, or 50 percent, due primarily to increased activity in new system sales, enhancements to existing systems, maintenance and the full-year 1995 impact of two 1994 acquisitions and cost control efforts.

WilTech Group's revenues increased \$24 million, or 120 percent, due primarily to \$15 million in higher occasional and dedicated digital television services revenues and the effect of an acquisition during 1995. Billable minutes from occasional service increased 110 percent and dedicated service voice grade equivalent miles at December 31, 1995, increased 50 percent as compared with December 31, 1994. The \$6 million, or 22 percent, increase in cost of sales and the \$10 million increase in selling, general and administrative expenses reflects the overall increase in sales activity and higher expenses for developing additional products and services. Operating loss decreased \$8 million, or 71 percent, due to higher demand for WilTech Group's digital television services, which produced volumes sufficient to result in operating profit for the fourth quarter.

General corporate expenses increased \$9.7 million, due primarily to a \$6.4 million increase in charitable contributions, including \$5 million to The Williams Companies Foundation. Interest accrued increased \$132.1 million, due primarily to the \$2 billion outstanding debt assumed as a result of the Transco Energy acquisition. Interest capitalized increased \$8.5 million, due primarily to increased expenditures for gathering and processing facilities and Northwest Pipeline's expansion projects. Investing income increased \$44.3 million, due primarily to interest earned on the invested portion of the cash proceeds from the sale of Williams' network services operations in addition to an \$11 million increase in the dividend from Texasgulf Inc. The 1995 loss on sales of assets results from the sale of the 15 percent interest in Texasgulf Inc. (see Note 5). The 1994 gain on sales of assets results from the sale of 3,461,500 limited partner common units in Northern Border Partners, L.P. The 1995 write-off of project costs results from the cancellation of an underground coal gasification project in Wyoming (see Note 6). Other income (expense) — net in 1995 includes approximately \$10 million of minority interest expense associated with the Transco Energy merger, \$4 million of dividends on subsidiary preferred stock and \$4 million of losses on sales of receivables, partially offset by \$11 million of equity allowance for funds used during construction (AFUDC). Other income (expense) — net in 1994 includes a credit for \$4.8 million from the reversal of previously accrued liabilities associated with certain Royalty Trust contingencies that expired. Also included is approximately \$4 million of expense related to Statement of Financial Accounting Standards (FAS) No. 112, "Employers' Accounting for Postemployment Benefits," which relates to postemployment benefits being paid to employees of companies previously sold.

The \$20.3 million increase in the provision for income taxes on continuing operations is primarily a result of higher pre-tax income, partially offset by a lower effective income tax rate resulting from \$29.8 million of previously unrecognized tax benefits realized as a result of the sale of Texasgulf Inc. (see Note 5) and an \$8 million income tax benefit resulting from settlements with taxing authorities. The effective income tax rate in 1995 is significantly less than the federal statutory rate, due primarily to the previously unrecognized tax benefits realized as a result of the sale of the investment in Texasgulf Inc., income tax credits from coal-seam gas production and recognition of an \$8 million income tax benefit resulting from settlements with taxing authorities, partially offset by the effects of state income taxes and minority interest. The effective income tax rate in 1994 is lower than the statutory rate primarily because of income tax credits from coal-seam gas production, partially offset by state income taxes (see Note 7).

Williams Energy Services' revenues decreased \$97.1 million, or 27 percent, due primarily to lower natural gas sales volumes and prices of \$45 million, lower refined-product trading margins and the \$45 million effect of reporting these trading activities on a "net margin" basis, effective July 1, 1993. Costs and operating expenses decreased 29 percent, due to lower natural gas purchase volumes and prices of \$46 million and the \$43 million effect of reporting refined-product trading activities on a "net margin" basis, partially offset by the cost of developing long-term energy industry businesses. General and administrative expenses increased 44 percent, reflecting the costs of establishing appropriate administrative and project support groups to serve growing business activities. Operating profit was \$500,000 in 1994 compared to \$7.9 million in 1993. Price-risk management services' results continued to be profitable but were lower by \$6 million in 1994 than 1993 because of reduced gasoline and distillate margins and the effect of location pricing differentials in refined-products trading activities, partially offset by an improvement in natural gas trading margins reflecting increased volumes. Costs to develop long-term energy industry opportunities also adversely affected operating profit. Results from natural gas marketing activities increased by \$2 million in 1994 compared to 1993.

Williams Pipe Line's shipments increased 9 percent, due primarily to new volumes resulting from the December 1993 acquisition of a pipeline system in southern Oklahoma. Revenues (including Williams Energy Ventures) increased \$130.2 million, or 72 percent, due primarily to higher shipments, increased gas liquids and fractionator operations of \$30 million and petroleum services activities of \$106 million. The slightly higher average transportation rate resulted primarily from longer hauls into the northern region and overall increases in tariff rates, effective December 1, 1994, and June 1, 1993, partially offset by lower rates on shorter haul movements from new business. Costs and operating expenses increased \$125 million, or 94 percent, due primarily to gas liquids and fractionator operations, additional operating expenses, petroleum services activities of \$104 million and the cost of developing long-term energy industry businesses. Operating profit (including Williams Energy Ventures) increased \$4.8 million, or 10 percent, reflecting \$15 million from increased shipments and a favorable insurance settlement, partially offset by higher operating and maintenance expenses. Operating profit also includes \$9 million of costs from developing long-term energy industry investment opportunities. Included in 1994's other income — net is approximately \$5 million of costs for evaluating and determining whether to build an oil refinery near Phoenix.

WilTel's revenues increased \$93.8 million, or 31 percent, due in large part to the March 31, 1994, acquisition of BellSouth's customer equipment sales and service operations in 29 states, as evidenced by a 52 percent increase in the number of ports. Costs and operating expenses and selling, general and administrative expenses increased 31 percent and 20 percent, respectively, due to the increase in volume of equipment sales and services. Operating profit increased to \$18.9 million in 1994 from \$9.5 million in 1993, primarily resulting from higher sales volumes, partially offset by an increase in selling, general and administrative expenses. Margins were level between 1994 and 1993, while selling, general and administrative expenses as a percent of revenue decreased in 1994 compared to 1993.

WilTech Group's revenues and operating losses for 1994 and 1993 are primarily from Vyvx, Inc.'s switched fiber-optic television transmission services. Results of Vyvx's operations improved significantly in 1994; however, the operations in both periods were not profitable as sufficient volumes had not been achieved to support the infrastructure in place. Revenues increased \$6.5 million, or 48 percent, in 1994 reflecting higher occasional and dedicated digital television services, which helped reduce operating losses 34 percent from \$17 million in 1993 to \$11.3 million in 1994.

General corporate expenses decreased \$10.4 million, reflecting lower supplemental retirement benefits (see Note 9) and incentive compensation accruals. Interest accrued decreased \$5.4 million, primarily because of lower effective interest rates, partially offset by higher average borrowing levels. Interest capitalized decreased \$4.4 million, reflecting the completion of Northwest Pipeline's mainline expansion, which was placed in service April 1, 1993. Investing income decreased \$15.6 million, due primarily to lower investment levels and lower equity earnings for Apco Argentina Inc., in addition to the sale of a portion of Williams' interest in Northern Border Partners, L.P. The 1994 gain on sales of assets results from the sale of 3,461,500 limited partner common units in Northern Border Partners, L.P. The gain on sales of assets in 1993 results from the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust and the sale of the intrastate natural gas pipeline system and other related assets in Louisiana (see Note 6). Other income (expense) — net

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

Subsequent to December 31, 1995, Williams entered into a \$205 million short-term borrowing agreement to finance the purchase of the remaining interest in Kern River Gas Transmission (see Notes 5 and 13). During 1996, Williams expects to finance capital expenditures, investments and working-capital requirements through cash generated from operations and the use of its \$800 million bank-credit facility or public debt/equity offerings.

#### *Operating Activities*

Cash provided by continuing operating activities was: 1995 — \$829 million; 1994 — \$180 million; and 1993 — \$187 million. Accrued liabilities increased, due primarily to the income tax and other liabilities associated with the sale of the network services operations in addition to the acquisition of Transco Energy. The increases in receivables, inventory, other current assets, property, plant and equipment, other noncurrent assets and deferred charges, payables, long-term debt, deferred income taxes, and other liabilities primarily reflect the acquisition of Transco Energy. In addition, the increase in receivables was partially offset by a \$56 million increase in the level of receivables sold. Cash provided by discontinued operations was: 1994 — \$169 million; and 1993 — \$162 million.

#### *Financing Activities*

Net cash provided (used) by financing activities was: 1995 — (\$1.4) billion; 1994 — \$50 million; and 1993 — (\$220) million. Notes payable decreased, reflecting the repayment of these notes with the proceeds from the sale of the network services operations. Long-term debt principal payments net of debt proceeds were \$610 million during 1995. Long-term debt proceeds, net of principal payments and early extinguishment of debt were \$24 million during 1994. Long-term debt principal payments totaled \$192 million during 1993.

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 10.4 million shares of Williams common stock valued at \$334 million. Additionally, \$2.3 billion in preferred stock and debt obligations of Transco Energy was assumed by Williams. Williams made payments to retire and/or terminate approximately \$700 million of Transco Energy's borrowings, preferred stock, interest-rate swaps and sale of receivable facilities. As part of the merger, Williams exchanged Transco Energy's \$3.50 cumulative convertible preferred stock for Williams' \$3.50 cumulative convertible preferred stock (see Note 2). The cash portion of the acquisition and the payments to retire and/or terminate various Transco Energy facilities were financed with the proceeds from the sale of Williams' network services operations (see Note 3).

During 1995, Williams exchanged 2.8 million shares of its \$2.21 cumulative preferred stock with a carrying value of \$69 million for 9.6 percent debentures with a fair value of \$72.5 million (see Note 14).

The 1995 proceeds from issuance of common stock includes \$46.2 million from the sale of 1.2 million shares of Williams common stock, held by a subsidiary of Williams and previously classified as treasury stock in the Consolidated Balance Sheet, in addition to certain Williams benefit plan stock purchases and exercise of stock options under Williams' stock plans. The majority of the proceeds from issuance of common stock in 1994 and 1993 resulted from certain Williams benefit plan stock purchases and exercise of stock options under Williams' stock plan (see Note 14).

During 1994, Williams and one of its subsidiaries purchased 13.8 million shares of Williams common stock on the open market for \$407 million. Substantially all of the purchases were financed with a \$400 million bank-credit agreement. In 1995, the outstanding amounts under the credit agreement were repaid from the proceeds of the sale of Williams' network services operations, and the credit agreement was terminated.

### **Environmental**

Williams is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes. The sites, some of which are not currently owned by Williams (see Note 17), are being monitored by Williams, other potentially responsible parties, U.S. Environmental Protection Agency (EPA), or other governmental authorities in a coordinated effort. In addition, Williams maintains an active monitoring program for its continued remediation and cleanup of certain sites connected with its refined products pipeline activities. Williams has both joint and several liability in some of these activities and sole responsibility in others. Current estimates of the most likely costs of such cleanup activities, after payments by other parties, are approximately \$86 million, all of which is accrued at December 31, 1995. Williams expects to seek recovery of approximately \$72 million of the accrued costs through future rates. Williams will fund these costs from operations and/or available bank-credit facilities. The actual costs incurred will depend on the final amount, type and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

### **Subsequent Events**

In January 1996, the Williams Board of Directors increased the quarterly cash dividend on Williams common stock to \$.34 per share, a 25.9 percent increase over the previous amount.

**THE WILLIAMS COMPANIES, INC.**  
**CONSOLIDATED STATEMENT OF INCOME — (Concluded)**

	<u>Years Ended December 31,</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Primary earnings per common and common-equivalent share (Notes 1, 3 and 8):			
Income from continuing operations .....	\$ 2.78	\$1.52	\$1.74
Income from discontinued operations .....	9.99	.92	.46
Income before extraordinary loss .....	12.77	2.44	2.20
Extraordinary loss .....	—	(.12)	—
Net income .....	<u>\$12.77</u>	<u>\$2.32</u>	<u>\$2.20</u>
Fully diluted earnings per common and common-equivalent share (Notes 1, 3 and 8):			
Income from continuing operations .....	\$ 2.76	\$1.52	\$1.71
Income from discontinued operations .....	9.72	.92	.45
Income before extraordinary loss .....	12.48	2.44	2.16
Extraordinary loss .....	—	(.12)	—
Net income .....	<u>\$12.48</u>	<u>\$2.32</u>	<u>\$2.16</u>

See accompanying notes.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Summary of significant accounting policies**

*Nature of operations*

The Williams Companies, Inc. (Williams) operations are located in the United States and consist primarily of the following: five interstate natural gas pipelines located in the eastern, midsouth, Gulf Coast, midwest and northwest regions; natural gas gathering and processing facilities in the rocky mountain, midwest and Gulf Coast regions; energy trading throughout the United States; petroleum products pipeline in the midwest region; and national data, voice and video communication products and services. Additional information about these businesses is contained throughout the following notes.

*Basis of presentation*

Revenues and operating profit amounts include the operating results of Transco Energy Company (Transco Energy) since its January 18, 1995, acquisition by Williams (see Note 2). The transportation operations from Transco Energy's two interstate natural gas pipelines are reported separately within Williams Interstate Natural Gas Systems (see Note 4). Transco Energy's gas gathering operations are included as part of Williams Field Services Group, and Transco Energy's gas marketing operations are included in Williams Energy Services.

Revenues and operating profit amounts for 1994 and 1993 have been reclassified to conform to current year classifications. Commodity price-risk management and trading operations and energy-related information services operations are included in Williams Energy Services. Liquid fuels operations are reported as part of Williams Pipe Line and continue with the Williams Energy Ventures name. In addition, certain natural gas marketing operations formerly reported as part of Williams Field Services Group are included in Williams Energy Services. The WilTech Group, which owns a national fiber-optic network, was previously reported in other revenues and operating profit.

*Principles of consolidation*

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

*Use of estimates*

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

*Cash and cash equivalents*

Cash and cash equivalents include demand and time deposits, certificates of deposit and other marketable securities with maturities of three months or less when acquired.

*Transportation and exchange gas imbalances*

In the course of providing transportation services to customers, the natural gas pipelines may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. Additionally, the pipelines and other Williams subsidiaries transport gas on various pipeline systems which may deliver different quantities of gas on their behalf than the quantities of gas received. These transactions result in gas transportation and exchange imbalance receivables and payables which are recovered or repaid in cash or



THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other Williams operations enter into energy-related financial instruments (primarily futures contracts, option contracts and swap agreements) to hedge against market price fluctuations of certain commodity inventories and sales and purchase commitments. Unrealized and realized gains and losses on these hedge contracts are deferred and recognized in income when the related hedged item is recognized. These contracts are evaluated to determine that there is a high correlation between changes in the market value of the hedge contract and fair value of the hedged item.

*Capitalization of interest*

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

*Income taxes*

Williams includes the operations of its subsidiaries in its consolidated federal income tax return. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of Williams' assets and liabilities.

*Earnings per share*

Primary earnings per share are based on the sum of the average number of common shares outstanding and common-share equivalents resulting from stock options and deferred shares. Fully diluted earnings per share for 1995 assumes conversion of the \$3.50 convertible preferred stock into common stock effective May 1, 1995. Shares used in determination of primary earnings per share are as follows (in thousands): 1995 — 102,046; 1994 — 102,470; and 1993 — 99,911. Shares used in determination of fully diluted earnings per share are as follows (in thousands): 1995 — 104,853; 1994 — 102,502; and 1993 — 103,171.

**Note 2 — Transco Energy acquisition**

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 10.4 million shares of Williams common stock valued at \$334 million. The acquisition is accounted for as a purchase with 60 percent of Transco Energy's results of operations included in Williams' Consolidated Statement of Income for the period January 18, 1995, through April 30, 1995, and 100 percent included beginning May 1, 1995. The purchase price, including transaction fees and other related costs, is approximately \$800 million, excluding \$2.3 billion in preferred stock and debt obligations of Transco Energy. The acquired assets and liabilities have been recorded based on an allocation of the purchase price with substantially all of the cost in excess of Transco Energy's historical carrying amounts allocated to property, plant and equipment of the two interstate natural gas pipeline systems. The cash portion of the acquisition was financed with the proceeds from the sale of Williams' network services operations (see Note 3).

Transco Energy was engaged primarily in the natural gas pipeline and natural gas marketing businesses. Williams has sold substantially all of Transco Energy's coal operations, coalbed methane properties and certain pipeline and gathering operations. Results of operations and changes in the carrying amount of these businesses during the holding period and from the ultimate dispositions are reflected in the purchase price and are not material.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 4 — Williams Interstate Natural Gas Systems

	Revenues			Operating profit		
	1995	1994	1993	1995	1994	1993
	(Millions)					
Northwest Pipeline .....	\$ 255.2	\$238.5	\$276.5	\$115.7	\$104.1	\$ 98.8
Williams Natural Gas .....	174.3	231.3	294.1	45.0	48.8	41.0
Transcontinental Gas Pipe Line .....	725.3	—	—	165.0	—	—
Texas Gas Transmission .....	276.3	—	—	64.0	—	—
	<u>\$1,431.1</u>	<u>\$469.8</u>	<u>\$570.6</u>	<u>\$389.7</u>	<u>\$152.9</u>	<u>\$139.8</u>

Note 5 — Investing activities

	1995	1994
	(Millions)	
Investments:		
Kern River Gas Transmission Company, at equity (50%) .....	\$178.6	\$179.4
Texasgulf Inc. (15%) .....	—	150.0
Other, at equity (varying ownerships from 3.2% to 50%) .....	84.2	49.7
Other, at cost .....	44.8	—
	<u>\$307.6</u>	<u>\$379.1</u>

At December 31, 1995, certain equity investments, with a carrying value of \$30.8 million, have a market value of \$81.5 million.

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

Subsequent to December 31, 1995, Williams acquired the remaining interest in Kern River Gas Transmission Company for \$205 million in cash. The acquisition will be accounted for as a purchase in 1996, and the excess purchase price will be allocated to property, plant and equipment.

Summarized financial position and results of operations for Kern River Gas Transmission Company are presented below.

	1995	1994	1993
	(Millions)		
Current assets .....	\$ 55.4	\$ 98.3	\$ 80.1
Non-current assets, principally natural gas transmission plant ..	994.5	1,026.3	1,028.7
Current liabilities .....	(47.3)	(86.9)	(62.1)
Long-term debt .....	(620.5)	(643.2)	(662.9)
Other non-current liabilities .....	(124.1)	(109.5)	(66.9)
Partners' equity .....	<u>\$ 258.0</u>	<u>\$ 285.0</u>	<u>\$ 316.9</u>
Revenues .....	\$ 187.0	\$ 179.0	\$ 176.8
Costs and expenses .....	65.7	54.9	48.7
Net income .....	38.0	38.1	42.1

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	<u>1995</u>	<u>1994</u> (Millions)	<u>1993</u>
Provision at statutory rate .....	\$140.5	\$ 86.3	\$104.3
Increases (reductions) in taxes resulting from:			
Increase in statutory tax rate on beginning of year deferred tax balances .....	—	—	15.8
State income taxes .....	13.5	8.0	8.2
Coal-seam tax credits .....	(18.7)	(14.9)	(12.8)
Decrease in valuation allowance for deferred tax assets .....	(29.8)	—	—
Reversal of prior tax accruals .....	(8.0)	—	—
Other — net .....	4.5	2.3	(2.9)
Provision for income taxes .....	<u>\$107.0</u>	<u>\$ 81.7</u>	<u>\$112.6</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax purposes.

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

	<u>1995</u>	<u>1994*</u>
	(Millions)	
Deferred tax liabilities:		
Property, plant and equipment .....	\$1,669.2	\$704.6
Investments .....	96.9	81.9
Other .....	248.1	74.7
Total deferred tax liabilities .....	2,014.2	861.2
Deferred tax assets:		
Deferred revenues .....	23.5	40.0
Investments .....	31.3	55.9
Rate refunds .....	70.7	32.0
Accrued liabilities .....	226.4	64.2
Minimum tax credits .....	93.9	—
Other .....	220.5	93.1
Total deferred tax assets .....	666.3	285.2
Valuation allowance for deferred tax assets .....	6.4	29.8
Net deferred tax assets .....	659.9	255.4
Net deferred tax liabilities .....	<u>\$1,354.3</u>	<u>\$605.8</u>

\* Reclassified to conform to current classification.

The valuation allowance for deferred tax assets decreased \$23.4 million and \$1.7 million during 1995 and 1994, respectively.

Cash payments for income taxes are as follows: 1995 — \$348 million, before refunds of \$9 million; 1994 — \$113 million, before refunds of \$6 million; and 1993 — \$129 million.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 10 — Inventories**

	<u>1995</u>	<u>1994</u>
	(Millions)	
Natural gas in underground storage:		
Transcontinental Gas Pipe Line (LIFO) .....	\$ 21.4	\$ —
Williams Energy Services .....	6.0	8.7
Other .....	2.2	9.9
Petroleum products:		
Williams Energy Services .....	12.8	13.5
Other .....	27.4	19.2
Materials and supplies:		
WilTel .....	28.2	28.6
Other .....	87.8	32.4
Other .....	3.2	—
	<u>\$189.0</u>	<u>\$112.3</u>

Inventories valued on the LIFO method at December 31, 1995, approximate current average cost.

**Note 11 — Property, plant and equipment**

	<u>1995</u>	<u>1994</u>
	(Millions)	
Cost:		
Northwest Pipeline .....	\$ 1,403.5	\$ 1,275.4
Williams Natural Gas .....	761.6	745.0
Transcontinental Gas Pipe Line .....	2,756.7	—
Texas Gas Transmission .....	917.3	—
Williams Field Services Group .....	2,324.9	1,273.2
Williams Pipe Line .....	1,023.3	809.6
WilTel .....	55.2	32.1
WilTech Group .....	90.7	69.5
Other .....	145.5	106.3
	<u>9,478.7</u>	<u>4,311.1</u>
Accumulated depreciation .....	(1,464.0)	(1,187.1)
	<u>\$ 8,014.7</u>	<u>\$ 3,124.0</u>

Commitments for construction and acquisition of property, plant and equipment are approximately \$256 million at December 31, 1995.

The Financial Accounting Standards Board has issued a new accounting standard, FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," effective for fiscal years beginning after December 15, 1995. The standard, which will be adopted in the first quarter of 1996, is not expected to have a material effect on Williams' financial position or results of operations.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Debt*

	Weighted average interest rate*	1995	1994
		(Millions)	
<b>The Williams Companies, Inc.</b>			
Revolving credit loans .....	6.2%	\$ 50.0	\$ 350.0
Debentures, 8.875% — 10.25%, payable 2012, 2020, 2021 and 2025 .....	9.6	587.7	379.7
Notes, 7.5% — 9.625%, payable through 2001 .....	8.8	842.4	363.8
Capital lease obligations, 11.1% .....	—	—	31.0
<b>Northwest Pipeline</b>			
Debentures, 7.125% — 10.65%, payable through 2025 .....	9.0	369.2	293.0
Adjustable rate notes, payable through 2002 .....	9.0	11.7	13.3
<b>Williams Natural Gas</b>			
Variable rate notes, payable 1999 .....	6.3	130.0	130.0
<b>Transcontinental Gas Pipe Line</b>			
Debentures, 9.125%, payable 1998 through 2017 .....	9.1	153.0	—
Notes, 8.125% — 9%, payable 1996, 1997 and 2002 .....	8.7	381.1	—
Adjustable rate notes, payable 2000 (subject to remarketing in 1996) .....	6.2	125.1	—
<b>Texas Gas Transmission</b>			
Notes, 9.625% and 8.625%, payable 1997 and 2004 .....	9.0	255.9	—
<b>Williams Holdings of Delaware</b>			
Revolving credit loans .....	6.3	150.0	—
<b>Williams Pipe Line</b>			
Notes, 8.95% and 9.78%, payable through 2001 .....	9.3	110.0	120.0
<b>Williams Energy Ventures</b>			
Adjustable rate notes, payable 1996 through 2002 .....	8.3	21.0	—
Other, payable through 1999 .....	8.0	6.8	10.0
		<u>3,193.9</u>	<u>1,690.8</u>
Current portion of long-term debt .....		<u>(319.9)</u>	<u>(383.0)</u>
		<u>\$2,874.0</u>	<u>\$1,307.8</u>

\* At December 31, 1995.

During 1995, Williams replaced its \$600 million credit agreement, which was scheduled to terminate in December 1995, with a new \$800 million agreement. Under the new credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line, Texas Gas Transmission, Williams Pipe Line and Williams Holdings of Delaware, Inc. have access to various amounts of the facility while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions. Certain amounts outstanding at December 31, 1995, under this facility do not reduce amounts available to Williams in the future. The available amount at December 31, 1995, is \$670 million.

In January 1996, Williams Holdings of Delaware, Inc., a subsidiary of Williams, issued \$250 million of 6.25 percent debentures due 2006.

In January 1996, Williams entered into a \$205 million short-term borrowing agreement to finance the purchase of the remaining 50 percent interest in Kern River Gas Transmission Company (see Note 5).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 1993, Williams called for redemption of its 3,000,000 shares of outstanding \$3.875 convertible exchangeable preferred stock. Substantially all of the preferred shares were converted into 7.6 million shares of Williams common stock. Dividends per share of \$.97 were recorded during 1993.

Subsequent to December 31, 1995, the board of directors adopted a Stockholder Rights Plan (the "Rights Plan") to replace its existing rights plan which expired on February 6, 1996. Under the Rights Plan, each outstanding share of common stock has one preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of \$140 (subject to adjustment), one two-hundredth of a share of junior participating preferred stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 15 percent or more of Williams common stock; or commences an offer for 15 percent or more of Williams common stock; or the board of directors determines an Adverse Person has become the owner of 10 percent or more of Williams common stock. The rights, which do not have voting rights, expire in 2006 and may be redeemed at a price of \$.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a person becomes the owner of more than 15 percent of Williams common stock or the board of directors determines that a person is an Adverse Person, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock having a value equal to two times the exercise price of the right. In the event Williams is engaged in a merger, business combination or 50 percent or more of Williams assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

During 1995, the board of directors approved the Stock Plan for Non-officer Employees (the 1995 Plan). The 1995 Plan along with the 1990 Stock Plan (the 1990 Plan) permits granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. The 1995 Plan provides for granting of awards to key non-officer employees. The 1990 Plan is used for granting of awards to executive officers of Williams. Such awards may be granted for no consideration other than prior and future services. The purchase price per share for stock options and stock-appreciation rights may not be less than the fair-market value of the stock on the date of grant. Another stock option plan provides for the granting of non-qualified options to non-employee directors. Options under the 1990 Plan generally become exercisable in three annual installments beginning within one year after grant. Options under the 1995 Plan generally become exercisable after five years, subject to accelerated vesting if certain stock prices are achieved. The options expire 10 years after grant.

The following summary reflects option transactions during 1995.

	Shares	Option price	
		Per share	Total
			(Millions)
Shares under option:			
December 31, 1994	2,884,008	\$11- 30	\$ 65
Granted	2,261,058	30- 40	80
Canceled or surrendered	(81,892)	14- 40	(2)
Exchanged options from Transco Energy acquisition — net	1,024,250	21-172	35
Exercised	(841,491)	11- 40	(25)
December 31, 1995	<u>5,245,933</u>	\$11-172	<u>\$153</u>
Shares exercisable December 31, 1995	<u>4,421,447</u>		

Under the plans, Williams granted 65,445, 127,706 and 97,504 deferred shares in 1995, 1994 and 1993, respectively, to key employees. Deferred shares are valued at the date of award and are generally charged to

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

factors including closing exchange and over-the-counter quotations, the terms of the contract, credit considerations, time value and volatility factors underlying the positions.

*Carrying amounts and fair values of Williams' financial instruments*

Asset (liability)

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Cash and cash equivalents .....	\$ 90.4	\$ 90.4	\$ 36.1	\$ 36.1
Notes and other non-current receivables .....	25.7	25.8	63.1	62.3
Investment in Texasgulf Inc. ....	—	—	150.0	150.0
Notes payable .....	—	—	(507.0)	(507.0)
Long-term debt, including current portion ....	(3,193.1)	(2,476.7)	(1,657.6)	(1,679.9)
Interest-rate swaps .....	(.4)	(10.4)	(.3)	1.4
Energy-related trading:				
Assets .....	102.5	102.5	22.7	22.7
Liabilities .....	(283.1)	(283.1)	(15.8)	(15.8)
Energy-related hedging:				
Assets .....	2.9	4.5	.3	.3
Liabilities .....	(.6)	(3.2)	(8.5)	(8.5)

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

The 1995 average fair value of the energy-related trading assets and liabilities is \$57.3 million and \$144.6 million, respectively. The 1994 average fair value of the energy-related trading assets and liabilities is \$9.2 million and \$8.5 million, respectively.

Williams has recorded liabilities of \$24 million and \$27 million at December 31, 1995 and 1994, respectively, for certain guarantees that qualify as financial instruments. It is not practicable to estimate the fair value of these guarantees because of their unusual nature and unique characteristics.

*Off-balance-sheet credit and market risk*

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

Williams sold, with limited recourse, certain receivables. The aggregate limit under these receivables facilities was \$190 million at December 31, 1995, and \$80 million at December 31, 1994 (1994 balance all related to discontinued operations). Williams received \$196 million of proceeds in 1995, \$110 million in 1994 and none in 1993. At December 31, 1995 and 1994, \$166 million and \$80 million (1994 balance all related to discontinued operations) of such receivables had been sold, respectively. Based on amounts outstanding at December 31, 1995, the maximum contractual credit loss under these arrangements is approximately \$28 million, but the likelihood of loss is remote. Williams had no risk of credit loss for the amount sold at December 31, 1994, because amounts outstanding related to discontinued operations (see Note 3).

In connection with the sale of units in the Williams Coal Seam Gas Royalty Trust (Trust), Williams indemnified the Trust against losses from certain litigation (see Note 17) and guaranteed minimum gas prices through 1997. At December 31, 1995 and 1994, Williams has a recorded liability of \$10 million for these

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The notional quantities for all trading financial instruments at December 31, 1995, and December 31, 1994, are as follows:

	1995		1994	
	Payor	Receiver	Payor	Receiver
Fixed price:				
Natural gas (TBtu) .....	873.2	847.3	181.4	179.5
Refined products and crude (MMBbls) .....	15.9	14.9	11.2	12.5
Variable price:				
Natural gas (TBtu) .....	1,841.2	1,517.2	85.0	136.3
Refined products and crude (MMBbls) .....	2.8	2.5	2.5	2.5

The net cash flow requirement related to these contracts at December 31, 1995, was \$215 million. At December 31, 1995, the average remaining life of the trading fixed-price portfolio is approximately two years and four years for the trading variable-price portfolio.

In 1995, certain gas marketing operations of Williams Energy Services, along with gas marketing operations from Transco Energy, were combined with the commodity price-risk management and trading activities of Williams Energy Services. Such combination in 1995 involves managing the price and other business risks and opportunities of such physical gas trading activities and any related financial instruments previously accounted for as hedges in common-risk portfolios with Williams Energy Services' other financial instruments. These former marketing activities, consisting of buying and selling natural gas, through 1994 were reported on a "gross" basis in the Consolidated Statement of Income as revenues and profit-center costs. Concurrent with completing the combination of such activities with the commodity price-risk management operations in the third quarter of 1995, the related contract rights and obligations along with any related financial instruments previously accounted for as hedges, were recorded in the Consolidated Balance Sheet on a current-market-value basis and the related income statement presentation was changed to a net basis. Such revenues reported on a gross basis through the first two quarters of 1995 were reclassified to a net basis concurrent with this change in the third quarter of 1995. Following is a summary of Williams Energy Services' revenues:

	1995	1994
Financial instrument and physical trading market gains — net .....	\$ 65.8	\$ 14.2
Gross marketing revenues .....	617.7*	249.2
Gross marketing costs .....	(599.2)*	—
Other .....	1.5	.3
	<u>\$ 85.8</u>	<u>\$263.7</u>

\* Through June 30, 1995.

*Concentration of credit risk*

Williams' cash equivalents consist of high quality securities placed with various major financial institutions with high credit ratings. Williams' investment policy limits its credit exposure to any one financial institution.

At December 31, 1995 and 1994, approximately 62 percent and 40 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 27 percent and 30 percent of receivables at December 31, 1995 and 1994, respectively, are for telecommunications and related services. Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the eastern, northwestern and midwestern United States. Telecommunica-



THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Information for business segments is as follows:

	<u>1995</u>	<u>1994*</u>	<u>1993*</u>
	(Millions)		
Identifiable assets at December 31:			
Northwest Pipeline .....	\$ 1,147.5	\$1,028.0	\$1,032.6
Williams Natural Gas .....	709.2	719.8	697.0
Transcontinental Gas Pipe Line .....	3,159.5	—	—
Texas Gas Transmission .....	1,151.8	—	—
Williams Field Services Group .....	2,116.5	1,093.6	967.8
Williams Energy Services .....	351.9	96.5	84.6
Williams Pipe Line .....	870.5	680.4	588.3
WilTel .....	263.0	255.5	169.1
WilTech Group .....	138.0	60.2	26.6
Investments .....	307.6	379.1	437.1
General corporate and other .....	279.3	169.4	122.1
Discontinued operations .....	—	743.6	895.2
Consolidated .....	<u>\$10,494.8</u>	<u>\$5,226.1</u>	<u>\$5,020.4</u>
Additions to property, plant and equipment:			
Northwest Pipeline .....	\$ 130.5	\$ 62.6	\$ 175.7
Williams Natural Gas .....	43.5	32.9	54.9
Transcontinental Gas Pipe Line .....	238.7	—	—
Texas Gas Transmission .....	32.1	—	—
Williams Field Services Group .....	247.7	163.5	116.7
Williams Pipe Line .....	87.9	46.6	62.9
WilTel .....	24.1	4.9	1.9
WilTech Group .....	8.3	8.0	6.9
General corporate and other .....	14.7	7.0	9.3
Consolidated .....	<u>\$ 827.5</u>	<u>\$ 325.5</u>	<u>\$ 428.3</u>
Depreciation and depletion:			
Northwest Pipeline .....	\$ 34.9	\$ 33.9	\$ 30.7
Williams Natural Gas .....	27.3	27.2	27.3
Transcontinental Gas Pipe Line .....	109.1	—	—
Texas Gas Transmission .....	38.9	—	—
Williams Field Services Group .....	110.2	46.7	43.5
Williams Pipe Line .....	26.4	22.4	21.4
WilTel .....	5.9	5.3	4.7
WilTech Group .....	8.3	7.4	4.0
General corporate and other .....	8.4	7.4	6.2
Consolidated .....	<u>\$ 369.4</u>	<u>\$ 150.3</u>	<u>\$ 137.8</u>

\* Reclassified as described in Note 1.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

realignment costs. This accrual was increased in December 1995 as a result of a ruling by the U.S. Court of Appeals for the Tenth Circuit regarding the terms of certain contracts with producers. Williams Natural Gas will make additional filings under the applicable FERC orders to recover such further costs as may be incurred in the future. Williams Natural Gas has recorded a regulatory asset of approximately \$84 million for estimated future recovery of the foregoing costs.

On September 18, 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. The settlement provides that Texas Gas will recover 100 percent of such costs up to \$50 million, will share in costs incurred between \$50 million and \$80 million, and will absorb any such costs above \$80 million. The settlement also extends Texas Gas' pricing differential mechanism to November 1, 1996, and beyond that date for contracts in litigation as of that date. Through December 31, 1995, Texas Gas has paid approximately \$53 million for gas supply realignment costs, primarily as a result of contract terminations, and has accrued a liability of approximately \$27 million for its estimated remaining gas supply realignment costs. Texas Gas has recovered approximately \$44 million in gas supply realignment costs, and in accordance with the terms of its settlement has recorded a regulatory asset of approximately \$23 million for the estimated future recovery of such costs, which will be collected from customers over the next two years. Ninety percent of the cost recovery is collected through demand surcharges on Texas Gas' firm transportation rates; the remaining 10 percent is recoverable from interruptible transportation service.

In 1983, the FERC issued Order 94-A, which permitted producers to collect certain production related costs from pipelines on a retroactive basis. Pursuant to FERC orders, Texas Gas and Transcontinental Gas Pipe Line direct billed their customers for such costs paid to producers. In 1990, the U.S. Court of Appeals for the D.C. Circuit overturned the FERC's orders authorizing direct billing for such costs. In December 1995, Texas Gas entered into a settlement by which it resolved its final refund obligations as to these costs. Transcontinental Gas Pipe Line has resolved its refund obligations except for an amount of approximately \$7 million. Transcontinental Gas Pipe Line has refunded that amount, reserving the right to recover the amount paid if the ruling is reversed on appeal.

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

*Environmental matters*

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies underway to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1995, these subsidiaries had reserves totaling approximately \$45 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. Although no assurances can be given, Williams does not believe that the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

## THE WILLIAMS COMPANIES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. While Williams believes that such a payment is not probable, it has reserved a portion of the proceeds from the sale of the units in the Trust.

In October 1990, Dakota Gasification Company (Dakota), the owner of the Great Plains Coal Gasification Plant (Plant), filed suit in the U.S. District Court in North Dakota against Transcontinental Gas Pipe Line and three other pipeline companies alleging that the pipeline companies had not complied with their respective obligations under certain gas purchase and gas transportation contracts. On September 8, 1992, Dakota and the Department of Justice on behalf of the Department of Energy filed an amended complaint adding as defendants in the suit, Transco Energy Company, Transco Coal Gas Company (Transco Energy Company and Transco Coal Gas Company being wholly owned subsidiaries of Williams) and all of the other partners in the partnership that originally constructed the Plant and each of the parent companies of these entities. Dakota and the Department of Justice sought declaratory and injunctive relief and the recovery of damages, alleging that the four pipeline defendants underpaid for gas, collectively, as of June 30, 1992, by more than \$232 million plus interest and for additional damages for transportation services and costs and expenses including attorneys' fees. On March 30, 1994, the parties executed definitive agreements which would settle the litigation subject to final non-appealable regulatory approvals. The settlement is also subject to a FERC ruling that Transcontinental Gas Pipe Line's existing authority to recover in rates certain costs related to the purchase and transportation of gas produced by Dakota will pertain to gas purchase and transportation costs Transcontinental Gas Pipe Line will pay Dakota under the terms of the settlement. On October 18, 1994, the FERC issued an order consolidating Transcontinental Gas Pipe Line's petition for approval of the settlement with similar petitions pending relative to two of the other three pipeline companies (the third pipeline having entered into a settlement) and setting the matter for hearing before an administrative law judge. On December 29, 1995, the administrative law judge issued an initial decision in which he concluded that the settlement was imprudent. If the decision is upheld on appeal, Transcontinental Gas Pipe Line and the other two pipelines would be required to refund to their customers amounts collected in excess of the amounts deemed appropriate by the administrative law judge. The pipelines would be entitled to collect the amount of any such customer refunds from Dakota. The administrative law judge's decision will be appealed; however, in the event that the necessary regulatory approvals are not ultimately obtained and Dakota elects to continue the litigation, Transcontinental Gas Pipe Line, Transco Energy Company and Transco Coal Gas Company intend to vigorously defend the suit.

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 and Texas Gas have been named as defendants in, respectively, six and two lawsuits in which damages claimed aggregate in excess of \$133 million. Texas Gas has settled its two lawsuits for a total cost of \$3.7 million, all but \$700,000 of which is recoverable as transition costs under Order 636. On July 17, 1995, a judge in a Texas state court granted a motion by Transcontinental Gas Pipe Line for partial summary judgment, rejecting a major portion of the plaintiff's claims in one of its lawsuits. Producers 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.

**THE WILLIAMS COMPANIES, INC.**  
**QUARTERLY FINANCIAL DATA (Unaudited)**

Summarized quarterly financial data are as follows (millions, except per-share amounts). Revenues and costs and operating expenses for the six months ended June 30, 1995, have been reclassified to report natural gas sales net of related gas purchase costs.

<u>1995</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Revenues .....	\$ 642.4	\$663.9	\$712.4	\$837.0
Costs and operating expenses .....	351.1	400.1	438.9	510.6
Net income .....	1,088.9	83.3	68.5	77.5
Primary earnings per common and common-equivalent share .....	11.57	.79	.58	.70
Fully diluted earnings per common and common-equivalent share .....	11.55	.78	.58	.69
<u>1994</u>				
Revenues .....	\$ 386.6	\$419.9	\$467.3	\$477.3
Costs and operating expenses .....	248.5	274.0	335.4	329.8
Income before extraordinary loss .....	52.8	74.0	55.6	76.5
Net income .....	52.8	62.9	55.6	75.4
Primary earnings per common and common-equivalent share:				
Income before extraordinary loss .....	.48	.69	.51	.77
Net income .....	.48	.58	.51	.76
Fully diluted earnings per common and common-equivalent share:				
Income before extraordinary loss .....	.48	.69	.51	.77
Net income .....	.48	.58	.51	.76

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

First-quarter 1995 net income includes the after-tax gain of \$1 billion on the sale of Williams' network services operations (see Note 3 of Notes to Consolidated Financial Statements). The second quarter of 1995 includes a \$16 million after-tax gain from the sale of Williams' 15 percent interest in Texasgulf Inc. (see Note 5 of Notes to Consolidated Financial Statements) and an \$8 million income tax benefit resulting from settlements with taxing authorities. Northwest Pipeline's third-quarter 1995 operating profit includes the approximate \$11 million net favorable effect of two reserve accrual adjustments. In third-quarter 1995, Williams Field Services Group recorded \$20 million of income from the favorable resolution of contingency issues involving previously regulated gathering and processing assets, partially offset by an \$8 million accrual for a future minimum price natural gas purchase commitment.

Second-quarter 1994 includes a \$23 million gain from the sale of assets (see Note 6 of Notes to Consolidated Financial Statements).

**THE WILLIAMS COMPANIES, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Item 14(a) 1 and 2**

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

THE WILLIAMS COMPANIES, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT — (Continued)

BALANCE SHEET (PARENT)

ASSETS

	December 31,	
	1995	1994
	(Millions)	
Current assets:		
Cash and cash equivalents .....	\$ 57.6	\$ 16.5
Due from consolidated subsidiaries .....	131.6	138.4
Receivables .....	28.9	65.3
Investment in discontinued operations (Note 2) .....	—	743.6
Other .....	15.0	4.9
Total current assets .....	233.1	968.7
Investments:		
Equity in consolidated subsidiaries (Note 1) .....	5,551.4	1,634.8
Receivables from consolidated subsidiaries .....	68.7	387.8
	5,620.1	2,022.6
Other .....	—	44.0
	5,620.1	2,066.6
Property, plant and equipment—net .....	20.6	36.3
Other assets and deferred charges .....	23.9	14.8
Total assets .....	<u>\$5,897.7</u>	<u>\$3,086.4</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable .....	\$ —	\$ 73.8
Due to consolidated subsidiaries .....	291.9	137.6
Accounts payable and accrued liabilities .....	100.2	84.1
Long-term debt due within one year (Note 4) .....	20.0	361.5
Total current liabilities .....	412.1	657.0
Long-term debt (Note 4) .....	1,460.0	763.0
Long-term debt due to consolidated subsidiary (Note 4) .....	360.0	—
Due to consolidated subsidiaries .....	440.5	—
Other liabilities .....	38.0	160.9
Stockholders' equity:		
Preferred stock .....	173.5	100.0
Common stock .....	105.3	104.4
Capital in excess of par value .....	1,051.1	991.0
Retained earnings .....	1,915.6	716.5
Unamortized deferred compensation .....	(2.3)	(1.3)
	3,243.2	1,910.6
Less treasury stock (Notes 4 and 5) .....	(56.1)	(405.1)
Total stockholders' equity .....	<u>3,187.1</u>	<u>1,505.5</u>
Total liabilities and stockholders' equity .....	<u>\$5,897.7</u>	<u>\$3,086.4</u>

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT — (Continued)

NOTES TO FINANCIAL INFORMATION (PARENT)

**Note 1. Transco Energy Acquisition**

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 10.4 million shares of Williams common stock valued at \$334 million. The acquisition is accounted for as a purchase with 60 percent of Transco Energy's results of operations included in Williams' Consolidated Statement of Income for the period January 18, 1995, through April 30, 1995, and 100 percent included beginning May 1, 1995. See Note 2 of Notes to Consolidated Financial Statements for additional information on the Transco Energy acquisition.

**Note 2. Discontinued Operations**

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. (LDDS) for \$2.5 billion in cash. The sale yielded a gain of \$1 billion (net of income taxes of approximately \$732 million) which is reported as income from discontinued operations. Prior period operating results for the network services operations are reported as discontinued operations. See Note 3 of Notes to Consolidated Financial Statements for additional information on discontinued operations.

**Note 3. Sales of Assets**

In a 1993 public offering, Williams sold 6.1 million units in the Williams Coal Seam Gas Royalty Trust (Trust), which resulted in net proceeds of \$113 million and a pre-tax gain of \$51.6 million. The Trust owns defined net profits interests in the developed coal-seam properties in the San Juan Basin of New Mexico and Colorado, which were conveyed to the Trust by Williams Production Company. Ownership of an additional 3.6 million units remains with a subsidiary of Williams.

**Note 4. Long-term Debt and Leases**

During 1995, Williams issued \$360 million in convertible debentures and warrants to a wholly-owned subsidiary in exchange for 12.2 million shares of Williams common stock held by that subsidiary (see Note 5). The convertible debentures bear interest at 6 percent, mature in 2005 and are convertible into 9.3 million shares of Williams common stock at \$38.58 per share. The warrants give the subsidiary the right to purchase 7.5 million shares of Williams common stock at \$46.67 per share.

Long-term debt due within one year at December 31, 1994 includes \$350 million of borrowings under Williams' credit agreement. Amounts were repaid in January 1995.

Aggregate minimum maturities and sinking-fund requirements, excluding lease payments, for each of the next five years are as follows: 1996 — \$20 million; 1997 — none; 1998 — \$310 million; 1999 — \$150 million; and 2000 — \$175 million. See Note 13 of Notes to Consolidated Financial Statements for additional information on long-term debt.

**Note 5. Stockholders' Equity**

In connection with the May 1, 1995, merger with Transco Energy, Williams exchanged all of Transco Energy's outstanding \$3.50 cumulative convertible preferred stock for 2.5 million shares of Williams' \$3.50 cumulative convertible preferred stock. See Note 14 of Notes to Consolidated Financial Statements for additional information on this exchange.

**THE WILLIAMS COMPANIES, INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS(a)**

	<u>Beginning Balance</u>	<u>Additions</u>		<u>Deductions (b)</u>	<u>Ending Balance</u>
		<u>Charged to Costs and Expenses</u>	<u>Other (Millions)</u>		
Allowance for doubtful accounts:					
1995 .....	\$ 7.9	\$3.8	\$1.6(c)	\$2.0	\$11.3
1994 .....	10.2	4.2(d)	—	6.5(e)	7.9
1993 .....	17.3	.5(f)	—	7.6	10.2

(a) Deducted from related assets.

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

(c) Relates primarily to acquisition of businesses.

(d) Excludes \$5.7 million related to discontinued operations.

(e) Includes the discontinued operations beginning balance reclassification of \$3.6 million.

(f) Includes \$4.1 million reversal of amounts previously accrued.



\* (b) Certificate of Designation with respect to the \$2.21 Cumulative Preferred Stock (filed as Exhibit 4.3 to the Registration Statement on Form S-3, filed August 19, 1992).

\* (c) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(c) to Form 10-K for the year ended December 31, 1988).

\* (d) Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994 (filed as Exhibit 3(d) to Form 10-K for the fiscal year ended December 31, 1994).

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

(f) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock.

\* (g) Rights Agreement, dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Williams Form 8-K, filed January 24, 1996).

\* (h) By-laws of Williams (filed as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1993).

Exhibit 4 —

\* (a) Form of Senior Debt Indenture between the Company and Chemical Bank, Trustee, relating to the 10¼% Debentures, due 2020; the 9¾% Debentures, due 2021; the 8¼% Notes, due 1998; Medium-Term Notes (8.50%-9.31%), due 1996 through 2001; the 7½% Notes, due 1999, and the 8¾% Debentures, due 2012 (filed as Exhibit 4.1 to Form S-3 Registration Statement No. 33-33294, filed February 2, 1990).

\* (b) U.S. \$800,000,000 Credit Agreement, dated as of February 23, 1995, among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(b) to Form 10-K for the fiscal year ended December 31, 1994).

Exhibit 10(iii) — Compensatory Plans and Management Contracts

\* (a) The Williams Companies, Inc. Supplemental Retirement Plan, effective as of January 1, 1988 (filed as Exhibit 10(iii)(c) to Form 10-K for the year ended December 31, 1987).

\* (b) Form of Employment Agreement, dated January 1, 1990, between Williams and certain executive officers (filed as Exhibit 10(iii)(d) to Form 10-K for the year ended December 31, 1989).

\* (c) Form of The Williams Companies, Inc. Change in Control Protection Plan between Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1989).

\* (d) The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 13, 1985).

\* (e) The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to Williams' Proxy Statement, dated March 14, 1988).

\* (f) The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 12, 1990).

(g) The Williams Companies, Inc. Stock Plan for Non-Officer Employees.

\* (h) The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 27, 1996).

\* (i) The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to Williams' Proxy Statement, dated March 27, 1996).

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WILLIAMS COMPANIES, INC.  
(Registrant)

By: /s/ DAVID M. HIGBEE  
David M. Higbee  
*Attorney-in-fact*

Dated: March 27, 1996

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

<u>Signature</u>	<u>Title</u>
<u>/s/ KEITH E. BAILEY*</u> Keith E. Bailey	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer) and Director
<u>/s/ JACK D. MCCARTHY*</u> Jack D. McCarthy	Senior Vice President — Finance (Principal Financial Officer)
<u>/s/ GARY R. BELITZ*</u> Gary R. Belitz	Controller (Principal Accounting Officer)
<u>/s/ HAROLD W. ANDERSEN*</u> Harold W. Andersen	Director
<u>/s/ RALPH E. BAILEY*</u> Ralph E. Bailey	Director
<u>/s/ GLENN A. COX*</u> Glenn A. Cox	Director
<u>/s/ THOMAS H. CRUIKSHANK*</u> Thomas H. Cruikshank	Director
<u>/s/ ERVIN S. DUGGAN*</u> Ervin S. Duggan	Director
<u>/s/ PATRICIA L. HIGGINS*</u> Patricia L. Higgins	Director
<u>/s/ ROBERT J. LAFORTUNE*</u> Robert J. LaFortune	Director
<u>/s/ JAMES C. LEWIS*</u> James C. Lewis	Director

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