

WILLIAMS COMPANIES INC

FORM 10-K (Annual Report)

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Industry	Natural Gas Utilities
Sector	Utilities
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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(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:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
----- Common Stock, \$1.00 par value Preferred Stock Purchase Rights \$2.21 Cumulative Preferred Stock, \$1.00 par value	----- New York Stock Exchange and the Pacific Stock Exchange 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.

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

and video-related products and services and customer premises equipment nationwide. The Company also has investments in the equity of certain other companies. See Note 5 of Notes to Consolidated Financial Statements.

Substantially all operations of Williams are conducted through subsidiaries. Williams performs management, legal, financial, tax, consultative, administrative and other services for its subsidiaries. Williams' principal sources of cash are from dividends and advances from its subsidiaries, investments, payments by subsidiaries for services rendered by its staff and interest payments from subsidiaries on cash advances. The amount of dividends available to Williams from subsidiaries largely depends upon each subsidiary's earnings and operating capital requirements. The terms of certain subsidiaries' borrowing arrangements limit the transfer of funds to the Company. See Note 13 of Notes to Consolidated Financial Statements.

To achieve organizational and operating efficiencies, the Company's interstate natural gas pipelines are grouped together and are referred to internally as the interstate natural gas systems. All other operating companies are owned directly by Williams Holdings of Delaware, Inc., a wholly-owned subsidiary of the Company. Item 1 of this report is formatted to reflect this structure.

WILLIAMS INTERSTATE NATURAL GAS SYSTEMS

The Company's interstate natural gas pipeline group owns and operates a combined total of approximately 28,000 miles of pipelines with a total annual throughput of approximately 3,500 TBtu* of natural gas and peak-day delivery capacity of approximately 15 Bcf of natural gas. The interstate natural gas pipeline group consists of Transcontinental Gas Pipe Line Corporation, Northwest Pipeline Corporation, Texas Gas Transmission Corporation, Kern River Gas Transmission Company and Williams Natural Gas Company, owners and operators of interstate natural gas pipeline systems. As previously noted, Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation were acquired by the Company in 1995. For the accounting treatment of the acquisition, see Note 2 of Notes to Consolidated Financial Statements. Also as noted above, the Company acquired an additional 49.9 percent interest in Kern River Gas Transmission Company in January 1996. The results of operations included herein only reflect the Company's previously-owned 50 percent ownership interest in Kern River.

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

There follows a business description of each company in the interstate natural gas pipeline group. The discussion of certain items required to be disclosed by Form 10-K are reported in generic form following the individual company business descriptions.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION (TRANSCO)

Transco is an interstate natural gas transmission company which owns and operates a natural gas pipeline system extending from Texas, Louisiana, Mississippi and the offshore Gulf of Mexico through the states of Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania and New Jersey to the

* The term "Mcf" means thousand cubic feet, "MMcf" means million cubic feet and "Bcf" means billion cubic feet. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute at 60 degrees Fahrenheit. The term "MMBtu" means one million British Thermal Units and "TBtu" means one trillion British Thermal Units.

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.

Transco's 1994 Southeast Expansion Project was completed and placed into service in November 1994, and provides 35 MMcf of gas per day of additional firm transportation capacity to Transco's customers in the southeast. Phase I of Transco's 1995/1996 Southeast Expansion Project was completed and placed into service in December 1995, and provides 115 MMcf of gas per day of additional firm transportation capacity to Transco's customers in the Southeast. Phase II of such expansion will add an additional 55 MMcf of gas per day for the 1996-1997 winter heating season. Transco invested \$63 million in these projects in 1995 and expects to invest approximately \$21 million in these projects in 1996.

Operating Statistics

The following table summarizes transportation data for the periods indicated, including periods during which the Company did not own Transco:

	1995	1994	1993
	-----	-----	-----
System Deliveries (TBtu)			
Market-area deliveries:			
Long-haul transportation.....	858.4	805.1	852.0
Market-area transportation.....	467.3	453.6	387.4
	-----	-----	-----
Total market-area deliveries.....	1,325.7	1,258.7	1,239.4
Production-area transportation.....	165.9	185.9	177.5
	-----	-----	-----
Total system deliveries.....	1,491.6	1,444.6	1,416.9
	=====	=====	=====
Average Daily Transportation Volumes (TBtu).....	4.1	4.0	3.9
Average Daily Firm Reserved Capacity (TBtu).....	5.2	4.9	4.8

Transco has expressed concerns to FERC that inconsistent treatment of Transco and its competitor pipelines with regard to rate design and cost allocation issues in production areas may result in rates which could make Transco less competitive, both in terms of production-area and long-haul transportation. On July 19, 1995, an administrative law judge (ALJ) issued an initial decision finding that Transco's proposed production area rate design, and its existing use of a system-wide cost of service and allocation of firm capacity in production areas are unjust and unreasonable. The ALJ recommended that Transco divide its costs between its production area and market area and permit its customers to renominate their firm entitlements. The ALJ's decision is subject to review by FERC. Should FERC issue an order consistent with the ALJ's recommendations, such order would have prospective effect only.

NORTHWEST PIPELINE CORPORATION (NORTHWEST PIPELINE)

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

Pipeline System and Customers

At December 31, 1995, Northwest Pipeline's system, having an aggregate mainline deliverability of approximately 2.6 Bcf of gas per day was composed of approximately 3,900 miles of mainline and branch transmission pipelines and 43 mainline compressor stations with a combined capacity of approximately 306,000 horsepower.

In 1995, Northwest Pipeline transported natural gas for a total of 127 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and direct industrial users. The three largest customers of Northwest Pipeline in 1995 accounted for approximately 18.5 percent, 12.2 percent and 10.2 percent, respectively, of total operating revenues. No other customer

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

	1995	1994	1993
	----	----	----
Gas Volumes (TBtu):			
Gas sales.....	--	--	18
Transportation.....	826	679	606
	---	---	---
Total throughput.....	826	679	624
	===	===	===
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.

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

Operating Statistics

The following table summarizes total system delivery data, which excludes unbundled sales, for the periods indicated, including periods during which the Company did not own TXG:

	1995	1994	1993
	-----	-----	-----
System deliveries (TBtu):			
Sales.....	--	--	52.8
Long-haul transportation.....	635.7	618.8	534.0
	-----	-----	-----
Total mainline deliveries.....	635.7	618.8	586.8
Short-haul transportation.....	57.6	188.6	214.0
	-----	-----	-----
Total system deliveries.....	693.3	807.4	800.8
	=====	=====	=====
Average Daily Transportation Volumes (TBtu).....	1.9	2.2	2.0
Average Daily Firm Reserved Capacity (TBtu).....	2.0	2.1	2.0

KERN RIVER GAS TRANSMISSION COMPANY (KERN RIVER)

Kern River is an interstate natural gas transmission company which owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. In 1995, Kern River was jointly owned and operated by Williams Western Pipeline Company, a subsidiary of the Company, and a subsidiary of an unaffiliated company. As previously indicated, the Company acquired an additional 49.9 percent interest in Kern River in January 1996. See Note 5 of Notes to Consolidated Financial Statements. The transmission system, which commenced operations in February 1992 following completion of construction, delivers natural gas primarily to the enhanced oil recovery fields in southern California. The system also transports natural gas for utilities, municipalities and industries in California, Nevada and Utah.

Pipeline System and Customers

As of December 31, 1995, Kern River's pipeline system was composed of 707 miles of pipeline and three mainline compressor stations having an aggregate mainline delivery capacity of 700 MMcf of gas per day. The pipeline system interconnects with the pipeline facilities of another pipeline company at Daggett, California. From the point of interconnection, Kern River and the other pipeline company have a common 219-mile pipeline which is owned 63.6 percent by Kern River and 36.4 percent by the other pipeline company, as tenants in common, and is designed to accommodate the combined throughput of both systems. This common facility has a capacity of 1.1 Bcf of gas per day.

Gas is transported for others under firm long-term transportation contracts totaling 682 MMcf of gas per day. In 1995, Kern River transported natural gas for customers in California, Nevada and Utah. Gas was transported for five customers in Kern County, California, for reinjection as a part of enhanced oil recovery operations and for 28 local distribution customers, electric utilities, cogeneration projects and commercial and other industrial customers. The five largest customers of Kern River in 1995 accounted for approximately 14 percent, 14 percent, 12 percent, 12 percent and 10 percent, respectively, of operating revenues. Three of these customers serve the enhanced oil recovery fields. No other customer accounted for more than 10 percent of operating revenues in 1995.

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:

	1995	1994	1993
	----	----	----
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

Missouri Gas Energy contracts with this competitor are not subject to Missouri Public Service Commission approval, the exercise of FERC jurisdiction over the project could cause the cancellation of the proposed pipeline project that supports the contracts. Up to 25 percent of the firm capacity now transported by Williams Natural Gas into the Kansas City market could be at risk if the pipeline contemplated by the contracts is built. If FERC's decision to exercise jurisdiction over the competing pipeline is upheld, the competitor will be required to formulate rate structures under the same rules as Williams Natural Gas and other interstate competitors.

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

Operating Statistics

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

	1995	1994	1993
	----	----	----
Volumes (TBtu):			
Resale sales.....	--	--	50
Direct and gas processing plant sales.....	--	--	1
Transportation.....	334	346	344
	---	---	---
Total throughput.....	334	346	395
	===	===	===
Average Daily Transportation Volumes (TBtu).....	.9	.9	.9
Average Daily Firm Reserved Capacity (TBtu).....	2.0	2.0	--

Certain of Williams Natural Gas' gathering and processing activities have been or will be transferred to third parties, including subsidiaries of Williams Field Services Group, Inc., an affiliated company, as discussed elsewhere herein. Applications for orders permitting and approving abandonment of certain natural gas facilities have been filed with FERC and final approval has been granted by FERC on three of these filings. Preliminary approval on all other systems has been granted by FERC.

REGULATORY MATTERS

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

Each interstate natural gas pipeline has various regulatory proceedings pending. Rates are established primarily through FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation rates, (2) allowed rate of return, including the equity component of the capital structure, and (3) volume throughput assumptions. The allowed rate of return is determined by FERC in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. As a result of such proceedings, a portion of the revenues of these pipelines may have been collected subject to refund. See Note 12 of Notes to Consolidated Financial Statements for the amount of revenues reserved for potential refund as of December 31, 1995.

Each interstate natural gas pipeline, with the exception of Kern River, has undertaken the reformation of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay,

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.

WILLIAMS HOLDINGS OF DELAWARE, INC. (WILLIAMS HOLDINGS)

In 1994, the Company established Williams Holdings to be a holding company for its assets other than its interstate natural gas pipelines and related assets. Virtually all of Williams Holdings' assets have been transferred to it by the Company since January 1, 1995, and were previously operated by subsidiaries of the Company.

Williams Holdings owns all of the capital stock of four entities in the energy industry and two entities in the telecommunications industry. Williams Holdings' energy subsidiaries are engaged in natural gas gathering, processing and production, the transportation of crude oil and petroleum products, natural gas trading activities, natural gas liquids marketing and provide a variety of other products and services to the energy industry. Williams Holdings' telecommunications subsidiaries offer data, voice and video-related products and services and customer premise equipment nationwide. Williams Holdings also has certain other equity investments. See Note 5 of Notes to Consolidated Financial Statements.

WILLIAMS FIELD SERVICES GROUP, INC. (WILLIAMS FIELD SERVICES)

Williams Field Services, through subsidiaries, owns and/or operates both regulated and nonregulated natural gas gathering and processing facilities and owns and operates natural gas leasehold properties. In 1995 and 1994, gathering and processing activities represented 98 percent and 89 percent, respectively, of Williams Field Services' operating profit. Natural gas production represented the balance.

In 1995, Williams Field Services completed an expansion of its Manzanares coal seam gas gathering systems in northwestern New Mexico increasing capacity of the systems to over 1 Bcf of gas per day. A plant expansion in the Wamsutter field of south-central Wyoming completed in the fourth quarter of 1995 increased capacity of this field to 240 MMcf of gas per day. Also in 1995, Williams Field Services completed the construction of a 75 MMcf of gas per day processing plant in the Oklahoma Panhandle.

Effective May 1, 1995, the Company transferred to Williams Field Services the operation of certain production area transmission assets and certain gathering and processing assets which the Company had acquired as of such date from Transco Energy Company. The production area transmission assets consist of approximately 3,500 miles of pipeline located in gas producing areas offshore and onshore in Texas and Louisiana which are currently owned by Transco and classified by FERC as interstate transmission lines. The gathering assets consist of nonjurisdictional and intrastate gas gathering lines located offshore and onshore in Texas. Such facilities consist of approximately 28 miles of gathering pipelines. The processing assets consist of two natural gas processing facilities. The first is a 50 percent joint ownership interest in a processing facility with a 500 MMcf per day capacity located in southwestern Louisiana and the second is a 50 percent partnership interest in a 60 MMcf per day cryogenic extraction facility located in south Texas.

In June 1995, Williams Field Services acquired the natural gas gathering and processing assets of Public Service Company of New Mexico located in the San Juan and Permian basins of New Mexico for \$154 million. Williams Field Services immediately thereafter sold the southeastern New Mexico portion of the acquired assets for \$14.2 million. The assets retained consist of approximately 1,400 miles of gathering pipelines and three gas processing plants which have an aggregate daily inlet capacity of 300 MMcf of gas.

Williams Field Services' first nonregulated merchant power plant is scheduled to begin operation in New Mexico in 1996. The \$53 million 62-megawatt facility, powered by coal-seam gas, will produce electricity, which will be sold under a long-term contract. Other areas on Williams Field Services' system hold the potential for similar cogeneration investments.

Gathering and Processing

Williams Field Services, through subsidiaries, owns and operates natural gas gathering and processing facilities located in the San Juan Basin in northwestern New Mexico and southwestern Colorado, southwest Wyoming, the Rocky Mountains of Utah and Colorado, northwest Oklahoma, Louisiana and also in areas offshore and onshore in Texas. Williams Field Services, through subsidiaries, also operates natural gas gathering and processing facilities located in the Texas Panhandle and the Hugoton Basin in northwest

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:

	1995	1994	1993
	-----	----	----
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.

Customers and Operations. As of December 31, 1995, the gross and net developed leasehold acres owned by Williams Field Services totaled 261,973 and 107,046, respectively, and the gross and net undeveloped acres owned were 152,977 and 44,296, respectively. As of such date, Williams Field Services owned interests in 2,795 gross producing wells (496 net) on its leasehold lands. The following table summarizes drilling activity for the periods indicated:

COMPLETED DURING -----	DEVELOPMENT -----	
	GROSS WELLS	NET WELLS
1995.....	61	22
1994.....	66	19
1993.....	39	5

The majority of Williams Field Services' gas production is currently being sold in the spot market at market prices. Total net production sold during 1995, 1994 and 1993 was 25.9 TBtu, 22.6 TBtu and 16.3 TBtu, respectively. The average production costs per MMBtu of gas produced were \$.14, \$.14 and \$.17 in 1995, 1994 and 1993, respectively. The average sales price per MMBtu was \$.88, \$1.21 and \$1.44, respectively, for the same periods.

In 1993, Williams Field Services conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Trust Units were subsequently sold to the public by Williams in an underwritten public offering. The Company holds 3,568,791 Trust Units representing 36.8 percent of outstanding Units. Substantially all of the production attributable to the properties conveyed to the Trust was from the Fruitland coal formation and constituted coal seam gas. Proved developed coal seam gas reserves at December 31, 1995, attributed to the properties conveyed were 163 Bcf. Production information reported herein includes Williams Field Services' interest in such Units.

Regulatory Matters

Historically, an issue has existed as to whether FERC has authority under the Natural Gas Act to regulate gathering and processing prices and services. During 1994, after reviewing its legal authority in a Public Comment Proceeding, FERC determined that while it retains some regulatory jurisdiction over gathering and processing performed by interstate pipelines, pipeline affiliated gathering and processing companies are outside its authority under the Natural Gas Act. Orders issued in 1994 which implement FERC's conclusion that it lacks jurisdiction have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Williams Field Services cannot predict the ultimate outcome of these proceedings.

As a result of these FERC decisions, several of the individual states in which Williams Field Services operates may consider whether to impose regulatory requirements on gathering companies. No state currently regulates Williams Field Services' gathering or processing rates or services.

Competition

Williams Field Services competes for gathering and processing business with interstate and intrastate pipelines, producers and independent gatherers and processors. Numerous factors impact any given customer's choice of a gathering or processing services provider, including rate, term, timeliness of well connections, pressure obligations and the willingness of the provider to process for either a fee or for liquids taken in-kind.

Ownership of Property

Williams Field Services' gathering and processing facilities are owned in fee. Gathering systems are constructed and maintained pursuant to rights-of-way, easements, permits, licenses and consents on and across properties owned by others. The compressor stations and gas processing and treating facilities are located in whole or in part on lands owned by Williams Field Services or on sites held under leases or permits issued or approved by public authorities.

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)

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

Regulatory Matters

Management believes that WESCO's natural gas trading activities are conducted in substantial compliance with the marketing affiliate rules of FERC Order 497. Order 497 imposes certain nondiscrimination, disclosure and separation requirements upon interstate natural gas pipelines with respect to their natural gas trading affiliates. WESCO has taken steps to ensure it does not share employees with affiliated interstate natural gas pipelines and does not receive information from such affiliates that is not also available to unaffiliated natural gas trading companies.

Competition

WESCO's gas trading operations are in direct competition with large independent gas marketers, marketing affiliates of regulated pipelines and natural gas producers. The financial trading business competes with other energy-based companies offering similar services as well as certain brokerage houses. This level of competition contributes to a business environment of constant pricing and margin pressure.

Ownership of Property

The primary assets of WESCO are its term contracts, employees and related technological support. Costs to develop the information products and certain trading systems have been capitalized.

Environmental Matters

WESCO is subject to federal, state and local laws and regulations relating to the environmental aspects of its business. Management believes that WESCO is in substantial compliance with existing environmental legal requirements for its business. 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 WESCO.

WILLIAMS PIPE LINE COMPANY (WILLIAMS PIPE LINE)

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

Shippers and Pipeline System

At December 31, 1995, the system traversed approximately 7,000 miles of right-of-way and included over 9,200 miles of pipeline in various sizes up to 16 inches in diameter. The system includes 82 pumping stations, 23 million barrels of storage capacity and 47 delivery terminals. The terminals are equipped to deliver refined products into tank trucks and tank cars. The maximum number of barrels which the system can transport per day depends upon the operating balance achieved at a given time between various segments of the system. Since the balance is dependent upon the mix of products to be shipped and the demand levels at the various delivery points, the exact capacity of the system cannot be stated.

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.....	216,994	203,245	185,638
	=====	=====	=====
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
	-----	-----	-----
	\$242.7	\$209.7	\$179.3
	=====	=====	=====
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.

Regulatory Matters

General. Williams Pipe Line, as an interstate common carrier pipeline, is subject to the provisions and regulations of the Interstate Commerce Act. Under this Act, Williams Pipe Line is required, among other things, to establish just, reasonable and nondiscriminatory rates, to file its tariffs with FERC, to keep its records and accounts pursuant to the Uniform System of Accounts for Oil Pipeline Companies, to make annual reports to FERC and to submit to examination of its records by the audit staff of FERC. Authority to regulate rates, shipping rules and other practices and to prescribe depreciation rates for common carrier pipelines is exercised by FERC. The Department of Transportation, as authorized by the 1992 Pipeline Safety Reauthorization Act, is the oversight authority for interstate liquids pipelines. Williams Pipe Line is also subject to the provisions of various state laws which are applicable to intrastate pipelines.

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

The FERC's Phase I order, as modified by a rehearing decision, has found that Williams Pipe Line lacks significant market power and is workably competitive in 20 of the 32 markets under investigation. A shipper has appealed this decision to the United States Court of Appeals for the District of Columbia Circuit which has stayed the appeal proceedings until Phase II has been completed. Williams Pipe Line filed its direct evidence in Phase II on January 23, 1995. In this filing, Williams Pipe Line departed from the more traditional cost allocation methodology in lieu of an overall total system revenue requirement and stand-alone cost ceiling in conjunction with incremental and short-run marginal cost floors. The hearings began December 4, 1995, and concluded January 19, 1996. The current procedural schedule forecasts an initial decision in Phase II in mid-year 1996. While Williams Pipe Line cannot predict the final outcome of these proceedings, it believes its revised tariffs will ultimately be found lawful. See Note 17 of Notes to Consolidated Financial Statements.

Competition

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

Competition exists from other pipelines, refineries, barge traffic, railroads and tank trucks. Competition is affected by trades of products or crude oil between refineries which have access to the system and by trades among brokers, traders and others who control products. Such trades can result in the diversion from the Williams Pipe Line system of volume which might otherwise be transported on the system. Shorter, lower revenue hauls may also result from such trades. Williams Pipe Line also is exposed to interfuel competition whereby an energy form shipped by a liquids pipeline, such as heating fuel, is replaced by a form not transported by a liquids pipeline, such as electricity or natural gas. While Williams Pipe Line faces competition from a variety of sources throughout its marketing areas, the principal competition is other pipelines. A number of pipeline systems, competing on a broad range of price and service levels, provide transportation service to various areas served by the system. The possible construction of additional competing products or crude oil pipelines, conversions of crude oil or natural gas pipelines to products transportation, changes in refining capacity, refinery closings, changes in the availability of crude oil to refineries located in its

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

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. (WILTEL)

WilTel provides data, voice and video communications products and services to a wide variety of customers nationally. WilTel 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. WilTel 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. WilTel's customer base ranges from Fortune 500 corporations and the Federal Government to small privately-owned entities.

WilTel 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

hubs and cabling. WilTel's services also include the design, configuration and installation of voice and data networks and the management of customers' telecommunications operations and facilities. WilTel's National Technical Resource Center provides customers with on-line order entry and trouble reporting services, advanced technical assistance and training. Other service capabilities include Local Area Network and PBX remote monitoring and toll fraud detection.

In March 1994, WilTel acquired BellSouth's customer premise equipment sales and service operations in 29 states outside of BellSouth's local operating region in the nine southeastern-most states, and in October 1994, acquired Jackson Voice Data, a New York City-based customer premise equipment company. In 1996, WilTel acquired Comlink, Incorporated, a Massachusetts-based data and customer premise equipment company. The acquisition of these businesses has allowed WilTel to capitalize on its existing infrastructure, strengthen its national market presence and geographic customer density and has provided more diversity in product offerings.

Operating Statistics

The following table summarizes the results of operations for the periods indicated (dollars and ports in millions):

	1995	1994	1993
	-----	-----	-----
Revenues.....	\$ 494.9	\$ 396.6	\$ 302.8
Percentage of revenues by type of service:			
New system sales.....	34%	33%	39%
System modifications.....	39%	36%	30%
Maintenance.....	25%	24%	23%
Other.....	2%	7%	8%
Operating profit.....	\$ 28.3	\$ 18.9	\$ 9.5
Backlog.....	\$ 85.0	\$ 92.4	\$ 52.0
Total ports.....	4.7	4.1	2.7

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

In 1995, WilTel derived approximately 66 percent of its revenues from its existing customer base and approximately 34 percent from the sale of new telecommunications systems. WilTel's three largest suppliers accounted for 89 percent of equipment sold in 1995. A single manufacturer supplied 76 percent of all equipment sold. In this case, WilTel is the largest distributor of certain of this company's products. About 64 percent of WilTel's active customer base consists of this manufacturer's products. The distribution agreement with this supplier is scheduled to expire at the end of 1997. This agreement is expected to be renewed upon expiration. Management believes there is minimal risk as to the availability of product from suppliers.

Competition

WilTel has many competitors ranging from AT&T and the Regional Bell Operating Companies to small individually-owned companies which sell and service customer premise equipment. Competitors include companies that sell equipment that is comparable or identical to that sold by WilTel. (See discussion of telecommunications reform legislation below).

Regulatory Matters

The equipment sold by WilTel must meet the requirements of Part 68 of the Federal Communications Commission ("FCC") rules governing the equipment registration, labelling and connection of equipment to telephone networks. WilTel relies on the equipment manufacturers' compliance with these requirements for its own compliance regarding the equipment it distributes. A subsidiary of WilTel, which provides intrastate

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.

OTHER INFORMATION

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

A plant site in Pensacola, Florida, that was previously operated by a former subsidiary of Williams, has been placed on the National Priorities List. This former subsidiary has also been identified as a potentially responsible party at a National Priorities List cleanup site in Michigan. A third site, located in Lakeland, Florida, which was formerly owned and operated by this subsidiary, is under investigation by the Florida Department of Environmental Protection and cleanup is anticipated. Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of insurance coverage, contribution or other indemnification arrangements, will have a material adverse financial effect on the Company. See Note 17 of Notes to Consolidated Financial Statements.

At December 31, 1995, the Company had approximately 10,000 full-time employees, of whom approximately 1,350 were represented by unions and covered by collective bargaining agreements. The Company considers its relations with its employees to be generally good.

FORWARD-LOOKING INFORMATION

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

As required by such Act, the Company hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Company in forward-looking statements: (i) risks and uncertainties impacting the Company as a whole primarily relate to changes in general economic conditions in the United States, changes in laws and regulations to which the Company is subject, including tax, environmental and employment laws and regulations, the cost and effects of legal and administrative claims and proceedings against the Company or its subsidiaries or which may be brought against the Company or its subsidiaries and conditions of the capital markets utilized by the Company to access capital to finance operations; (ii) for the Company's regulated businesses, risks and uncertainties primarily relate to the impact of future federal and state regulation of business activities, including allowed rates of return; and (iii) risks and uncertainties associated with the Company's nonregulated businesses primarily relate to the ability of such entities to develop expanded markets and product offerings as well as maintaining existing markets. In addition, future utilization of pipeline capacity will depend on energy prices, competition from other pipelines and alternate fuels, the general level of natural gas and petroleum product demand and weather conditions, among other things. Further, gas prices which directly impact transportation and gathering and processing throughput and operating profits may fluctuate in unpredictable ways. It is also not possible to predict which of many possible future products and service offerings will be important to maintaining a competitive position in the telecommunications business or what expenditures will be required to develop and provide such products and services.

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

Williams has no significant foreign operations.

ITEM 2. PROPERTIES

See Item 1(c) for description of properties.

ITEM 3. LEGAL PROCEEDINGS

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:

NAME	AGE	POSITIONS AND OFFICES HELD	HELD OFFICE SINCE
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.

PART II

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

Williams' Common Stock is listed on the New York and Pacific Stock Exchanges under the symbol "WMB." At the close of business on December 31, 1995, Williams had 11,933 holders of record of its Common Stock. The daily closing price ranges (composite transactions) and dividends declared by quarter for each of the past two years are as follows:

QUARTER	1995			1994		
	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
1st.....	\$30-7/8	\$24-7/8	\$.27	\$27-1/4	\$22-3/4	\$.21
2nd.....	\$35-3/8	\$30-1/4	\$.27	\$30-1/8	\$22-1/8	\$.21
3rd.....	\$39-1/8	\$34-5/8	\$.27	\$32-7/8	\$28-3/8	\$.21
4th.....	\$44-1/2	\$37-5/8	\$.27	\$30-1/4	\$24-1/8	\$.21

In January 1996, the Board of Directors of the Company approved a 25.9 percent increase in the Common Stock dividend. The dividend approved for the first quarter of 1996 was \$.34 per share.

Terms of certain subsidiaries' borrowing arrangements limit transfer of funds to Williams. These terms have not impeded, nor are they expected to in the future, Williams' ability to meet its cash obligations. See Note 13 of Notes to Consolidated Financial Statements.

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.

Texas Gas Transmission's revenues were \$276.3 million in 1995, while costs and expenses were \$212 million and operating profit was \$64 million. Throughput was 653.4 TBtu in 1995 (for the period subsequent to the acquisition date). Texas Gas placed new, higher rates into effect April 1, 1995, subject to refund.

Williams Field Services Group's revenues increased \$216.1 million, or 58 percent, due primarily to \$172 million higher gathering revenues in addition to higher natural gas sales. Gathering revenues increased due primarily to a 102 percent increase in gathering volumes, including \$131 million attributable to Transco Energy's Gulf Coast gathering operations, combined with an increase in average gathering prices, excluding Gulf Coast operations. Natural gas sales increased due to higher volumes, partially offset by lower average prices. Liquids and processing volumes increased 6 percent and 4 percent, respectively. Costs and operating expenses increased \$171 million, or 79 percent, and selling, general and administrative expenses increased \$28 million, or 89 percent, with Transco Energy's activities contributing \$102 million and \$13 million, respectively. In addition, costs and operating expenses increased from higher natural gas purchase volumes and expanded facilities. Other income -- net includes \$12 million in operating profit from the net effect of two unrelated items. One was \$20 million of income from the favorable resolution of contingency issues involving previously regulated gathering and processing assets. This was partially offset by an \$8 million accrual for a future minimum price natural gas commitment. Operating profit increased \$28.3 million, or 22 percent, primarily resulting from the \$12 million in other income and a doubling of gathering volumes, primarily a result of Transco Energy's gathering activities. Partially offsetting these increases was the effect of lower natural gas prices. Operating profit in 1994 included approximately \$12 million in favorable settlements and adjustments of certain prior period accruals, including income of \$4 million from an adjustment to operating taxes.

Williams Energy Services' revenues and costs and operating expenses decreased \$177.9 million and \$238 million, respectively. The addition of Transco Energy's gas trading activities was more than offset by the reporting of 1995 natural gas marketing activities on a net-margin basis (see Note 15). Natural gas physical trading volumes increased to 753.8 TBtu in 1995 compared to 147.8 TBtu in 1994, primarily from the effect of the Transco Energy acquisition. Operating profit increased \$29.5 million from \$500,000 in 1994. Trading activities' operating profit increased \$34 million, attributable primarily to income recognition from long-term natural gas supply obligations and no-notice service provided to local distribution companies. Included in trading activities is a price-risk management adjustment of \$4 million from the valuation of certain natural gas supply and sales contracts previously excluded from trading activities. These increases were partially offset by \$6 million of loss provisions, primarily accruals for contract disputes, and increased costs of supporting its information services business. As a result of Williams Energy Services' price-risk management and trading activities, it is subject to risk from changes in energy commodity market prices, the portfolio position of its financial instruments and credit risk. Williams Energy Services manages its portfolio position by making commitments which manage risk by maintaining its portfolio within established trading policy guidelines.

Williams Pipe Line's revenues (including Williams Energy Ventures) increased \$39.5 million, or 13 percent, due to an increase in transportation and non-transportation revenues of \$9 million and \$30.5 million, respectively. Shipments, while 7 percent higher than 1994, were reduced by the November 1994 fire at our truck-loading rack and unfavorable weather conditions in the first half of 1995. The average transportation rate per barrel and average length of haul were slightly below 1994 due primarily to shorter haul movements. The increase in non-transportation revenues reflects \$84 million from the acquisition of Pekin Energy in August 1995 and increased gas liquids operations of \$16 million, largely offset by \$62 million related to lower petroleum-product services due to adverse market conditions and a \$15 million decrease in refined-product sales due to the unavailability of certain refined-product supplies. Costs and expenses increased \$22 million, or 8 percent, due primarily to increased operating expenses associated with transportation and non-transportation activities. Operating profit (including Williams Energy Ventures) increased \$17.8 million, or 34 percent, due primarily to higher transportation revenues of \$9 million and non-transportation activities of \$8.8 million. Non-transportation includes \$3 million related to the acquisition of Pekin Energy and the absence of \$5 million of costs in 1994 for evaluating and determining whether to build an oil refinery near

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).

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

The 1994 extraordinary loss results from the early extinguishment of debt (see Note 8). Preferred stock dividends increased \$6.5 million as a result of the May 1995 issuance of 2.5 million shares of Williams \$3.50 cumulative convertible preferred stock in exchange for Transco Energy's \$3.50 cumulative convertible preferred stock (see Note 14) in addition to the \$3.5 million premium on exchange of \$2.21 cumulative preferred stock for debentures.

1994 vs. 1993

Northwest Pipeline's revenues decreased \$38 million, or 14 percent, as expanded firm transportation service was more than offset by the absence of natural gas sales following the fourth-quarter 1993 implementation of FERC Order 636 and \$10 million resulting from the 1994 completion of contract-reformation surcharges. Total mainline throughput increased 9 percent. Firm transportation service increased due to a mainline expansion, supported by 15-year firm transportation contracts, being placed into service on April 1, 1993. Northwest Pipeline placed new, increased transportation rates into effect on November 1, 1994, and April 1, 1993, subject to refund. The April 1, 1993, rates reflected the new mainline expansion and straight-fixed-variable rate design that moderates seasonal swings in operating revenues. Costs and operating expenses decreased \$43 million, or 32 percent, due primarily to the absence of natural gas purchase volumes of \$41 million and the completion of contract-reformation amortization, slightly offset by increased operating expenses primarily related to the full-year effect on 1994 of the mainline expansion. Operating profit increased \$5.3 million, or 5 percent, due primarily to expanded firm transportation service related to the company's mainline system expansion.

Williams Natural Gas' revenues decreased \$62.8 million, or 21 percent, primarily as a result of the absence of natural gas sales resulting from implementation of FERC Order 636 on October 1, 1993. The decrease in revenues was partially offset by the implementation of new rates required by the Order, direct billing of net purchased gas cost adjustment amounts of approximately \$40 million and higher direct billing of recoverable contract-reformation costs of approximately \$17 million. Costs and operating expenses decreased \$67 million, or 30 percent, primarily as a result of approximately \$120 million lower gas purchase costs resulting from the implementation of FERC Order 636, partially offset by the costs that were direct billed as discussed above. Operating profit increased \$7.8 million, or 19 percent, primarily as a result of the full-year effect of new rates, implementation of Order 636 and the reversal of excess contract-reformation accruals recorded in other income -- net (\$7.4 million in 1994 and \$2.5 million in 1993), partially offset by the absence of the regulatory accounting effect of an income tax rate increase in 1993 (which was offset in income tax expense). FERC Order 636 utilizes a straight-fixed-variable rate design that is applied to each customer's annual firm contract demand for transportation.

Williams Field Services Group's revenues decreased \$56.5 million, or 13 percent, due primarily to \$71 million in lower natural gas sales revenues as a result of the March 1993 sale of Williams' intrastate natural gas pipeline system and related marketing operations in Louisiana, \$9 million in lower liquids revenues and lower average processing prices. Partially offsetting were higher gathering and processing revenues of \$22 million and \$8 million, respectively, from increased volumes of 13 percent and 21 percent, respectively. Increased other revenues in 1994 were offset by a 1993 favorable settlement involving processing revenues from prior periods. Costs and operating expenses decreased \$59 million, or 21 percent, due primarily to lower natural gas purchases of \$66 million and the effects of a favorable adjustment of an accrual related to operating taxes, partially offset by higher operations, maintenance and depreciation expenses at expanded gathering facilities. Operating profit increased \$2.6 million, or 2 percent, due primarily to higher gathering and processing volumes and a \$4 million favorable operating taxes adjustment, partially offset by \$5 million of lower per-unit liquids margins, lower average processing prices and higher operations, maintenance and depreciation expenses associated with expanded facilities.

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

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 FAS No. 112, "Employers' Accounting for Postemployment Benefits," which relates to postemployment benefits being paid to employees of companies previously sold. Other income (expense)-- net in 1993 includes \$6 million of expense accruals for certain costs associated with businesses previously sold, offset by \$6 million of equity AFUDC related to the Northwest Pipeline mainline expansion.

The \$30.9 million decrease in the provision for income taxes on continuing operations is primarily a result of lower pre-tax income and the \$15.8 million cumulative effect in 1993 of the 1 percent increase in the federal income tax rate. 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. The effective income tax rate in 1993 is higher than the statutory rate, primarily because of the effect of the federal income tax rate increase and state income taxes, partially offset by income tax credits from coal-seam gas production (see Note 7).

The network services operations of Williams have been presented in the Consolidated Financial Statements as discontinued operations (see Note 3). Income from discontinued operations more than doubled to \$94 million. The increase reflects a 93 percent increase in switched services minutes and a 24 percent increase in private line billable circuits. These increases more than offset a major carrier's long-expected removal of traffic from Williams' system to the carrier's expanded network. Income was also impacted by a decrease in interest accrued due to the early extinguishment of network services' long-term debt. The effective income tax rate for both 1994 and 1993 is greater than the federal statutory rate, due to the effect of state income taxes.

The extraordinary loss results from early extinguishment of debt (see Note 8). Preferred stock dividends decreased, reflecting the redemption of 3,000,000 shares of outstanding \$3.875 convertible exchangeable preferred stock during the second quarter of 1993 (see Note 14).

FINANCIAL CONDITION AND LIQUIDITY

Liquidity

Williams considers its liquidity to come from two sources: internal liquidity, consisting of available cash investments, and external liquidity, consisting of borrowing capacity from available bank-credit facilities, which can be utilized without limitation under existing loan covenants. At December 31, 1995, Williams had access to \$726 million of liquidity representing the available portion of its \$800 million bank-credit facility plus cash-equivalent investments. This compares with liquidity of \$495 million at December 31, 1994, and \$639 million at December 31, 1993. The increase in 1995 is due primarily to a \$200 million increase in the capacity of the bank-credit facility (see Note 13). In January 1996, Williams Holdings of Delaware, Inc., a wholly owned subsidiary of Williams, filed a \$400 million shelf registration statement with the Securities and Exchange Commission and subsequently issued \$250 million of debt securities. During 1993, Williams filed a \$300 million shelf registration statement with the Securities and Exchange Commission, increasing the total amount available to \$400 million. The registration statement may be used to issue Williams common or preferred stock, preferred stock purchase rights, debt securities, warrants to purchase Williams common stock or warrants to purchase debt securities. Williams does not anticipate the need for additional financing arrangements; however, Williams believes such arrangements could be obtained on reasonable terms if required.

Williams had a net working-capital deficit of \$706 million at December 31, 1995, compared with \$17 million at December 31, 1994. Williams manages its borrowings to keep cash and cash equivalents at a minimum and has relied on bank-credit facilities to provide flexibility for its cash needs. As a result, it historically has reported negative working capital. The increase in the working-capital deficit at December 31, 1995, as compared to the prior year-end is primarily a result of higher 1995 levels of accounts payable and accrued liabilities (see Note 12) and the effect of the 1994 net assets of discontinued operations (see Note 3).

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.

Williams also repurchased 258,800 shares of its \$2.21 cumulative preferred stock on the open market for \$6 million in 1994.

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 7,600,000 shares of Williams common stock.

Long-term debt at December 31, 1995, was \$2.9 billion, compared with \$1.3 billion at December 31, 1994, and \$1.6 billion at December 31, 1993. The increase in long-term debt is due primarily to the \$2 billion outstanding debt assumed as a result of the Transco Energy acquisition. The long-term debt to debt-plus-equity ratio was 47.4 percent at year-end, compared with 46.5 percent and 48.2 percent at December 31, 1994 and 1993, respectively. Included in long-term debt due within one year at December 31, 1994, was \$350 million outstanding under Williams' revolving credit loan.

See Note 8 for information regarding early extinguishment of debt by Williams and one of its subsidiaries during 1994.

Investing Activities

Net cash provided (used) by investing activities was: 1995 -- \$585 million; 1994 -- (\$427) million; and 1993 -- (\$277) million. Capital expenditures of pipeline subsidiaries, including gathering and processing facilities, primarily to expand and modernize systems, were \$734 million in 1995; \$272 million in 1994; and \$405 million in 1993. Capital expenditures for discontinued operations were \$143 million and \$101 million in 1994 and 1993, respectively, primarily to expand and enhance Williams' network services operations network. Expenditures in 1995 include Transcontinental Gas Pipe Line and Northwest Pipeline's expansions as well as expansion of gathering and processing facilities. Expenditures in 1994 include Northwest Pipeline's additional mainline expansion and the expansion of various gathering and processing facilities. Expenditures in 1993 include the completion of Northwest Pipeline's first mainline expansion and the expansion of various gathering and processing facilities. Budgeted capital expenditures and acquisitions for 1996 are approximately \$1.3 billion, primarily to expand pipeline systems and gathering and processing facilities, expand the telecommunications network and acquire the remaining interest in Kern River Gas Transmission.

During 1995, Williams received proceeds of \$124 million from the sale of its 15 percent interest in Texasgulf Inc. (see Note 5). During 1994, Williams received net proceeds of \$80 million from the sale of limited partner units in Northern Border Partners, L.P. During 1993, Williams received net proceeds of \$113 million from the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust. In addition, Williams sold its intrastate natural gas pipeline system and other related assets in Louisiana for \$170 million (see Note 6).

During 1995, in addition to the Transco Energy acquisition (see Note 2), Williams acquired the Gas Company of New Mexico's natural gas gathering and processing assets in the San Juan and Permian basins for \$154 million (including approximately 10 percent of which was immediately sold to a third party) and Pekin Energy Co., the nation's second largest ethanol producer, for \$167 million in cash.

EFFECTS OF INFLATION

Williams has experienced increased costs in recent years due to the effects of inflation. However, approximately 55 percent of Williams' property, plant and equipment was acquired or constructed during 1995, while the remainder was purchased or constructed since 1982, a period of relatively low inflation. A substantial portion of Williams' property, plant and equipment is subject to regulation, which limits recovery to historical cost. While Williams believes it will be allowed the opportunity to earn a return based on the actual cost incurred to replace existing assets, competition or other market factors may limit the ability to recover such increased costs.

ENVIRONMENTAL

Williams is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes. The sites, some of which are not currently owned by Williams (see Note 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT AUDITORS

To The Stockholders of
The Williams Companies, Inc.

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 1995 and 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Tulsa, Oklahoma
February 9, 1996

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
	1995	1994*	1993*
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Revenues:			
Williams Interstate Natural Gas Systems (Note 4).....	\$1,431.1	\$ 469.8	\$ 570.6
Williams Field Services Group.....	591.8	375.7	432.2
Williams Energy Services (Note 15).....	85.8	263.7	360.8
Williams Pipe Line.....	350.2	310.7	180.5
WilTel.....	494.9	396.6	302.8
WilTech Group.....	44.0	20.0	13.5
Other.....	17.4	--	--
Intercompany eliminations (Note 16).....	(159.5)	(85.4)	(67.0)
Total revenues.....	2,855.7	1,751.1	1,793.4
Profit-center costs and expenses:			
Costs and operating expenses.....	1,700.7	1,187.7	1,283.9
Selling, general and administrative expenses.....	488.8	229.2	203.2
Other income -- net.....	(4.5)	(8.1)	(7.8)
Total profit-center costs and expenses.....	2,185.0	1,408.8	1,479.3
Operating profit (loss):			
Williams Interstate Natural Gas Systems (Note 4).....	389.7	152.9	139.8
Williams Field Services Group.....	157.6	129.3	126.7
Williams Energy Services.....	30.0	.5	7.9
Williams Pipe Line.....	69.8	52.0	47.2
WilTel.....	28.3	18.9	9.5
WilTech Group.....	(3.3)	(11.3)	(17.0)
Other.....	(1.4)	--	--
Total operating profit.....	670.7	342.3	314.1
General corporate expenses.....	(37.7)	(28.0)	(38.4)
Interest accrued.....	(277.9)	(145.8)	(151.2)
Interest capitalized.....	14.5	6.0	10.4
Investing income (Note 5).....	93.9	49.6	65.2
Gain (loss) on sales of assets (Notes 5 and 6).....	(12.6)	22.7	97.5
Write-off of project costs (Note 6).....	(41.4)	--	--
Other income (expense) -- net.....	(8.1)	(.2)	.4
Income from continuing operations before income taxes.....	401.4	246.6	298.0
Provision for income taxes (Note 7).....	102.0	81.7	112.6
Income from continuing operations.....	299.4	164.9	185.4
Income from discontinued operations (Note 3).....	1,018.8	94.0	46.4
Income before extraordinary loss.....	1,318.2	258.9	231.8
Extraordinary loss (Note 8).....	--	(12.2)	--
Net income.....	1,318.2	246.7	231.8
Preferred stock dividends (Note 14).....	15.3	8.8	11.8
Income applicable to common stock.....	\$1,302.9	\$ 237.9	\$ 220.0

* Reclassified as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME -- (CONCLUDED)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
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.....	\$ 12.77	\$2.32	\$2.20
	=====	=====	=====
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.....	\$ 12.48	\$2.32	\$2.16
	=====	=====	=====

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	DECEMBER 31,	
	----- 1995	1994 -----
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)	
Current assets:		
Cash and cash equivalents.....	\$ 90.4	\$ 36.1
Receivables less allowance of \$11.3 (\$7.9 in 1994).....	525.0	443.1
Transportation and exchange gas receivable.....	152.3	9.2
Inventories (Note 10).....	189.0	112.3
Net assets of discontinued operations (Note 3).....	--	743.6
Deferred income taxes (Note 7).....	213.9	57.1
Other.....	173.2	55.4
	-----	-----
Total current assets.....	1,343.8	1,456.8
Investments (Note 5).....	307.6	379.1
Property, plant and equipment -- net (Note 11).....	8,014.7	3,124.0
Other assets and deferred charges.....	828.7	266.2
	-----	-----
Total assets.....	\$10,494.8	\$5,226.1
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable (Note 13).....	\$ --	\$ 507.0
Accounts payable (Note 12).....	472.0	205.8
Transportation and exchange gas payable.....	127.8	16.7
Accrued liabilities (Note 12).....	1,130.2	361.4
Long-term debt due within one year (Note 13).....	319.9	383.0
	-----	-----
Total current liabilities.....	2,049.9	1,473.9
Long-term debt (Note 13).....	2,874.0	1,307.8
Deferred income taxes (Note 7).....	1,568.2	662.9
Other liabilities.....	815.6	276.0
Contingent liabilities and commitments (Note 17)		
Stockholders' equity (Note 14):		
Preferred stock, \$1 par value, 30,000,000 shares authorized, 3,739,452 shares issued in 1995 and 4,000,000 shares issued in 1994.....	173.5	100.0
Common stock, \$1 par value, 240,000,000 shares authorized, 105,337,948 shares issued in 1995 and 104,401,819 shares issued in 1994.....	105.3	104.4
Capital in excess of par value.....	1,051.1	991.0
Retained earnings (Note 13).....	1,915.6	716.5
Unamortized deferred compensation.....	(2.3)	(1.3)
	-----	-----
	3,243.2	1,910.6
Less treasury stock (at cost), 1,573,203 shares of common stock in 1995 and 13,516,994 shares of common stock in 1994, 401,600 shares of preferred stock in 1995 and 258,800 shares of preferred stock in 1994.....	(56.1)	(405.1)
	-----	-----
Total stockholders' equity.....	3,187.1	1,505.5
	-----	-----
Total liabilities and stockholders' equity.....	\$10,494.8	\$5,226.1
	=====	=====

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	UNAMORTIZED DEFERRED COMPENSATION	TREASURY STOCK	TOTAL
	-----	-----	-----	(MILLIONS)	-----	-----	-----
Balance, December 31, 1992.....	\$ 250.0	\$ 92.3	\$ 755.4	\$ 421.3	\$ (.7)	\$ --	\$1,518.3
Net income -- 1993.....	--	--	--	231.8	--	--	231.8
Cash dividends --							
Common stock (\$.78 per share).....	--	--	--	(77.6)	--	--	(77.6)
Preferred stock (Note 14).....	--	--	--	(11.8)	--	--	(11.8)
Issuance of shares -- 3,174,439							
common.....	--	3.2	55.2	--	(1.7)	--	56.7
Conversion of preferred stock (Note							
14).....	(150.0)	7.6	141.8	--	--	--	(.6)
Tax benefit of non-qualified stock							
option exercises.....	--	--	6.7	--	--	--	6.7
Amortization of deferred							
compensation.....	--	--	--	--	.5	--	.5
Balance, December 31, 1993.....	100.0	103.1	959.1	563.7	(1.9)	--	1,724.0
Net income -- 1994.....	--	--	--	246.7	--	--	246.7
Cash dividends --							
Common stock (\$.84 per share).....	--	--	--	(85.1)	--	--	(85.1)
Preferred stock (Note 14).....	--	--	--	(8.8)	--	--	(8.8)
Issuance of shares -- 1,596,409							
common.....	--	1.3	30.1	--	(1.3)	8.1	38.2
Purchase of treasury stock --							
Common 13,790,089.....	--	--	--	--	--	(406.8)	(406.8)
Preferred 258,800.....	--	--	--	--	--	(6.4)	(6.4)
Tax benefit of non-qualified stock							
option exercises.....	--	--	1.8	--	--	--	1.8
Amortization of deferred							
compensation.....	--	--	--	--	1.9	--	1.9
Balance, December 31, 1994.....	100.0	104.4	991.0	716.5	(1.3)	(405.1)	1,505.5
Net income -- 1995.....	--	--	--	1,318.2	--	--	1,318.2
Cash dividends --							
Common stock (\$1.08 per share).....	--	--	--	(107.2)	--	--	(107.2)
Preferred stock (Note 14).....	--	--	--	(11.9)	--	--	(11.9)
Issuance of shares --							
12,879,920 common.....	--	.9	58.8	--	(1.7)	352.7	410.7
2,500,000 preferred.....	142.5	--	--	--	--	--	142.5
Exchange of shares for debentures --							
2,760,548 preferred (Note 14).....	(69.0)	--	(3.5)	--	--	--	(72.5)
Purchase of treasury stock --							
142,800 preferred.....	--	--	--	--	--	(3.7)	(3.7)
Tax benefit of non-qualified stock							
option exercises.....	--	--	4.8	--	--	--	4.8
Amortization of deferred							
compensation.....	--	--	--	--	.7	--	.7
Balance, December 31, 1995.....	\$ 173.5	\$105.3	\$ 1,051.1	\$1,915.6	\$ (2.3)	\$ (56.1)	\$3,187.1
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(MILLIONS)		
Operating Activities:			
Net income.....	\$ 1,318.2	\$ 246.7	\$ 231.8
Adjustments to reconcile to cash provided from operations:			
Discontinued operations.....	(1,018.8)	(94.0)	(46.4)
Extraordinary loss.....	--	12.2	--
Depreciation and depletion.....	369.4	150.3	137.8
Provision for deferred income taxes.....	125.4	25.8	8.1
Write-off of project costs.....	41.4	--	--
(Gain) loss on sales of property, plant and equipment.....	(2.1)	.9	(102.0)
(Gain) loss on sale of investments.....	12.6	(22.7)	--
Changes in receivables sold.....	55.9	--	(94.7)
Changes in receivables.....	33.2	(175.0)	99.9
Changes in inventories.....	11.9	10.2	(.8)
Changes in other current assets.....	(10.2)	(2.8)	(16.9)
Changes in accounts payable.....	(6.5)	20.7	(37.6)
Changes in accrued liabilities.....	(3.3)	8.1	(43.2)
Net change in non-current unrealized trading assets and liabilities.....	(72.9)	(2.4)	--
Other, including changes in non-current assets and liabilities.....	(25.5)	1.6*	50.9
Net cash provided by continuing operations.....	828.7	179.6	186.9
Net cash provided by discontinued operations.....	--	169.4*	162.6
Net cash provided by operating activities.....	828.7	349.0	349.5
Financing Activities:			
Proceeds from notes payable.....	116.8	507.0	--
Payments of notes payable.....	(623.8)	--	--
Proceeds from long-term debt.....	399.0	480.0	--
Payments of long-term debt.....	(1,009.4)	(456.5)	(192.2)
Proceeds from issuance of common stock.....	78.1	26.4	63.4
Purchases of treasury stock.....	(3.7)	(413.2)	--
Dividends paid.....	(119.1)	(93.9)	(89.4)
Subsidiary preferred stock redemptions.....	(193.7)	--	(1.9)
Other -- net.....	(3.5)	--	(.2)
Net cash provided (used) by financing activities.....	(1,359.3)	49.8*	(220.3)
Investing Activities:			
Property, plant and equipment:			
Capital expenditures:			
Continuing operations.....	(827.5)	(325.5)	(428.3)
Discontinued operations.....	--	(142.8)	(100.8)
Proceeds from sales.....	28.2	1.6	295.4
Changes in accounts payable and accrued liabilities.....	(5.2)	19.1	(48.4)
Acquisition of businesses, net of cash acquired.....	(858.9)	(56.5)	--
Proceeds from sales of businesses.....	2,588.3	--	--
Income tax and other payments related to discontinued operations.....	(350.4)	(1.5)	(1.9)
Proceeds from sales of investments.....	125.1	80.6	8.8
Purchase of investments.....	(49.7)	(3.3)	--
Purchase of note receivable.....	(75.1)	--	--
Other -- net.....	10.1	1.3	(2.0)
Net cash provided (used) by investing activities.....	584.9	(427.0)	(277.2)
Increase (decrease) in cash and cash equivalents.....	54.3	(28.2)	(148.0)
Cash and cash equivalents at beginning of year.....	36.1	64.3	212.3
Cash and cash equivalents at end of year.....	\$ 90.4	\$ 36.1	\$ 64.3

* Reclassified to conform to current classification.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

through the receipt or delivery of gas in the future. Settlement of imbalances requires agreement between the pipelines and shippers as to allocations of volumes to specific transportation contracts and timing of delivery of gas based on operational conditions. Transcontinental Gas Pipe Line's imbalances predating August 1, 1991, are being recovered or repaid in cash or through the receipt or delivery of gas upon agreements of allocation.

Inventory valuation

Inventories are stated at cost, which is not in excess of market, except for those held by Williams Energy Services which are stated at market. Inventories of natural gas are determined using the last-in, first-out (LIFO) method by Transcontinental Gas Pipe Line and the average-cost method by other subsidiaries. Except for Williams Energy Services, inventories of petroleum products are determined using average cost. The cost of materials and supplies inventories is determined using the first-in, first-out method (FIFO) by WilTel and principally using the average-cost method by other subsidiaries.

Property, plant and equipment

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

Treasury stock

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

Revenue recognition

Revenues generally are recorded when services have been performed or products have been delivered. Williams Pipe Line bills customers when products are shipped and defers the estimated revenues for shipments in transit. Williams interstate natural gas pipelines recognize revenues based upon contractual terms and the related transportation volumes through month-end. These pipelines are subject to Federal Energy Regulatory Commission (FERC) regulations and, accordingly, certain revenues are subject to possible refunds pending final FERC orders. Williams records rate refund accruals based on management's estimate of the expected outcome of these proceedings.

Commodity price-risk management activities

Williams Energy Services enters into energy-related financial instruments (forward contracts, futures contracts, option contracts and swap agreements) to provide price-risk management services to its third-party customers. This subsidiary also enters into short- and long-term energy-related purchase and sale commitments as part of its trading business. All of these investments and commitments are valued at market and are recorded in other current assets, other assets and deferred charges, accrued liabilities and other liabilities in the Consolidated Balance Sheet. The resulting change in unrealized market gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Such market values are subject to change in the near term and reflect management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, the terms of the contract, credit considerations, time value and volatility factors underlying the positions.

Williams Energy Services reports sales of natural gas, refined products and crude oil net of the related costs to purchase such items, consistent with mark-to-market accounting for such trading activities.

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)

In connection with the acquisition, Williams made payments to retire and/or terminate approximately \$700 million of Transco Energy borrowings, preferred stock, interest-rate swaps and sale of receivable facilities. As a part of the merger, Williams exchanged Transco Energy's \$3.50 preferred stock for Williams' \$3.50 preferred stock.

The following unaudited pro forma information combines the results of operations of Williams and Transco Energy as if the purchase of 100 percent of Transco Energy occurred January 1, 1994.

	UNAUDITED	
	1995	1994
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)	
Revenues.....	\$2,916.4	\$2,660.3
Income from continuing operations.....	314.4	191.0
Income before extraordinary loss.....	1,333.2	285.0
Net income.....	1,333.2	272.8
Primary earnings per share:		
Income from continuing operations.....	2.93	1.77
Income before extraordinary loss.....	12.92	2.69
Net income.....	12.92	2.57
Fully diluted earnings per share:		
Income from continuing operations.....	2.90	1.77
Income before extraordinary loss.....	12.62	2.69
Net income.....	12.62	2.57

Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the acquisition had occurred on January 1, 1994, or of future results of operations of the combined companies.

NOTE 3 -- 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. Under the terms of the agreement, Williams retained Williams Telecommunications Systems, Inc. (WilTel), a national telecommunications equipment supplier and service company, and Vyvx, Inc. (included in WilTech Group), which operates a national video network specializing in broadcast television applications.

Summarized operating results of discontinued operations are as follows:

	1994	1993
	(MILLIONS)	
Revenues.....	\$921.8	\$663.8
Operating profit.....	163.1	97.0
Provision for income taxes.....	60.9	32.2
Income from discontinued operations.....	94.0	46.4

The assets and liabilities that were transferred to LDDS in the sale of the network services operations are presented in the Consolidated Balance Sheet on a net basis at December 31, 1994. Net assets consist of current assets (\$86.5 million), net property, plant and equipment (\$797.8 million), other assets and deferred charges (\$144.3 million), less current liabilities (\$218.3 million) and other liabilities (\$66.7 million).

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	--	--
	-----	-----	-----	-----	-----	-----
	\$1,431.1	\$469.8	\$570.6	\$389.7	\$152.9	\$139.8
	=====	=====	=====	=====	=====	=====

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	--
	-----	-----
	\$307.6	\$379.1
	=====	=====

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.....	\$ 258.0	\$ 285.0	\$ 316.9
	=====	=====	=====
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)

Investing income from continuing operations:

	1995	1994	1993
	-----	-----	-----
	(MILLIONS)		
Interest.....	\$37.2	\$ 5.5	\$10.0
Dividends.....	16.1	4.5	5.6
Equity earnings.....	40.6	39.6	49.6
	-----	-----	-----
	\$93.9	\$49.6	\$65.2
	=====	=====	=====

Dividends and distributions received from companies carried on an equity basis were \$44 million in 1995; \$43 million in 1994; and \$39 million in 1993.

NOTE 6 -- ASSET SALES AND WRITE-OFF OF PROJECT COSTS

In the fourth quarter of 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a \$41.4 million pre-tax charge. This amount includes what management believes to be a reasonable estimate of future costs of \$4 million to reclaim the site, of which it is expected that 60 percent to 70 percent will be incurred during 1996 and the remainder over a five-year period. Williams will perform the reclamation of the site in coordination with various governmental agencies and expects to receive necessary environmental releases and approvals upon completion of the reclamation.

In 1994, Williams sold 3,461,500 limited partner common units in Northern Border Partners, L.P. Net proceeds from the sale were approximately \$80 million and the sale resulted in a pre-tax gain of \$22.7 million. As a result of the sale, Williams' original 12.25 percent interest in Northern Border partnerships has been reduced to 3.2 percent.

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 Williams.

In March 1993, Williams sold its intrastate natural gas pipeline system and other related assets in Louisiana for \$170 million in cash, resulting in a pre-tax gain of \$45.9 million.

NOTE 7 -- PROVISION FOR INCOME TAXES

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

	1995	1994	1993
	-----	-----	-----
	(MILLIONS)		
Current:			
Federal.....	\$(26.5)	\$45.8	\$ 84.1
State.....	3.1	10.1	20.4
	-----	-----	-----
	(23.4)	55.9	104.5
	-----	-----	-----
Deferred:			
Federal.....	114.2	23.7	15.8
State.....	11.2	2.1	(7.7)
	-----	-----	-----
	125.4	25.8	8.1
	-----	-----	-----
Total provision.....	\$102.0	\$81.7	\$112.6
	=====	=====	=====

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:

	1995	1994	1993
	-----	-----	-----
		(MILLIONS)	
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.....	\$102.0	\$ 81.7	\$112.6
	=====	=====	=====

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:

	1995	1994*
	-----	-----
		(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.....	\$1,354.3	\$ 605.8
	=====	=====

* 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 8 -- EXTRAORDINARY LOSS

The extraordinary loss in 1994 resulted from early extinguishment of debt. Williams and one of its subsidiaries paid \$316.7 million to redeem higher interest rate debt for a \$12.2 million net loss (net of a \$7.7 million benefit for income taxes).

NOTE 9 -- EMPLOYEE BENEFIT PLANS

Pensions

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

Net pension expense consists of the following:

	1995	1994	1993
	-----	-----	-----
		(MILLIONS)	
Service cost for benefits earned during the year.....	\$ 19.5	\$ 13.9	\$ 10.9
Interest cost on projected benefit obligation.....	40.1	21.8	21.1
Actual return on plan assets.....	(120.3)	3.1	(28.3)
Amortization and deferrals.....	82.0	(24.2)	8.2
Settlement loss.....	--	--	5.7
	-----	-----	-----
Net pension expense.....	\$ 21.3	\$ 14.6	\$ 17.6
	=====	=====	=====
Net pension expense:			
Continuing operations.....	\$ 21.3	\$ 10.0	\$ 14.9
Discontinued operations.....	--	4.6	2.7
	-----	-----	-----
	\$ 21.3	\$ 14.6	\$ 17.6
	=====	=====	=====

Included in net pension expense at December 31, 1995, is approximately \$8.9 million for the Transco Energy plans' participants.

During 1993, certain supplemental retirement plan participants elected to receive lump-sum benefits, which resulted in a settlement loss of \$5.7 million.

The following table presents the funded status of the plans:

	1995	1994
	-----	-----
		(MILLIONS)
Actuarial present value of benefit obligations:		
Vested benefits.....	\$422	\$191
Non-vested benefits.....	21	10
	-----	-----
Accumulated benefit obligations.....	443	201
Effect of projected salary increases.....	137	58
	-----	-----
Projected benefit obligations.....	580	259
Assets at market value.....	550	251
	-----	-----
Assets less than projected benefit obligations.....	30	8
Unrecognized net loss.....	--	(12)
Unrecognized prior-service cost.....	(11)	(10)
Unrecognized transition asset.....	4	5
	-----	-----
Pension liability (asset).....	\$ 23	\$ (9)
	=====	=====

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1995, assets of two pension plans exceeded the projected benefit obligations with assets at market value of \$103 million and projected benefit obligations of \$57 million. At December 31, 1994, assets of two other pension plans exceeded the projected benefit obligations with assets at market value of \$238 million and projected benefit obligations of \$233 million.

Included in the net pension liability at December 31, 1995, is approximately \$32 million for the participants of the Transco Energy plans.

Williams has retained all liabilities and obligations of its network services operations' plan participants up to the date of sale (see Note 3).

The discount rate used to measure the present value of benefit obligations is 7 1/4 percent (8 1/2 percent in 1994); the assumed rate of increase in future compensation levels is 5 percent; and the expected long-term rate of return on assets is 10 percent. Plan assets consist primarily of commingled funds and assets held in a master trust. The master trust is comprised primarily of domestic and foreign common and preferred stocks, corporate bonds, United States government securities and commercial paper.

Postretirement benefits other than pensions

Williams sponsors health care plans that provide postretirement medical benefits to retired Williams' employees who were employed full time, hired prior to January 1, 1992 (January 1, 1996 for Transco Energy employees), have worked five years, attained age 55 while in service and are a participant in the company pension plans. In addition, two Transco Energy plans provide certain health care and life insurance benefits to retired employees of Transcontinental Gas Pipe Line, Texas Gas and other subsidiaries of Transco Energy.

The plans provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for the plans anticipates future cost-sharing changes to the written plans that are consistent with Williams' expressed intent to increase the retiree contribution rate annually, generally in line with health care cost increases, except for certain retirees whose premiums are fixed. A portion of the cost has been funded in trusts by Williams' FERC-regulated natural gas pipeline subsidiaries to the extent recovery from customers can be achieved. Plan assets consist of assets held in two master trusts and money market funds. One of the master trusts was previously described and the other consists primarily of domestic and foreign common stocks, commercial paper and government bonds.

Net postretirement benefit expense consists of the following:

	1995	1994	1993
	-----	-----	-----
		(MILLIONS)	
Service cost for benefits earned during the year.....	\$ 7.4	\$ 3.9	\$ 3.7
Interest cost on accumulated postretirement benefit obligation.....	23.9	7.8	8.2
Actual return on plan assets.....	(17.9)	(.6)	(.7)
Amortization of unrecognized transition obligation.....	5.0	5.1	5.2
Amortization and deferrals.....	23.1	.1	(3.5)
Net postretirement benefit expense.....	\$ 41.5	\$16.3	\$12.9
	=====	=====	=====
Net postretirement benefit expense:			
Continuing operations.....	\$ 41.5	\$14.7	\$11.4
Discontinued operations.....	--	1.6	1.5
	-----	-----	-----
	\$ 41.5	\$16.3	\$12.9
	=====	=====	=====

Net postretirement benefit expense at December 31, 1995, includes approximately \$26 million for the Transco Energy plans' participants.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table presents the funded status of the plans:

	1995	1994
	----	----
	(MILLIONS)	
Actuarial present value of postretirement benefit obligation:		
Retirees.....	\$227	\$ 55
Fully eligible active plan participants.....	24	11
Other active plan participants.....	85	34
	----	----
Accumulated postretirement benefit obligation.....	336	100
Assets at market value.....	124	16
	----	----
Assets less than accumulated postretirement benefit obligation.....	212	84
Unrecognized net gain.....	25	19
Unrecognized prior-service cost.....	(6)	--
Unrecognized transition obligation.....	(71)	(78)
	----	----
Postretirement benefit liability.....	\$160	\$ 25
	====	====

Included in the postretirement benefit liability at December 31, 1995, is approximately \$139 million for the Transco Energy plans' participants, substantially all of which is classified as non-current. The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 1995, is \$133 million and is expected to be recovered through rates over the next 17 years.

The discount rate used to measure the present value of benefit obligations is 7 1/4 percent (8 1/2 percent in 1994). The expected long-term rate of return on plan assets is 10 percent (6 percent after taxes). The annual assumed rate of increase in the health care cost trend rate for 1996 is 10 to 13 percent, systematically decreasing to 5 percent by 2006. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by 1 percent in each year would increase the aggregate of the service and interest cost components of postretirement benefit expense for the year ended December 31, 1995, by \$5 million and the accumulated postretirement benefit obligation as of December 31, 1995, by \$50 million.

Other

Williams maintains various defined-contribution plans covering substantially all employees. Company contributions are based on employees' compensation and, in part, match employee contributions. Company contributions are invested primarily in Williams common stock. Williams' contributions to these plans were \$19 million in 1995, \$14 million in 1994 and \$13 million in 1993. Contributions to these plans made by discontinued operations were \$3 million in both 1994 and 1993.

Effective January 1, 1994, Williams adopted Statement of Financial Accounting Standards (FAS) No. 112, "Employers' Accounting for Postemployment Benefits," which requires the accrual of benefits provided to former or inactive employees after employment but before retirement. Adoption of the standard reduced 1994 net income by approximately \$2 million and is not reported as a change in accounting principle due to immateriality.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 10 -- INVENTORIES

	1995	1994
	-----	-----
	(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	--
	-----	-----
	\$189.0	\$112.3
	=====	=====

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

NOTE 11 -- PROPERTY, PLANT AND EQUIPMENT

	1995	1994
	-----	-----
	(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
	-----	-----
	9,478.7	4,311.1
Accumulated depreciation.....	(1,464.0)	(1,187.1)
	-----	-----
	\$ 8,014.7	\$ 3,124.0
	=====	=====

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)

NOTE 12 -- ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Under Williams' cash-management system, certain subsidiaries' cash accounts reflect credit balances to the extent checks written have not been presented for payment. The amounts of these credit balances included in accounts payable are \$136 million at December 31, 1995, and \$41 million at December 31, 1994.

	1995	1994
	-----	-----
	(MILLIONS)	
Accrued liabilities:		
Income taxes payable.....	\$ 371.6	\$ 38.0
Rate refunds.....	180.6	83.8
Employee costs.....	135.9	51.7
Interest.....	72.9	39.9
Taxes other than income taxes.....	51.2	41.8
Other.....	318.0	106.2
	-----	-----
	\$1,130.2	\$361.4
	=====	=====

NOTE 13 -- DEBT, LEASES AND BANKING ARRANGEMENTS

Notes payable

During 1994, a subsidiary of Williams entered into a \$400 million short-term credit agreement to finance the acquisition of Williams common stock. Notes payable totaling \$398 million were outstanding under this agreement at December 31, 1994. These notes were repaid in January 1995. The weighted average interest rate on the outstanding short-term borrowings at December 31, 1994, was 6.75 percent.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Debt

	WEIGHTED AVERAGE INTEREST RATE*	1995	1994
(MILLIONS)			
The Williams Companies, Inc.			
Revolving credit loans.....	6.2%	\$ 50.0	\$ 350.0
Debtures, 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
Northwest Pipeline			
Debtures, 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
Williams Natural Gas			
Variable rate notes, payable 1999.....	6.3	130.0	130.0
Transcontinental Gas Pipe Line			
Debtures, 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	--
Texas Gas Transmission			
Notes, 9.625% and 8.625%, payable 1997 and 2004.....	9.0	255.9	--
Williams Holdings of Delaware			
Revolving credit loans.....	6.3	150.0	--
Williams Pipe Line			
Notes, 8.95% and 9.78%, payable through 2001.....	9.3	110.0	120.0
Williams Energy Ventures			
Adjustable rate notes, payable 1996 through 2002.....	8.3	21.0	--
Other, payable through 1999.....	8.0	6.8	10.0
		-----	-----
		3,193.9	1,690.8
Current portion of long-term debt.....		(319.9)	(383.0)
		-----	-----
		\$2,874.0	\$1,307.8
		=====	=====

* 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)

In conjunction with the issuance of \$130 million of variable rate debt by Williams Natural Gas in November 1994, Williams entered into an interest-rate swap agreement under which Williams pays a 7.78 percent fixed rate in exchange for a variable rate (5.88 percent at December 31, 1995). The difference between the fixed and variable rate is included in interest expense.

Terms of certain subsidiaries' borrowing arrangements with institutional lenders limit the transfer of funds to Williams. At December 31, 1995, approximately \$933 million of net assets of consolidated subsidiaries was restricted. Undistributed earnings of companies and partnerships accounted for under the equity method of \$62 million are included in Williams' consolidated retained earnings at December 31, 1995.

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

	(MILLIONS)
1996	\$319
1997	222
1998	341
1999	313
2000	405

Cash payments for interest (net of amounts capitalized) related to continuing operations are as follows: 1995 -- \$266 million; 1994 -- \$143 million; and 1993 -- \$144 million. Cash payments for interest (net of amounts capitalized) related to discontinued operations are as follows: 1994 -- \$6 million and 1993 -- \$16 million.

Leases

Future minimum annual rentals under non-cancelable operating leases related to continuing operations are \$52 million in 1996, \$47 million in 1997, \$42 million in 1998, \$39 million in 1999, \$37 million in 2000 and \$186 million thereafter.

Total rent expense from continuing operations was \$78 million in 1995, \$26 million in 1994 and \$22 million in 1993. Total rent expense from discontinued operations was \$70 million in 1994 and \$59 million in 1993.

NOTE 14 -- 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. These shares are redeemable by Williams beginning in November 1999, at an initial price of \$51.40 per share. Each share of \$3.50 preferred stock is convertible at the option of the holder into 1.5625 shares of Williams common stock. Dividends per share of \$2.33 were recorded during 1995.

During 1995, Williams exchanged 2.8 million shares of its \$2.21 cumulative preferred stock with a carrying value of \$69 million for 9.6 percent debentures with a fair value of \$72.5 million. The difference in the fair value of the new securities and the carrying value of the preferred stock exchanged is recorded as a decrease in capital in excess of par value. This amount did not impact net income, but is included in preferred stock dividends on the income statement and in the computation of earnings per share. The 837,852 outstanding shares of \$2.21 cumulative preferred stock are redeemable by Williams at a price of \$25 beginning in September 1997. Dividends per share of \$2.21 were recorded each year during 1995, 1994 and 1993.

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.....	5,245,933	\$ 11-172	\$153
	=====		====
Shares exercisable December 31, 1995.....	4,421,447		
	=====		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

expense in the year of award. Williams issued 70,122, 45,298 and 191,007 of previously deferred shares in 1995, 1994 and 1993, respectively. Williams also issued 55,300, 44,800 and 62,000 shares of restricted stock in 1995, 1994 and 1993, respectively. Restricted stock is valued on the issuance date, and the related expense is amortized over varying periods of three to 10 years.

During November 1994, Williams entered into a deferred share agreement (the Agreement) in connection with the sale of its network services operations. Under the terms of the Agreement, Williams will distribute up to approximately 2.6 million shares of Williams common stock to key employees of the network services operations over various periods through 1998, less amounts necessary to meet minimum tax withholding requirements. Williams distributed 314,405 and 273,095 shares during 1995 and 1994, respectively.

At December 31, 1995, 9,849,891 shares of common stock were reserved for issuance pursuant to existing and future stock awards, of which 2,698,799 were available for future grants (1,835,014 at December 31, 1994).

The Financial Accounting Standards Board has issued a new accounting standard, FAS No. 123, "Accounting for Stock-Based Compensation," effective for fiscal years beginning after December 15, 1995. As provided for in the standard, Williams will not adopt the recognition provisions and will provide the pro forma net income and earnings-per-share disclosures required by the standard in its 1996 annual financial statements.

Williams currently follows Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." Under this standard, because the exercise price of Williams' fixed plan common stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

NOTE 15 -- FINANCIAL INSTRUMENTS

Fair-value methods

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

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

Notes and other non-current receivables: For those notes with interest rates approximating market or maturities of less than three years, fair value is estimated to approximate historically recorded amounts. For those notes with maturities beyond three years and fixed interest rates, fair value is calculated using discounted cash flow analysis based on current market rates.

Long-term debt: The fair value of Williams' long-term debt is valued using indicative year-end traded bond market prices for publicly traded issues, while private debt is valued based on the prices of similar securities with similar terms and credit ratings. At December 31, 1995 and 1994, 85 percent and 59 percent, respectively, of Williams' long-term debt was publicly traded. Williams used the expertise of an outside investment banking firm to estimate the fair value of long-term debt.

Interest-rate swaps: Fair value is determined by discounting estimated future cash flows using forward interest rates implied by the year-end yield curve. Fair value was calculated by the financial institution that is the counterparty to the swap.

Energy-related trading and hedging: Includes forwards, futures, options, swaps and purchase and sales commitments. Fair value reflects management's best estimate of market prices considering various

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)	(3,476.7)	(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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

items, representing the maximum amount for the first guarantee and an estimate of the gas price exposure based on historical operating trends and an assessment of market conditions. While Williams' maximum exposure from this guarantee exceeds amounts accrued, it is not practicable to determine such amount because of the unique aspects of the guarantee.

In connection with the sale of Williams' network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of \$180 million at December 31, 1995, for lease rental obligations. LDDS has advised that it is negotiating with the guaranteed parties to remove Williams as guarantor.

Williams has issued other guarantees and letters of credit with off-balance-sheet risk that total approximately \$8 million and \$9 million at December 31, 1995 and 1994, respectively. Williams believes it will not have to perform under these agreements because the likelihood of default by the primary party is remote and/or because of certain indemnifications received from other third parties.

Commodity price-risk management services

Williams Energy Services provides price-risk management services associated with the energy industry to its customers. These services are provided through a variety of financial instruments, including forward contracts, futures contracts, option contracts, swap agreements and purchase and sale commitments. See Note 1 for a description of the accounting for these trading activities.

Williams Energy Services enters into forward contracts and purchase and sale commitments which involve physical delivery of an energy commodity. Prices under these contracts are both fixed and variable. Swap agreements call for Williams Energy Services to make payments to (or receive payments from) counterparties based upon the differential between a fixed and variable price or variable prices for different locations. The variable prices are generally based on either industry pricing publications or exchange quotations. Williams Energy Services buys and sells option contracts which give the buyer the right to exercise the options and receive the difference between a predetermined strike price and a market price at the date of exercise. The market prices used for natural-gas-related contracts are generally exchange quotations. Williams Energy Services also enters into futures contracts which are commitments to either purchase or sell a commodity at a future date for a specified price and are generally settled in cash, but may be settled through delivery of the underlying commodity. The market prices for futures contracts are based on exchange quotations.

Williams Energy Services manages risk from financial instruments by making various logistical commitments which manage profit margins through offsetting financial instruments. As a result, price movements can result in losses on certain contracts offset by gains on others.

Williams Energy Services takes an active role in managing and controlling market and counterparty risks and has established formal control procedures which are reviewed on an ongoing basis. Williams Energy Services attempts to minimize credit-risk exposure to trading counterparties and brokers through formal credit policies and monitoring procedures. In the normal course of business, collateral is not required for financial instruments with credit risk.

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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
	-----	-----
	\$ 85.8	\$263.7
	=====	=====

* 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-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

tions customers include numerous corporations. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

NOTE 16 -- OTHER FINANCIAL INFORMATION

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

	1995	1994*	1993*
	-----	-----	-----
	(MILLIONS)		
Northwest Pipeline.....	\$ 1.8	\$ 3.4	\$ 3.6
Williams Natural Gas.....	9.5	14.2	5.4
Transcontinental Gas Pipe Line.....	34.2	--	--
Texas Gas Transmission.....	37.7	--	--
Williams Field Services Group.....	9.2	30.5	14.5
Williams Energy Services.....	34.0	20.2	42.1
Williams Pipe Line.....	32.8	16.7	1.4
Other.....	.3	.4	--
	-----	-----	-----
	\$159.5	\$85.4	\$67.0
	=====	=====	=====

* Reclassified as described in Note 1.

Williams Natural Gas had sales to a natural gas distributor that accounted for 15 percent in 1993 of Williams' revenues.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Information for business segments is as follows:

	1995	1994*	1993*
	-----	-----	-----
	(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.....	\$10,494.8	\$5,226.1	\$5,020.4
	=====	=====	=====
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.....	\$ 827.5	\$ 325.5	\$ 428.3
	=====	=====	=====
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.....	\$ 369.4	\$ 150.3	\$ 137.8
	=====	=====	=====

* Reclassified as described in Note 1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 17 -- CONTINGENT LIABILITIES AND COMMITMENTS

Rate and regulatory matters and related litigation

Williams' interstate pipeline subsidiaries, including Williams Pipe Line, have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. As to Williams Pipe Line, revenues collected subject to refund were \$179 million at December 31, 1995; it is not expected that the amount of any refunds ordered would be significant. Accordingly, no portion of these revenues has been reserved for refund. As to the other pipelines, see Note 12 for the amount of revenues reserved for potential refund as of December 31, 1995.

In 1992, the FERC issued Order 636, Order 636-A and Order 636-B. These orders, which have been challenged in various respects by various parties in proceedings pending in the U.S. Court of Appeals for the D.C. Circuit, require interstate gas pipeline companies to change the manner in which they provide services. Williams Natural Gas implemented its restructuring on October 1, 1993, and Northwest Pipeline, Texas Gas and Transcontinental Gas Pipe Line implemented their restructurings on November 1, 1993. Certain aspects of each pipeline company's restructuring are under appeal.

Contract reformations and gas purchase deficiencies

Each of the natural gas pipeline subsidiaries has undertaken the reformation of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims.

In 1994, Williams Natural Gas and a producer executed a number of agreements to resolve outstanding issues. Portions of the settlement were subject to regulatory approvals, including the regulatory abandonment of a certain Williams Natural Gas gathering system on terms acceptable to Williams Natural Gas. On May 2, 1995, the FERC issued orders granting the requisite approvals; however, one party has requested rehearing of the decision regarding abandonment of the gathering system.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A and 636-B, costs incurred to comply with these rules are permitted to be recovered in full, although 10 percent of such costs must be allocated to interruptible transportation service.

The FERC initially approved a method for Northwest Pipeline to direct bill its contract-reformation costs, but when challenged on appeal, sought a remand to reassess such method. Northwest Pipeline has received an order from the FERC that requires a different allocation of such costs and has rebilled its customers accordingly. While certain customers continue to challenge the FERC methodology, Northwest Pipeline does not expect the reallocation or the challenge to result in a significant financial impact upon the company.

Pursuant to a stipulation and agreement approved by the FERC, Williams Natural Gas has made three filings to direct bill take-or-pay and gas supply realignment costs. The first provided for the offset of certain amounts collected subject to refund against previous take-or-pay direct-billed amounts and, in addition, covered \$24 million in new costs. This filing was approved, and the final direct-billed amount, taking into consideration the offset, was \$15 million. The second filing covered \$18 million in additional costs, and provided for an offset of \$3 million. The third filing covered additional costs of \$8 million which are similar in nature to the costs in the second filing. An intervenor has filed a protest seeking to have the Commission review the prudence of certain of the costs covered by the second and third filings. Williams Natural Gas believes that the second and third filings will most likely be approved. As of December 31, 1995, this subsidiary had an accrual of \$87 million for its then estimated remaining contract-reformation and gas supply

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In February 1995, Transcontinental Gas Pipe Line was served as a defendant in a lawsuit filed in U.S. District Court in Virginia by three individuals for alleged violations of several provisions of both federal and state laws. Since 1991, Transcontinental Gas Pipe Line has worked with the appropriate Virginia authorities to resolve certain emissions issues also raised by the individuals. On October 13, 1995, the court dismissed the lawsuit but provided that the plaintiffs could amend and refile their complaint to allege a state law nuisance claim and they have done so. Transcontinental Gas Pipe Line believes the amended complaint is without merit and is prepared to vigorously defend the suit.

Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have commenced with certain environmental authorities by Williams Natural Gas and Transcontinental Gas Pipe Line. As of December 31, 1995, Williams Natural Gas had recorded a liability for approximately \$26 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the \$45 million reserve mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Williams Natural Gas have deferred these costs pending recovery as incurred through future rates and other means.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. It appears probable that such costs will exceed this amount. At December 31, 1995, Williams had approximately \$7 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

A lawsuit was filed on May 14, 1993, in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. On June 28, 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. This decision is being appealed by the plaintiffs. Since June 28, 1994, eight individual lawsuits have been filed against Northwest Pipeline in U.S. District Court in Colorado, making essentially the same claims. Northwest Pipeline is vigorously defending these lawsuits.

Other legal matters

On December 31, 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company, a wholly owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. On September 13, 1994, the court granted summary judgment in favor of the defendants. The Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONCLUDED)

On November 14, 1994, Continental Energy Associates Limited Partnership (the Partnership) filed a voluntary petition under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court, Middle District of Pennsylvania. The Partnership owns a cogeneration facility in Hazleton, Pennsylvania (the Facility). Hazleton Fuel Management Company (HFMC), a subsidiary of Transco Energy, supplies natural gas and fuel oil to the Facility. As of December 31, 1995, it had current outstanding receivables from the Partnership of approximately \$20 million, all of which has been reserved. The construction of the Facility was funded by several banks that have a security interest in all of the Partnership's assets. HFMC has asserted to the Bankruptcy Court that payment of its receivables is superior to the lien of the banks and intends to vigorously pursue the collection of such amounts. HFMC has also filed suit against the lead bank with respect to this and other matters, including the alleged tortious interference with HFMC's contractual relations with the Partnership and other parties. On March 21, 1995, the Bankruptcy Court approved the rejection of the gas supply contract between the Partnership and HFMC. HFMC has in turn asserted force majeure under a contract with a producer under which HFMC purchased natural gas for the Facility.

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

Summary

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

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.

1995 ----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
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
1994 ----				
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.

QUARTERLY FINANCIAL DATA (UNAUDITED) (CONCLUDED)

Selected comparative fourth-quarter data are as follows (millions, except per-share amounts). Certain 1994 amounts have been restated as described in Note 1 of Notes to Consolidated Financial Statements.

	1995	1994
	-----	-----
Operating profit (loss):		
Williams Interstate Natural Gas Systems:		
Northwest Pipeline.....	\$ 25.1	\$ 22.7
Williams Natural Gas.....	15.5	15.1
Transcontinental Gas Pipe Line.....	47.4	--
Texas Gas Transmission.....	28.6	--
Williams Field Services Group.....	43.2	40.4
Williams Energy Services.....	.3	(3.9)
Williams Pipe Line.....	19.3	11.9
WilTel.....	7.2	6.7
WilTech Group.....	.8	(4.5)
Other.....	(.2)	--
	-----	-----
Total operating profit.....	187.2	88.4
General corporate expenses.....	(12.1)	(7.0)
Interest expense -- net.....	(69.7)	(39.1)
Investing income.....	12.7	10.8
Write-off of project costs.....	(41.4)	--
Other income (expense) -- net.....	5.2	(2.5)
	-----	-----
Income from continuing operations before income taxes.....	81.9	50.6
Provision for income taxes.....	17.5	16.4
	-----	-----
Income from continuing operations.....	64.4	34.2
Income from discontinued operations.....	13.1	42.3
	-----	-----
Income before extraordinary loss.....	77.5	76.5
Extraordinary loss.....	--	(1.1)
	-----	-----
Net income.....	\$ 77.5	\$ 75.4
	=====	=====
Primary earnings per common and common-equivalent share.....	\$.70	\$.76
	=====	=====
Fully diluted earnings per common and common-equivalent share.....	\$.69	\$.76
	=====	=====

Williams Energy Services' fourth-quarter 1995 operating profit includes loss accruals of approximately \$6 million, primarily related to contract disputes. In fourth-quarter 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a \$41.4 million pre-tax charge (see Note 6 of Notes to Consolidated Financial Statements). Fourth-quarter 1995 income from discontinued operations reflects the after-tax effect of the reversal of accruals established at the time of the sale of the network services operations (see Note 3 of Notes to Consolidated Financial Statements).

In fourth-quarter 1994, Williams Natural Gas recorded a \$7 million reversal of excess contract-reformation accruals. Williams Pipe Line's fourth-quarter 1994 operating profit includes \$5 million in costs for evaluating and determining whether to build an oil refinery. Fourth-quarter 1994 discontinued operations includes favorable adjustments of approximately \$15 million relating to bad debt recoveries and accrual reversals.

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

None.

THE WILLIAMS COMPANIES, INC.

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

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Covered by report of independent auditors:	
Consolidated statement of income for the three years ended December 31, 1995.....	F-12
Consolidated balance sheet at December 31, 1995 and 1994.....	F-14
Consolidated statement of stockholders' equity for the three years ended December 31, 1995.....	F-15
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Notes to consolidated financial statements.....	F-17
Schedules for the three years ended December 31, 1995:	
I -- Condensed financial information of registrant.....	F-46
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Quarterly financial data (unaudited).....	F-43

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

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF INCOME (PARENT)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Investing income.....	\$ 50.7	\$ 29.4	\$ 27.3
Interest accrued.....	(189.9)	(91.8)	(95.8)
Gain on sales of assets (Note 3).....	--	--	51.6
Other income (expense) -- net.....	(12.9)	2.9	(16.9)
Loss from continuing operations before income taxes and equity in subsidiaries' income.....	(152.1)	(59.5)	(33.8)
Equity in consolidated subsidiaries' income.....	376.5	195.0	189.8
Income from continuing operations before income taxes.....	224.4	135.5	156.0
Credit for income taxes.....	(75.0)	(29.4)	(29.4)
Income from continuing operations.....	299.4	164.9	185.4
Income from discontinued operations (Note 2).....	1,018.8	94.0	46.4
Income before extraordinary loss.....	1,318.2	258.9	231.8
Extraordinary loss from early extinguishment of debt.....	--	(12.2)	--
Net income.....	1,318.2	246.7	231.8
Preferred stock dividends.....	15.3	8.8	11.8
Income applicable to common stock.....	\$1,302.9	\$237.9	\$220.0
Primary earnings per common and common-equivalent share:			
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.....	\$ 12.77	\$ 2.32	\$ 2.20
Fully diluted earnings per common and common-equivalent share:			
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.....	\$ 12.48	\$ 2.32	\$ 2.16

See accompanying notes.

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
Other.....	--	44.0
Total investments.....	5,620.1	2,022.6
Property, plant and equipment--net.....	20.6	36.3
Other assets and deferred charges.....	23.9	14.8
Total assets.....	\$5,897.7	\$3,086.4
	=====	=====
	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)
Total stockholders' equity.....	3,243.2	1,910.6
Less treasury stock (Notes 4 and 5).....	(56.1)	(405.1)
Total stockholders' equity.....	3,187.1	1,505.5
Total liabilities and stockholders' equity.....	\$5,897.7	\$3,086.4
	=====	=====

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)

STATEMENT OF CASH FLOWS (PARENT)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(MILLIONS)		
Operating activities:			
Net income.....	\$ 1,318.2	\$ 246.7	\$ 231.8
Adjustments to reconcile to cash provided from operations:			
Equity in subsidiaries' income, net of cash dividends.....	732.7	153.1	(60.0)
Discontinued operations.....	(1,018.8)	(94.0)	(46.4)
Extraordinary loss.....	--	12.2	--
Depreciation.....	4.2	4.3	4.2
Provision (credit) for deferred income taxes.....	13.0	20.8	(1.7)
Gain on sales of property, plant and equipment.....	--	--	(52.1)
Changes in receivables.....	33.3	(59.5)	5.0
Changes in other current assets.....	5.0	(7.1)	1.4
Changes in accounts payable.....	(2.7)	3.0	(.7)
Changes in accrued liabilities.....	(.2)	(12.1)	(18.7)
Other, including changes in non-current assets and liabilities.....	(7.2)	(2.5)*	58.5
Net cash provided by operating activities.....	1,077.5	264.9	121.3
Financing activities:			
Proceeds from notes payable.....	53.4	73.8	--
Payments of notes payable.....	(127.2)	--	--
Proceeds from long-term debt.....	85.0	350.0	--
Payments of long-term debt.....	(549.2)	(181.7)	(128.8)
Proceeds from issuance of common stock.....	32.0	26.4	63.4
Purchase of treasury stock.....	(3.7)	(18.4)	--
Dividends paid.....	(119.0)	(93.9)	(89.4)
Other -- net.....	(3.7)	--	(.6)
Net cash provided (used) by financing activities.....	(632.4)	156.2*	(155.4)
Investing activities:			
Property, plant and equipment:			
Capital expenditures.....	(2.8)	(1.1)	(1.6)
Proceeds from sales of property, plant and equipment.....	1.0	--	115.1
Purchase of note receivable.....	(75.1)	--	--
Investments in consolidated subsidiaries.....	(1,248.1)	(71.2)	(75.3)
Changes in advances to subsidiaries.....	914.7	(354.4)	1.0
Other -- net.....	6.3	(4.0)	(.6)
Net cash provided (used) by investing activities.....	(404.0)	(430.7)	38.6
Increase (decrease) in cash and cash equivalents.....	41.1	(9.6)	4.5
Cash and cash equivalents at beginning of year.....	16.5	26.1	21.6
Cash and cash equivalents at end of year.....	\$ 57.6	\$ 16.5	\$ 26.1

See accompanying notes.

* Reclassified to conform to current classification.

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 I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONCLUDED)

NOTES TO FINANCIAL INFORMATION (PARENT)

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. See Note 14 of Notes to Consolidated Financial Statements for additional information on this exchange.

For financial reporting purposes, treasury stock of \$394.8 million held at December 31, 1994, by a wholly-owned subsidiary of Williams has been presented as a reduction of stockholders' equity. A portion of this treasury stock was used in the acquisition of Transco Energy (see Note 1).

The Financial Accounting Standards Board has issued a new accounting standard, FAS No. 123, "Accounting for Stock-Based Compensation," effective for fiscal years beginning after December 15, 1995. As provided for in the standard, Williams will not adopt the recognition provisions and will provide the pro forma net income and earnings-per-share disclosures required by the standard in its 1996 annual financial statements.

Williams currently follows Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." Under this standard, because the exercise price of Williams' fixed plan common stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

NOTE 6. DIVIDENDS RECEIVED

Cash dividends from subsidiaries and companies accounted for on an equity basis are as follows: 1995 -- \$1,110.2 million; 1994 -- \$354.2 million; and 1993 -- \$142.6 million.

NOTE 7. INCOME TAX AND INTEREST PAYMENTS

Cash payments for income taxes are as follows: 1995 -- \$326 million; 1994 -- \$112 million; and 1993 -- \$118 million.

Cash payments for interest are as follows: 1995 -- \$127.9 million; 1994 -- \$90 million; and 1993 -- \$96.6 million.

NOTE 8. FINANCIAL INSTRUMENTS

Disclosure of financial instruments for the parent company are included in the consolidated disclosures. See Note 15 of Notes to Consolidated Financial Statements.

THE WILLIAMS COMPANIES, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS(A)

	BEGINNING BALANCE	ADDITIONS ----- CHARGED TO COSTS AND EXPENSES			OTHER	DEDUCTIONS (B)	ENDING BALANCE
	-----	-----	-----	-----	-----	-----	-----
				(MILLIONS)			
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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the Directors and nominees for Director of Williams required by Item 401 of Regulation S-K is presented under the heading "Election of Directors" in Williams' Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 1996 (the "Proxy Statement"), which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K. Information regarding the executive officers of Williams is presented following Item 4 herein, as permitted by General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K is included under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement, which information is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

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

Exhibit 2 --

*(a) Agreement and Plan of Merger, dated as of December 12, 1994, among Williams, WC Acquisition Corp. and Transco (filed as Exhibit (c)(1) to Schedule 14D-1, dated December 16, 1994).

*(b) Amendment to Agreement and Plan of Merger, dated as of February 17, 1995 (filed as Exhibit 6 to Amendment No. 8 to Schedule 13D, dated February 23, 1995).

Exhibit 3 --

*(a) Restated Certificate of Incorporation of Williams (filed as Exhibit 4(a) to Form 8-B Registration Statement, filed August 20, 1987).

*(b) Certificate of 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 10 1/4% Debentures, due 2020; the 9 3/8% Debentures, due 2021; the 8 1/4% Notes, due 1998; Medium-Term Notes (8.50%-9.31%), due 1996 through 2001; the 7 1/2% Notes, due 1999, and the 8 7/8% Debentures, due 2012 (filed as Exhibit 4.1 to Form S-3 Registration Statement No. 33-33294, filed February 2, 1990).

*(b) 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).

* (j) Indemnification Agreement, effective as of August 1, 1986, between Williams and members of the Board of Directors and certain officers of Williams (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1986).

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

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

Exhibit 20 -- Definitive Proxy Statement of Williams for 1996.

Exhibit 21 -- Subsidiaries of the registrant.

Exhibit 23 -- Consent of Independent Auditors.

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

Exhibit 27 -- Financial Data Schedule.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by Williams with the Securities and Exchange Commission during the fourth quarter of 1995.

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

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

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

THE WILLIAMS COMPANIES, INC. (Registrant)

By: /s/ 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.

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

SIGNATURE	TITLE
----- /s/ JACK A. MACALLISTER* ----- Jack A. MacAllister	Director
----- /s/ JAMES A. MCCLURE* ----- James A. McClure	Director
----- /s/ PETER C. MEINIG* ----- Peter C. Meinig	Director
----- /s/ KAY A. ORR* ----- Kay A. Orr	Director
----- /s/ GORDON R. PARKER* ----- Gordon R. Parker	Director
----- /s/ JOSEPH H. WILLIAMS* ----- Joseph H. Williams	Director
*By ----- /s/ DAVID M. HIGBEE ----- David M. Higbee Attorney-in-fact	

Dated: March 27, 1996

EXHIBIT 3(f)

STATE OF DELAWARE

OFFICE OF THE SECRETARY OF STATE

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF DESIGNATION OF "THE WILLIAMS COMPANIES, INC.", FILED IN THIS OFFICE ON THE SIXTH DAY OF FEBRUARY, A.D. 1996, AT 10 O'CLOCK A.M.

[SEAL]

*[SEAL] /s/ EDWARD J. FREEL
Edward J. Freel, Secretary of State*

AUTHENTICATION: 7844820

DATE 02-28-96

THE WILLIAMS COMPANIES, INC.

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

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

DOES HEREBY CERTIFY:

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

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

THIRD: That the Board of Directors of said Corporation at a meeting held on January 21, 1996, duly adopted a resolution authorizing and directing an increase in the authorized number of shares of Series A Participating Preferred Stock of the Corporation, from 400,000 shares to 1,200,000 shares.

IN WITNESS WHEREOF, said The Williams Companies, Inc. has caused this certificate to be signed by Gary R. Belitz, its Controller and Chief Accounting Officer, and attested by David M. Higbee, its Secretary, this 5th day of February, 1996.

THE WILLIAMS COMPANIES, INC.

CORPORATE SEAL

BY: /s/ GARY R. BELITZ

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

ATTEST:

/s/ DAVID M. HIGBEE

Name: David M. Higbee
Title: Secretary

EXHIBIT 10(iii)(g)

THE WILLIAMS COMPANIES, INC.

STOCK PLAN FOR NONOFFICER EMPLOYEES

SECTION 1. Purposes.

1.01 The purposes of The Williams Companies, Inc. Stock Plan for Nonofficer Employees (the "Plan"), are to enable The Williams Companies, Inc. (together with any successor thereto, the "Company"), and its Affiliates to attract and retain key employees, reward such employees for superior performance and encourage such employees to increase their proprietary interest in the Company in order to provide them with additional motivation to continue in the Company's employ and to further its profitable growth.

SECTION 2. Definitions; Construction.

2.01 Definitions. In addition to the terms defined elsewhere in the Plan, the following terms as used in the Plan shall have the following meanings when used with initial capital letters:

2.01.1 "Affiliate" means any entity other than the Company in which the Company owns, directly or indirectly, at least 20 percent of the combined voting power of all classes of stock of such entity or at least 20 percent of the ownership interests in such entity.

2.01.2 "Award" means any Option, Stock Appreciation Right, Restricted Stock, Deferred Stock, Performance Award, Dividend Equivalent, or Other Stock-Based Award, or any other right or interest relating to Shares or cash granted under the Plan.

2.01.3 "Award Agreement" means any written agreement, contract or other instrument or document evidencing an Award.

2.01.4 "Board" means the Company's Board of Directors.

2.01.5 "CEO" means the Chief Executive Officer of the Company as designated by the Board.

2.01.6 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.01.7 "Deferred Stock" means shares granted under Section 6.05 hereof, receipt of which is deferred for a specified deferral period.

2.01.8 "Disability" means total and permanent disability as defined under the Company's consolidated pension plan.

2.01.9 "Dividend Equivalent" means a right, granted under Section 6.07 hereof, to receive interest or dividends, or interest or dividend equivalents.

2.01.10 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.01.11 "Fair Market Value" means, as of any date, with

respect to Shares at any time that Shares are listed on the New York Stock Exchange, the mean between the highest and lowest selling prices in the consolidated transaction reporting system as of that date or nearest preceding date on which a sale was reported; provided, however, if in a given case the Fair Market Value of Shares is not an even multiple of one dollar, such Fair Market Value may be rounded up or down to a whole number if specified by the CEO; and, with respect to Shares at any time that Shares are not listed on the New York Stock Exchange, or property other than Shares, the Fair Market Value of such Shares or other property determined by such methods or procedures as shall be established from time to time by the CEO.

2.01.12 "Option" means a right, granted under Section 6.02 hereof, to purchase Shares or other Awards at a specified price during specified time periods.

2.01.13 "Other Stock-Based Awards" means a right, granted under Section 6.08 hereof, that relates to or is valued by reference to Shares or other Awards relating to Shares.

2.01.14 "Participant" means a key employee of the Company or any Affiliate granted an Award under the Plan.

2.01.15 "Performance Award" means a right, granted under Section 6.06 hereof, to receive Awards based upon performance criteria specified by the CEO.

2.01.16 "Person" shall have the meaning assigned in the Exchange Act.

2.01.17 "Restricted Stock" means Shares, granted under

Section 6.04 hereof, that are subject to certain restrictions.

2.01.18 "Rule 16b-3" means Rule 16b-3, as amended from time to time, or any successor to such Rule promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

2.01.19 "Shares" means the Common Stock of the Company, \$1.00 par value, and such other securities of the Company as may be substituted for Shares pursuant to Section 8.01 hereof.

2.01.20 "Stock Appreciation Right" means a right, granted under Section 6.03 hereof, to be paid an amount measured by the appreciation in the Fair Market Value of Shares from the date of grant to the date of exercise.

Definitions of the terms "Change of Control," "Change of Control Price," "Potential Change of Control," "Related Party" and "Voting Securities" are set forth in Section 9.03 hereof.

2.02 Construction. For purposes of the Plan, the following rules of construction shall apply:

2.02.1 The word "or" is disjunctive but not necessarily exclusive.

2.02.2 Words in the singular include the plural; words in

the plural include the singular; and words in the neuter gender include the masculine and feminine genders and words in the masculine or feminine gender include the other and neuter genders.

SECTION 3. Administration.

3.01 The Plan shall be administered by the CEO. The CEO shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

(i) to designate Participants;

(ii) to determine the type or types of Awards to be granted to each Participant;

(iii) to determine the number of Awards to be granted, the number of Shares or amount of cash or other property to which an Award will relate, the terms and conditions of any Award (including, but not limited to, any exercise price, grant price or purchase price, any limitation or restriction, any schedule for lapse of limitations, forfeiture restrictions or restrictions on exercisability or transferability, and accelerations or waivers thereof, based in each case on such considerations as the CEO shall determine), and all other matters to be determined in connection with an Award;

(iv) to determine whether, to what extent and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, or an Award may be accelerated, vested, canceled, forfeited, exchanged or surrendered;

(v) to determine whether, to what extent and under what circumstances cash, Shares, other Awards, other property and other amounts payable with respect to an Award shall be deferred either at the election of the CEO or at the election of the Participant;

(vi) to prescribe the form of each Award Agreement, which need not be identical for each Participant;

(vii) to adopt, amend, suspend, waive and rescind such rules and regulations and appoint such agents as the CEO may deem necessary or advisable to administer the Plan;

(viii) to correct any defect or supply any omission or reconcile any inconsistency, and to construe and interpret the Plan, the rules and regulations, any Award Agreement or other instrument entered into or relating to an Award made under the Plan; and

(ix) to make all other decisions and determinations as may be required under the terms of the Plan or as the CEO may deem necessary or advisable for the administration of the Plan.

Any action of the CEO with respect to the Plan shall be final, conclusive and binding on all Persons, including the Company, Affiliates, Participants, any Person claiming any rights under the Plan from or through any Participant, and stockholders. The express grant of any specific power to the CEO, and the taking of any action by the CEO, shall not be construed as limiting any power or authority of the CEO. The CEO may delegate to officers or managers of the Company or of any Affiliate the authority, subject to such terms as the CEO shall determine, to take such actions and perform such functions under the Plan as the CEO may specify, including, but not limited to, administrative functions. The CEO shall be entitled to, in good faith, rely or act upon any report or other information furnished to him by any officer, manager or other employee of the Company or any Affiliate, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan. Any and all powers, authorizations and discretions granted by the Plan to the CEO shall likewise be exercisable at any time by the Board.

SECTION 4. Shares Subject to the Plan.

Subject to adjustment as provided in Section 8.01 hereof, the total number of Shares reserved and available for distribution under the Plan shall be four million (4,000,000) Shares.

For purposes of this Section 4.01, the number of Shares to which an Award relates shall be counted against the number of Shares reserved and available under the Plan at the time of grant of the Award, unless such number of Shares cannot be determined at that time, in which case the number of Shares actually distributed pursuant to the Award shall be counted against the number of Shares reserved and available under the Plan at the time of distribution; provided, however, that Awards related to or retroactively added to, or granted in tandem with, substituted for or converted into, other Awards shall be counted or not counted against the number of Shares reserved and available under the Plan in accordance with procedures adopted by the CEO so as to ensure appropriate counting but avoid double counting; and, provided further, that the number of Shares deemed to be issued under the Plan upon exercise of an Option or an Other Stock-Based Award in the nature of a stock purchase right shall be reduced by the number of Shares surrendered by the Participant in payment of the exercise or purchase price of the Award.

If any Shares to which an Award relates are forfeited, or payment is made to the Participant in the form of cash, cash equivalents or other property other than Shares, or the Award otherwise terminates without payment being made to the Participant in the form of Shares, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of any such forfeiture, alternative payment or termination, again be available for Awards under the Plan. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares, including Shares repurchased by the Company for purposes of the Plan; provided, however, that if, at the time Shares are to be distributed under the Plan to a Participant (including upon exercise of an Option), the Shares are listed on the New York Stock Exchange and such Participant is a "director" or "officer" of the Company within the meaning of Sections 312.03 and 703.09 of the Listed Company Manual of the New York Stock Exchange, such that the Participant's acquisition of Stock originally issued by the Company would be subject to the requirement of stockholder approval under applicable Exchange rules, the Shares to be distributed to such Participant shall consist only of treasury Shares then held by the Company. The Company shall use its best efforts to obtain and have available, at any time that the such treasury Shares are required to be distributed in connection with an Award, a sufficient number of treasury Shares, not reserved for other uses, to be able to make prompt delivery in connection with any such Award.

SECTION 5. Eligibility.

5.01 Awards may be granted only to individuals who are key employees of the Company or any Affiliate, excluding employees who are directors or officers of the Company. However, the Plan has not been approved by the stockholders of the Company. Accordingly,

participation in the Plan is limited to key employees who may participate consistent with the stockholder approval requirements of the New York Stock Exchange or any other exchange on which the Shares may be listed. No Awards shall be paid and no Shares shall be distributed with respect to any Award, nor shall any other action be taken under the terms of the Plan that would be in violation of any applicable stockholder approval requirement and any actions taken contrary thereto shall be deemed null and void and of no effect.

SECTION 6. Specific Terms of Awards.

6.01 General. Subject to the terms of the Plan and any applicable Award Agreement, awards may be issued as set forth in this Section 6. In addition, the CEO may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to the terms of Section 10.01), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the CEO shall determine, including terms requiring forfeiture of Awards in the event of termination of employment by the Participant. Except as provided in Section 7.01, Awards shall be granted for no consideration other than prior and future services.

6.02 Options. The CEO is authorized to grant Options to Participants on the following terms and conditions:

(i) Exercise Price. The exercise price per Share of an Option shall be determined by the CEO; provided, however, that, except as provided in Section 7.01, such exercise price shall not be less than the Fair Market Value of a Share on the date of grant of such Option and in no event shall be less than the par value of a Share.

(ii) Option Term. The term of each Option shall be determined by the CEO.

(iii) Methods of Exercise. The CEO shall determine the time or times at which an Option may be exercised in whole or in part, the methods by which such exercise price may be paid or deemed to be paid, and the form of such payment, including, without limitation, cash, Shares, other outstanding Awards or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis, to the extent permitted by law).

6.03 Stock Appreciation Rights. The CEO is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

(i) Right to Payment. A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of a Share on the date of exercise or, if the CEO shall so determine in the case of any such right, at any time during a specified period before or after the date of exercise, over (ii) the grant price of the Stock Appreciation Right as determined by the CEO as of the date of grant of the Stock Appreciation Right, which, except as provided in Section 7.01, shall not be less than the Fair Market Value of a Share on the date of grant.

(ii) Other Terms. The term, methods of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be determined by the CEO at grant or thereafter.

6.04 Restricted Stock. The CEO is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) Issuance and Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the CEO may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends thereon), which restrictions may lapse separately or in combination at such times, in such installments or otherwise, as the CEO shall determine at the time of grant or thereafter.

(ii) Forfeiture. Except as otherwise determined by the CEO at the time of grant or thereafter, upon termination of employment (as determined under criteria established by the CEO) during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided, however, that the CEO may provide, by rule or regulation or in any Award Agreement, that restrictions on Restricted Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the CEO may in other cases waive in whole or in part restrictions on Restricted Stock.

(iii) Certificates for Shares. Restricted Stock granted under the Plan may be evidenced in such manner as the CEO shall determine, including, without limitation, issuance of certificates representing Shares. Certificates representing Shares of Restricted Stock shall be registered in the name of the Participant and

shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock.

6.05 Deferred Stock. The CEO is authorized to grant Deferred Stock to Participants on the following terms and conditions:

(i) Issuance and Limitations. Delivery of Shares shall occur upon expiration of the deferral period specified for the Award of Deferred Stock by the CEO. In addition, an Award of Deferred Stock shall be subject to such limitations as the CEO may impose, which limitations may lapse at the expiration of the deferral period or at other specified times, separately or in combination, in installments or otherwise, as the CEO shall determine at the time of grant or thereafter. A Participant awarded Deferred Stock shall have no voting rights and shall have no rights to receive dividends in respect of Deferred Stock, unless and only to the extent that the CEO shall award Dividend Equivalents in respect of such Deferred Stock.

(ii) Forfeiture. Except as otherwise determined by the CEO at the time of grant or thereafter, upon termination of employment (as determined under criteria established by the CEO) during the applicable deferral period, Deferred Stock that is at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided, however, that the CEO may provide, by rule or regulation or in any Award Agreement, that forfeiture of Deferred Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the CEO may in other cases waive in whole or in part the forfeiture of Deferred Stock.

6.06 Performance Awards. The CEO is authorized to grant Performance Awards to Participants on the following terms and conditions:

(i) Right to Payment. A Performance Award shall confer upon Participant rights, valued as determined by the CEO, and payable to, or exercisable by, the Participant to whom the Performance Award is granted, in whole or in part, as the CEO shall establish at grant or thereafter. The performance criteria and all other terms and conditions of the Performance Award shall be determined by the CEO upon the grant of each Performance Award or thereafter.

(ii) Other Terms. A Performance Award may be denominated or payable in cash, deferred cash, Shares, other Awards or

other property, and other terms of Performance Awards shall be, as determined by the CEO.

6.07 Dividend Equivalents. The CEO is authorized to grant Dividend Equivalents to Participants. Dividend Equivalents shall confer upon the Participant's rights to receive, currently or on a deferred basis, interest or dividends, or interest or dividend equivalents, with respect to a number of Shares or otherwise as determined by the CEO. The CEO may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares or additional Awards or otherwise reinvested.

6.08 Other Stock-Based Awards. The CEO is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the CEO to be consistent with the purposes of the Plan including, without limitation, purchase rights, Shares awarded which are not subject to any restrictions or conditions, convertible debentures, convertible preferred stock, exchangeable securities or other rights convertible or exchangeable into Shares, Awards valued by reference to the value of securities of or the performance of specified Affiliates, and Awards payable in securities of Affiliates. The CEO shall determine the terms and conditions of such Awards. Except as provided in Section 7.01, Shares or securities delivered pursuant to a purchase right granted under this Section 6.08 shall be purchased for such consideration, paid for by such methods and in such forms, including, without limitation, cash, Shares, outstanding Awards or other property, as the CEO shall determine, the value of which consideration shall not be less than the Fair Market Value of a Share on the date of grant of such purchase right and in no event shall be less than the par value of a Share.

6.09 Exchange Provisions. The CEO may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Shares, another Award or other property, based on such terms and conditions as the CEO shall determine and communicate to the Participant at the time that such offer is made.

SECTION 7. General Terms of Awards.

7.01 Stand-Alone, Tandem and Substitute Awards. Awards granted under the Plan may, in the discretion of the CEO, be granted either alone or in addition to, in tandem with or in substitution for, any other Award granted under the Plan or any award granted under The Williams Companies, Inc. 1990 Stock Plan, or any other plan of the Company or any Affiliate (subject to the terms of Section 10.01). If an Award is granted in substitution for another Award or award, the CEO shall require the surrender of such other Award or award in consideration for the grant of the new

Award. Awards granted in addition to or in tandem with other Awards or awards may be granted either at the same time as or at a different time from the grant of such other Awards or awards. The exercise price of any Option, the grant price of any Stock Appreciation Right or the purchase price of any other Award conferring a right to purchase Shares:

(i) granted in substitution for an outstanding Award or award shall either be not less than the Fair Market Value of Shares at the date such substitute Award is granted or not less than such Fair Market Value at that date reduced to reflect the Fair Market Value of the Award or award required to be surrendered by the Participant as a condition to receipt of a substitute Award; or

(ii) retroactively granted in tandem with an outstanding Award or award shall be either not less than the Fair Market Value of Shares at the date of grant of the later Award or the Fair Market Value of Shares at the date of grant of the earlier Award or award.

7.02 Term of Awards. The term of each Award shall be for such period as may be determined by the CEO.

7.03 Form of Payment of Awards. Subject to the terms of the Plan and any applicable Award Agreement, payments or substitutions to be made by the Company or an Affiliate upon the grant or exercise of an Award may be made in such forms as the CEO shall determine at the time of grant or thereafter (subject to the terms of Section 10.01), including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or substitution, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the CEO. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents in respect of installment or deferred payments.

7.04 Limits on Transfer of Awards; Beneficiaries. No right or interest of a Participant in, or relating to, any Award shall be pledged, encumbered or hypothecated to or in favor of any Person other than the Company or an Affiliate, or shall be subject to any lien, obligation or liability of such Participant to any Person other than the Company or an Affiliate. Unless otherwise determined by the CEO (consistent with the requirements for registration of offers and sales of Shares under the Plan with the Securities and Exchange Commission on a registration statement on Form S-8, as then in effect, or such other such registration form as may then be available), no Award subject to any restriction or limitation, including any right relating thereto, shall be

assignable or transferable by a Participant otherwise than by will or the laws of descent and distribution except to the Company or any Affiliate under the terms of the Plan; provided, however, that, if so determined by the CEO, a Participant may, in the manner established by the CEO, designate a beneficiary or beneficiaries to exercise the rights of the Participant, and to receive any distribution with respect to any Award, upon the death of the Participant. A beneficiary, guardian, legal representative or other Person claiming any rights under the Plan from or through any Participant shall be subject to all the terms and conditions of the Plan and any Award Agreement applicable to such Participant as well as any additional restrictions or limitations deemed necessary or appropriate by the CEO.

7.05 Registration and Listing Compliance. The Company shall have no obligation to make any payment or distribute Shares with respect to any Award in a transaction subject to the registration requirements of the Securities Act of 1933, as amended, or any state securities laws or subject to a listing requirement under any listing agreement between the Company and any national securities exchange, and no Award shall confer upon any Participant's rights to such delivery or distribution, until such laws and contractual obligations of the Company have been complied within all material respects.

7.06 Stock Certificates. All certificates for Shares delivered under the terms of the Plan shall be subject to such stop-transfer orders and other restrictions as the CEO may deem advisable under federal or state securities laws, rules and regulations thereunder, and the rules of any national securities exchange or automated quotation system on which Shares are listed or quoted. The CEO may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions or any other restrictions or limitations that may be applicable to Shares. In addition, during any period in which Awards or Shares are subject to restrictions or limitations under the terms of the Plan or any Award Agreement, or during any period during which delivery or receipt of an Award or Shares has been deferred by the CEO or a Participant, the CEO may require any Participant to enter into an agreement providing that certificates representing Shares issuable or issued pursuant to an Award shall remain in the physical custody of the Company or such other Person as the CEO may designate.

SECTION 8. Adjustment Provisions.

8.01 In the event that the CEO shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, exchange of Shares or other securities of the Company, or other

similar corporate transaction or event affects the Shares such that an adjustment is determined by the CEO to be appropriate in order to prevent dilution or enlargement of Participants' rights under the Plan, then the CEO shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of Shares which may thereafter be issued in connection with Awards; (ii) the number and kind of Shares issued or issuable in respect of outstanding Awards; and (iii) the exercise price, grant price or purchase price relating to any Award or, if deemed appropriate, make provision for a cash payment with respect to any outstanding Award. In addition, the CEO is authorized to make adjustments in the terms and conditions of, and the criteria in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate, or in response to changes in applicable laws, regulations or accounting principles.

SECTION 9. Change of Control Provisions.

9.01 Acceleration of Exercisability and Lapse of Restrictions. In the event of a Change of Control, the following acceleration provisions shall apply, except that prior to a Change of Control occurring or a Potential Change of Control arising or after such has arisen but is no longer continuing, the Board may, without the consent of Participants, waive the application of this Section 9 with respect to any transaction that would otherwise constitute a Change of Control or a Potential Change of Control hereunder. All outstanding Awards pursuant to which the Participant may have rights the exercise of which is restricted or limited, shall become fully exercisable, unless the right to lapse of restrictions or limitations is waived or deferred by a Participant prior to such lapse, all restrictions or limitations (including risks of forfeiture) on outstanding Awards subject to restrictions or limitations under the Plan shall lapse; and all performance criteria and other conditions to payment of Awards under which payments of cash, Shares or other property are subject to conditions shall be deemed to be achieved or fulfilled and shall be waived by the Company.

9.02 Creation and Funding of Trust. Upon the earlier of the occurrence of a Potential Change of Control unless the Board or a committee thereof adopts a resolution within ten business days following the date the Potential Change of Control arises to the effect that such action is not necessary to secure any payments hereunder, or a Change of Control, the Company shall deposit with the trustee of a trust for the benefit of Participants monies or other property having a Fair Market Value at least equal to the value of cash, Shares and other property to be paid or distributed in connection with Awards outstanding at that date. The trust shall be a grantor trust which shall preserve the "unfunded" status of Awards under the Plan, and shall contain other terms and

conditions substantially as specified for trusts authorized under the Company's employment agreements with executives. Subsequent to a Potential Change of Control which is no longer continuing and prior to a Change of Control and termination of the trust, upon the request of the Company, the trustee shall deliver the monies or other property held in the trust to the Company.

9.03 Definition of Certain Terms. For purposes of this Section 9, the following definitions, in addition to those set forth in Section 2.01, shall apply:

9.03.1 "Change of Control" means and shall be deemed to have occurred if (i) any Person, other than the Company or a Related Party, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of Voting Securities representing 20 percent or more of the total voting power of all the then outstanding Voting Securities; or (ii) a Person, other than the Company or a Related Party, purchases or otherwise acquires, under a tender offer, Voting Securities representing, when combined with other Voting Securities owned by such Person, 20 percent or more of the total voting power of all the then outstanding Voting Securities; or (iii) the individuals (a) who as of the effective date of the Plan constitute the Board or (b) who thereafter are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of at least two-thirds of the directors then still in office who either were directors as of the effective date of the Plan or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the members of the Board, or (iv) the stockholders of the Company approve a merger, consolidation, recapitalization or reorganization of the Company or an acquisition of securities or assets by the Company, or consummation of any such transaction if stockholder approval is not obtained (other than any such transaction which would result in the Voting Securities outstanding immediately prior thereto continuing to represent either by remaining outstanding or by being converted into voting securities of the surviving entity, at least 80 percent of the total voting power represented by the voting securities of such surviving entity outstanding immediately after such transaction and in or as a result of which the voting rights of each Voting Security relative to the voting rights of all other Voting Securities are not altered); or (v) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets other than any such transaction which would result in a Related Party owning or acquiring more than 50 percent of the assets owned by the Company immediately prior to the transaction; or (vi) the Board or a committee thereof adopts a resolution to the effect that a Change of Control has occurred or adopts a resolution to the effect that a Potential Change of Control has arisen and the transaction giving rise to such resolution has been thereafter approved by the

stockholders of the Company or been consummated if such approval is not sought.

9.03.2 "Potential Change of Control" means and shall be deemed to have arisen if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change of Control; or (ii) any Person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change of Control; or (iii) any Person, other than a Related Party, files with the Securities and Exchange Commission a Schedule 13D pursuant to Rule 13d-1 under the Exchange Act with respect to Voting Securities; or (iv) any Person, other than the Company or a Related Party, files with the Federal Trade Commission a notification and report form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with respect to any Voting Securities or a major portion of the assets of the Company; or (v) the Board or a committee thereof adopts a resolution to the effect that, for purposes of the Plan, a Potential Change of Control has arisen. A Potential Change of Control will be deemed to continue (i) with respect to an agreement within the purview of clause (i) of the preceding sentence, until the agreement is canceled or terminated; or (ii) with respect to an announcement within the purview of clause (ii) of the preceding sentence, until the Person making the announcement publicly abandons the stated intention or fails to act on such intention for a period of 12 calendar months; or (iii) with respect to either the filing of a Schedule 13D within the purview of clause (iii) of the preceding sentence or the filing of a notification and report form within the purview of clause (iv) of the preceding sentence with respect to Voting Securities, until the Person involved publicly announces that its ownership or acquisition of the Voting Securities is for investment purposes only and not for the purpose of seeking a Change of Control or such Person disposes of the Voting Securities or assets; or (iv) with respect to any Potential Change of Control, until a Change of Control has occurred or the Board or a committee thereof, on reasonable belief after due investigation, adopts a resolution that the Potential Change of Control has ceased to exist.

9.03.3 "Related Party" means (i) a majority-owned subsidiary of the Company; or (ii) an employee or group of employees of the Company or any majority-owned subsidiary of the Company; or (iii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any majority-owned subsidiary of the Company; or (iv) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of Voting Securities.

9.03.4 "Voting Securities or Security" means any securities of the Company which carry the right to vote generally in the election of directors.

SECTION 10. Amendments to and Termination of the Plan.

10.01 The Board may amend, alter, suspend, discontinue or terminate the Plan without the consent of stockholders or Participants; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of the Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him. The CEO may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate any Award theretofore granted, prospectively or retrospectively; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him.

Unless earlier terminated by the Board, the Plan shall terminate when no Shares remain reserved and available for issuance and the Company has no further obligation with respect to any Award granted under the Plan.

SECTION 11. General Provisions.

11.01 No Rights to Awards; No Stockholder Rights. No Participant or employee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Participants and employees, except as provided in any other compensation arrangement. No Award shall confer on any Participant any of the rights of a stockholder of the Company unless and until Shares are in fact issued to such Participant in connection with such Award.

11.02 Withholding. The Company or any Affiliate is authorized to withhold from any Award granted or any payment due under the Plan, including from a distribution of Shares, amounts of withholding taxes due with respect to an Award, its exercise or any payment thereunder, and to take such other action as the CEO may deem necessary or advisable to enable the Company and Participants to satisfy obligations for the payment of such taxes. This authority shall include authority to withhold or receive Shares, Awards or other property and to make cash payments in respect thereof in satisfaction of such tax obligations.

11.03 No Right to Employment. Nothing contained in the Plan or any Award Agreement shall confer, and no grant of an Award shall be construed as conferring, upon any Participant any right to continue in the employ of the Company or any Affiliate or to interfere in any way with the right of the Company or any Affiliate to terminate his employment at any time or increase or decrease his compensation from the rate in existence at the time of granting of an Award, except as provided in any other compensation arrangement.

11.04 Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that, in addition to the requirements of Section 9.02, the CEO may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the CEO otherwise determines.

11.05 No Limit on Other Compensatory Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting other or additional compensation arrangements (which may include, without limitation, employment agreements with executives and arrangements which relate to Awards under the Plan), and such arrangements may be either generally applicable or applicable only in specific cases. Notwithstanding anything in the Plan to the contrary, the terms of each Award shall be construed so as to be consistent with such other arrangements in effect at the time of the Award.

11.06 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The CEO shall determine whether cash, other Awards or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

11.07 Governing Law. The validity, interpretation, construction and effect of the Plan and any rules and regulations relating to the Plan shall be governed by the laws of the State of Delaware (without regard to the conflicts of laws thereof), and applicable federal law.

11.08 Severability. If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the CEO, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the CEO, materially altering the intent of the Plan, it shall be deleted and the remainder of the Plan shall remain in full force and effect; provided, however, that, unless otherwise determined by the CEO, the provision shall not be construed or deemed amended or deleted with respect to any Participant whose rights and obligations under the Plan are not subject to the law of such jurisdiction or the law deemed applicable by the CEO.

SECTION 12. Effective Date.

12.01 The Plan shall become effective as of January 19, 1995.

THE WILLIAMS COMPANIES, INC.

By */s/ John C. Fischer*

John C. Fischer
Vice President

EXHIBIT 11

THE WILLIAMS COMPANIES, INC.

COMPUTATION OF EARNINGS PER COMMON
AND COMMON-EQUIVALENT SHARE

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(THOUSANDS, EXCEPT PER-SHARE AMOUNTS)		
Primary earnings:			
Income from continuing operations.....	\$ 299,400	\$164,900	\$185,400
Preferred stock dividends:			
\$2.21 cumulative preferred stock.....	6,000	8,800	8,900
\$3.875 cumulative convertible exchangeable preferred stock....	--	--	2,900
\$3.50 cumulative convertible preferred stock.....	5,800	--	--
Effect of preferred stock exchange.....	3,500	--	--
Income from continuing operations, net of preferred stock dividends.....	284,100	156,100	173,600
Income from discontinued operations.....	1,018,800	94,000	46,400
Income before extraordinary loss, net of preferred stock dividends.....	1,302,900	250,100	220,000
Extraordinary loss.....	--	(12,200)	--
Income applicable to common stock.....	\$1,302,900	\$237,900	\$220,000
Primary shares:			
Average number of common shares outstanding during the period....	98,713	101,235	98,735
Common-equivalent shares attributable to options and deferred stock.....	3,333	1,235	1,176
Total common and common-equivalent shares.....	102,046	102,470	99,911
Primary earnings per common and common-equivalent share:			
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.....	\$ 12.77	\$ 2.32	\$ 2.20
Fully diluted earnings:			
Income from continuing operations.....	\$ 299,400	\$164,900	\$185,400
Preferred stock dividends:			
\$2.21 cumulative preferred stock.....	6,000	8,800	8,900
Effect of preferred stock exchange.....	3,500	--	--
Income from continuing operations, net of preferred stock dividends.....	289,900	156,100	176,500
Income from discontinued operations.....	1,018,800	94,000	46,400
Income before extraordinary loss, net of preferred stock dividends.....	1,308,700	250,100	222,900
Extraordinary loss.....	--	(12,200)	--
Income applicable to common stock.....	\$1,308,700	\$237,900	\$222,900
Fully diluted shares:			
Average number of common shares outstanding during the period....	98,713	101,235	98,735
Common-equivalent shares attributable to options and deferred stock.....	3,518	1,267	1,318
Shares attributable to conversion, assumed at January 1, 1993 to the conversion dates, of convertible exchangeable preferred stock.....	--	--	3,118
Dilutive preferred shares.....	2,622	--	--
Total common and common-equivalent shares.....	104,853	102,502	103,171
Fully diluted earnings per common and common-equivalent share:			
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.....	\$ 12.48	\$ 2.32	\$ 2.16
	=====	=====	=====

EXHIBIT 12

THE WILLIAMS COMPANIES, INC. AND SUBSIDIARIES

**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDEND REQUIREMENTS**

	YEARS ENDED DECEMBER 31,				
	1995	1994	1993	1992	1991
	(DOLLARS IN MILLIONS)				
Earnings:					
Income from continuing operations before income taxes.....	\$401.4	\$246.6	\$298.0	\$145.5	\$ 93.1
Add:					
Interest expense -- net.....	263.4	139.8	140.8	136.5	134.2
Rental expense representative of interest factor.....	26.9	9.2	8.1	8.3	5.3
Preferred dividends of subsidiaries.....	3.7	--	--	.3	.8
Interest accrued -- 50% owned company.....	30.7	31.7	31.3	27.3	10.3
Minority interest expense.....	10.0	--	--	--	--
Other.....	5.5	2.0	4.1	.4	.9
	-----	-----	-----	-----	-----
Total earnings as adjusted plus fixed charges.....	\$741.6	\$429.3	\$482.3	\$318.3	\$244.6
	=====	=====	=====	=====	=====
Combined fixed charges and preferred stock dividend requirements:					
Interest expense -- net.....	\$263.4	\$139.8	\$140.8	\$136.5	\$134.2
Capitalized interest.....	14.5	6.0	10.4	8.9	4.7
Rental expense representative of interest factor.....	26.9	9.2	8.1	8.3	5.3
Pretax effect of dividends on preferred stock of the Company.....	18.0	13.1	19.1	19.4	15.9
Pretax effect of dividends on preferred stock of subsidiaries.....	5.8	--	--	.4	1.2
Interest accrued -- 50% owned company.....	30.7	31.7	31.3	27.3	10.3
	-----	-----	-----	-----	-----
Combined fixed charges and preferred stock dividend requirements.....	\$359.3	\$199.8	\$209.7	\$200.8	\$171.6
	=====	=====	=====	=====	=====
Ratio of earnings to combined fixed charges and preferred stock dividend requirements.....	2.06	2.15	2.30	1.59	1.43
	=====	=====	=====	=====	=====

LOGO

**KEITH E. BAILEY, CHAIRMAN OF THE BOARD,
PRESIDENT AND CHIEF EXECUTIVE OFFICER**

To the Stockholders of The Williams Companies, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of The Williams Companies, Inc. to be held on Thursday, May 16, 1996, in the Adam's Mark Hotel, 100 East 2nd Street, Tulsa, Oklahoma, commencing at 11 a.m., local time. We look forward to greeting personally as many of our stockholders as possible at the meeting.

The Notice of the Annual Meeting and Proxy Statement accompanying this letter provide information concerning matters to be considered and acted upon at the meeting. A report on the operations of the Company will be presented at the meeting, followed by a question-and-answer and discussion period.

We know that most of our stockholders are unable personally to attend the Annual Meeting. Proxies are solicited so that each stockholder has an opportunity to vote on all matters that are scheduled to come before the meeting. Whether or not you plan to attend, please take a few minutes now to sign, date and return your proxy in the enclosed postage-paid envelope. Regardless of the number of shares you own, your vote is important.

Thank you for your continued interest in the Company.

Very truly yours,

/s/ KEITH E. BAILEY

Keith E. Bailey

*Enclosures
March 27, 1996*

**THE WILLIAMS COMPANIES, INC.
ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

MAY 16, 1996

To the Stockholders of
The Williams Companies, Inc.

NOTICE IS HEREBY GIVEN that the 1996 Annual Meeting of Stockholders of The Williams Companies, Inc. will be held in the Adam's Mark Hotel, 100 East 2nd Street, Tulsa, Oklahoma, on Thursday, May 16, 1996, at 11 a.m., local time, for the following purposes:

1. To elect four directors of the Company;
2. To consider and act upon a proposal to approve the 1996 Stock Plan;
3. To consider and act upon a proposal to approve the 1996 Stock Plan for Non-Employee Directors;
4. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as the independent auditor of the Company for 1996; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 22, 1996, as the record date for the meeting, and only holders of Common Stock of record at such time will be entitled to vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

David M. Higbee
Secretary

Tulsa, Oklahoma
March 27, 1996

EVEN IF YOU INTEND TO BE PRESENT AT THE MEETING, PLEASE SIGN, DATE AND RETURN THE ACCOMPANYING PROXY PROMPTLY SO THAT YOUR SHARES OF COMMON STOCK MAY BE REPRESENTED AND VOTED AT THE MEETING. A RETURN ENVELOPE IS ENCLOSED FOR THIS PURPOSE.

**THE WILLIAMS COMPANIES, INC.
ONE WILLIAMS CENTER
TULSA, OKLAHOMA 74172**

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

MAY 16, 1996

This Proxy Statement is furnished by The Williams Companies, Inc. (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 1996 Annual Meeting of Stockholders to be held at the time and place and for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders, and at any and all adjournments of said meeting. The term "Company" also includes subsidiaries where the context requires.

SOLICITATION AND REVOCATION OF PROXIES AND VOTING

Execution and return of the enclosed proxy will not in any way affect a stockholder's right to attend the Annual Meeting of Stockholders and to vote in person, and a stockholder giving a proxy has the power to revoke it at any time before it is exercised. The proxy may be revoked prior to its exercise by delivering written notice of revocation to the Secretary of the Company, by executing a later dated proxy or by attending the Annual Meeting and voting in person. Properly executed proxies in the accompanying form, received in due time and not previously revoked, will be voted at the Annual Meeting or any adjournment thereof as specified therein by the person giving the proxy, but, if no specification is made, the shares represented by proxy will be voted as recommended by the Board of Directors.

The expenses of this proxy solicitation, including the cost of preparing and mailing the Proxy Statement and proxy, will be paid by the Company. Such expenses may also include the charges and expenses of banks, brokerage firms, and other custodians, nominees or fiduciaries for forwarding proxies and proxy material to beneficial owners of the Company's Common Stock. The Company expects to solicit proxies primarily by mail, but directors, officers, employees and agents of the Company may also solicit proxies in person or by telephone or by other electronic means. In addition, the Company has retained Morrow & Co., Inc. to assist in the solicitation of proxies for which the Company will pay an estimated \$9,500 in fees, plus expenses and disbursements. This Proxy Statement and accompanying proxy were first mailed to stockholders on or about March 29, 1996.

The presence, in person or by proxy, of a majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting shall constitute a quorum for the transaction of business. If a quorum is present, other than the election of directors which requires a plurality of the votes cast, proposals to be voted on at the Annual Meeting will be decided by a majority of the votes cast by the stockholders entitled to vote thereon, present in person or represented by proxy, unless the proposal relates to matters on which more than a majority vote is required under the Company's Restated Certificate of Incorporation, as amended, its By-laws, the laws of the State of Delaware, under whose laws the Company is incorporated, or other applicable law.

A stockholder may, with respect to the election of directors: (i) vote for the election of all nominees named herein; (ii) withhold authority to vote for all such nominees; or (iii) vote for the election of all such nominees other than any nominees with respect to whom the vote is specifically withheld by indicating in the space provided on the proxy. A stockholder may, with respect to each other matter to be voted upon: (i) vote for the matter; (ii) vote against the matter; or (iii) abstain from voting on the matter.

Votes withheld from a nominee for election as a director or votes on other matters that reflect abstentions or broker non-votes (i.e., shares as to which the record owner has not received instructions from the beneficial owner of the shares on a matter as to which, under the applicable rules of the New York Stock Exchange, the

record owner does not have authority to vote without such instruction), will be treated as present at the Annual Meeting for the purpose of determining a quorum but will not be counted as votes cast.

A majority of the votes properly cast is required to ratify the appointment of the auditor. However, the affirmative vote of a majority of the votes present or represented by proxy and entitled to vote is required to approve both the 1996 Stock Plan and the 1996 Stock Plan for Non-Employee Directors. Accordingly, abstentions will have the effect of a vote against the adoption of the Plans, while broker non-votes will have no effect on the outcome. On other matters to come before the Annual Meeting, abstentions and non-votes will have no effect on the outcome.

As a matter of policy, proxies and voting tabulations that identify individual stockholders are kept confidential. Such documents are only made available to those who process the proxy cards, tabulate the vote and serve as inspectors of election, none of whom are Company employees, and certain employees of the Company responsible for the Annual Meeting. The vote of any stockholder is not disclosed except as may be necessary to meet legal requirements.

Only holders of the Company's Common Stock of record at the close of business on March 22, 1996, will be entitled to receive notice of and to vote at the Annual Meeting. The Company had 104,651,013 shares of Common Stock outstanding on the record date, and each share is entitled to one vote.

ELECTION OF DIRECTORS

The Company's Restated Certificate of Incorporation, as amended, provides for three classes of directors of as nearly equal size as possible and further provides that the total number of directors shall be determined by resolution adopted by the affirmative vote of a majority of the Board of Directors, except that the total number of directors may not be less than 5 nor more than 17. The term of each class of directors is normally three years and the term of one class expires each year in rotation.

Four individuals, all of whom are currently directors of the Company, have been nominated for election as directors at the Annual Meeting. Each has been nominated for a three-year term and nine directors will continue in office to serve pursuant to their prior elections. In accordance with the recommendation of the Nominating Committee, the Board of Directors proposes that the following nominees be elected: Mrs. Kay A. Orr and Messrs. Robert J. LaFortune, Jack A. MacAllister and Peter C. Meinig. The nominees named have been nominated for full three-year terms expiring in May 1999. Messrs. Harold W. Andersen and Ralph E. Bailey, currently directors of the Company, will retire at the 1996 Annual Meeting in accordance with the Company's retirement policy for directors and the Board has elected to reduce the size of the Board to 13 effective with such retirements.

The persons named as proxies in the accompanying proxy, who have been designated by the Board of Directors, intend to vote, unless otherwise instructed in such proxy, for the election of Mrs. Kay A. Orr and Messrs. Robert J. LaFortune, Jack A. MacAllister and Peter C. Meinig. Should any nominee named herein become unable for any reason to stand for election as a director of the Company, it is intended that the persons named in the proxy will vote for the election of such other person or persons as the Nominating Committee may recommend and the Board of Directors may propose to replace such nominee or, if none, the Nominating Committee will recommend that the size of the Board be reduced. The Company knows of no reason why any of the nominees will be unavailable or unable to serve.

The names of the nominees and the directors whose terms of office will continue after the 1996 Annual Meeting, their principal occupations during the past five years, other directorships held and certain other information are set forth below.

STANDING FOR ELECTION

CLASS I

(TERM EXPIRES MAY 1999)

ROBERT J. LAFORTUNE, AGE 69

Director since 1978. Mr. LaFortune is self-employed and manages personal interests and investments. He has been so employed for more than five years. He is the former mayor of Tulsa. Mr. LaFortune is also a director of BOK Financial Corporation.

JACK A. MACALLISTER, AGE 68

Director since 1994. Mr. MacAllister is Chairman Emeritus of U S WEST, Inc., a telecommunications company. Mr. MacAllister retired as Chairman of the Board of U S WEST in 1992. He served as the Chief Executive Officer of U S WEST from 1982 to 1990. Mr. MacAllister is also a director of TELUS Corporation/AGT Limited.

PETER C. MEINIG, AGE 56

Director since 1993. Mr. Meinig is President and Chief Executive Officer of HM International, Inc., a privately-owned diversified manufacturing and management company, and has been for more than five years.

KAY A. ORR, AGE 57

Director since 1991. Mrs. Orr served as Governor of Nebraska from 1987 to 1991. Mrs. Orr is also a director of the Consumer Services Board of ServiceMaster and VanCom.

DIRECTORS CONTINUING IN OFFICE

CLASS II

(TERM EXPIRES MAY 1997)

KEITH E. BAILEY, AGE 53

Director since 1988. Mr. Bailey was elected Chairman of the Board of the Company in 1994. He was elected President of the Company in 1992 and Chief Executive Officer in 1994. He served as Executive Vice President of the Company from 1986 to 1992. Mr. Bailey is also a director of BOK Financial Corporation, Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation and Apco Argentina Inc.

ERVIN S. DUGGAN, AGE 56

Director since 1994. Mr. Duggan is President and Chief Executive Officer of the Public Broadcasting Service the network and program distribution company of America's public television stations, and has been since 1994. He was a Federal Communications Commissioner from 1990 until 1994.

JAMES C. LEWIS, AGE 63

Director since 1978. Mr. Lewis is Chairman of the Board of Optimus Corporation, an investment company, and has been for more than five years. Mr. Lewis is also a director of CFT, Inc.

JAMES A. MCCLURE, AGE 71

Director since 1991. Mr. McClure is President of McClure, Gerard & Neuenschwander, Inc., a government relations consulting firm, and is of counsel to the law firm of Givens, Pursley & Huntley, Boise, Idaho, and has been for more than five years. He was a U.S. Senator from Idaho from 1973 to 1990. Mr. McClure is also a director of Boise Cascade Corporation and Coeur d'Alene Mines Corporation.

CLASS III

(TERM EXPIRES MAY 1998)

GLENN A. COX, AGE 66

Director since 1992. Mr. Cox was President and Chief Operating Officer of Phillips Petroleum Company, a company engaged in the exploration, production, refining and marketing of petroleum and in the manufacture and distribution of a wide variety of chemicals, until his retirement in 1991. Mr. Cox is also a director of BOK Financial Corporation, Helmerich & Payne, Inc. and Union Texas Petroleum Holdings, Inc.

THOMAS H. CRUIKSHANK, AGE 64

Director since 1990. Mr. Cruikshank was Chairman of the Board and Chief Executive Officer of Halliburton Company, a diversified oil field services, engineering and construction company, until his retirement in 1995. He was an executive of Halliburton for more than five years. Mr. Cruikshank is also a director of The Goodyear Tire & Rubber Company and Central and Southwest Corporation.

PATRICIA L. HIGGINS, AGE 46

Director since 1995. Ms. Higgins is President, Worldwide Communications Market Sector Group of Unisys Corporation, an information management company applying information services and technology expertise for business and government, and has been since 1995. She was a Group Vice President of NYNEX from 1991 to 1994 and was employed by AT&T in various management-level positions from 1977 to 1991. Ms. Higgins is also a director of Fleet Bank.

GORDON R. PARKER, AGE 60

Director since 1987. Mr. Parker was Chairman of the Board of Newmont Mining Corporation, a company engaged in the exploration for, and the operation and management of, precious metal properties, until his retirement in 1994. He was an executive of Newmont for more than five years. Mr. Parker is also a director of Caterpillar Inc. and Phelps Dodge Corporation.

JOSEPH H. WILLIAMS, AGE 62

Director since 1969. Mr. Williams is engaged in personal investments. He was Chairman of the Board and Chief Executive Officer of the Company prior to his retirement in 1994. He was an executive of the Company for more than five years. Mr. Williams is also a director of The Prudential Life Insurance Company of America.

COMMITTEES, MEETINGS AND DIRECTOR COMPENSATION

The Board of Directors has the responsibility for establishing broad corporate policies and for the overall performance of the Company. However, the Board is not involved in the day-to-day operations of the Company. The Board is kept informed of the Company's business through discussions with the Chief Executive Officer and other officers, by reviewing analyses and reports provided to them on a regular basis and by participating in Board and Committee meetings.

The Board of Directors held 11 meetings during 1995. No director attended less than 75 percent of the Board and Committee meetings. The Board has established standing committees to consider designated matters. The Committees of the Board are Executive, Audit, Nominating and Compensation. In accordance with the By-laws of the Company, the Board of Directors annually elects from its members the members and chairman of each committee.

Executive Committee. Members: Keith E. Bailey, Chairman, Glenn A. Cox, Robert J. LaFortune, James C. Lewis, Peter C. Meinig and Joseph H. Williams.

The Executive Committee is authorized to act for the Board of Directors in the management of the business and affairs of the Company, except as such authority may be limited from time to time by the laws of the State of Delaware. The Executive Committee met two times in 1995.

Audit Committee. Members: Robert J. LaFortune, Chairman, Ervin S. Duggan, Patricia L. Higgins, James C. Lewis, James A. McClure, Peter C. Meinig and Kay A. Orr.

The Audit Committee is composed of nonemployee directors. The Audit Committee annually considers the qualifications of the independent auditor of the Company and makes recommendations to the Board on the engagement of the independent auditor. The Audit Committee meets on a scheduled basis with representatives of the independent auditor and is available to meet at the request of the independent auditor. During meetings, the Audit Committee receives reports regarding the Company's books of accounts, accounting procedures, financial statements, audit policies and procedures and other matters within the scope of the Committee's duties. It reviews the plans for and results of audits of the Company and its subsidiaries. It reviews and approves the independence of the independent auditor. It considers and authorizes the fees for both audit and nonaudit services of the independent auditor, and the Committee or its Chairman must authorize in advance any nonaudit services in excess of \$50,000.

The Audit Committee also meets with representatives of the Company's Audit Services Department. It reviews the results of the internal audits, compliance with the Company's written policies and procedures and the adequacy of the Company's system of internal accounting and management controls. It meets with the financial and accounting officers of the Company and the executive officers of subsidiary companies to review various aspects of their operations. During 1995, the Audit Committee met five times.

Nominating Committee. Members: Harold W. Andersen, Chairman, Ralph E. Bailey, Thomas H. Cruikshank, Jack A. MacAllister, James A. McClure, Kay A. Orr, Gordon R. Parker and Joseph H. Williams.

The Nominating Committee is composed of nonemployee directors. The Nominating Committee is responsible for recommending candidates to fill vacancies on the Board as such vacancies occur, as well as the slate of nominees for election as directors by the stockholders at each Annual Meeting of Stockholders. Additionally, the Committee recommends to the Board the individual to be the Chairman of the Board and Chief Executive Officer. During 1995, the Nominating Committee met four times.

Qualifications considered by the Nominating Committee for director candidates include an attained position of leadership in the candidate's field of endeavor, business and financial experience, demonstrated exercise of sound business judgment, expertise relevant to the Company's lines of business and the ability to serve the interests of all stockholders. The Committee will consider director candidates submitted to it by other directors, employees and stockholders. As a requisite to consideration, each recommendation must be accompanied by biographical material on the proposed candidate, as well as an indication that the proposed candidate would be willing to serve as a director if elected. Recommendations with supporting material may be sent to the attention of the Corporate Secretary.

Compensation Committee. Members: Thomas H. Cruikshank, Chairman, Ralph E. Bailey, Glenn A. Cox, Ervin S. Duggan, Jack A. MacAllister and Gordon R. Parker.

The members of the Compensation Committee are nonemployee directors and are ineligible to participate in any of the plans or programs which are administered by the Committee. The Compensation Committee approves the standard for setting salary ranges for executive officers of the Company, reviews and

approves the salary budgets for all other officers of the Company and of each subsidiary and specifically reviews and approves the compensation of the senior executives of the Company. It reviews action taken by management in accordance with the salary guidelines for executives and establishes the performance objectives for variable compensation for executives. It also approves stock option grants for the executive officers named herein. See the "Compensation Committee Report on Executive Compensation" elsewhere herein. During 1995, the Compensation Committee met five times.

Compensation of Directors. Employee directors receive no additional compensation for service on the Board of Directors or Committees of the Board. Directors who are not employees currently receive an annual retainer of \$24,000 and a Committee retainer (with the exception of the Executive Committee) of \$4,000 for each Committee assignment held, and an additional fee for attending Board and Committee meetings (with the exception of Executive Committee meetings) of \$1,000 and \$500, respectively. Members of the Executive Committee do not receive an annual retainer but do receive a \$750 meeting fee. Chairmen of the Audit, Nominating and Compensation Committees are paid an additional annual fee of \$2,500.

Under the terms of a Plan for Election to Defer Director Fees, a director may defer all or part of such fees to any subsequent year or until such individual ceases to be a director. Interest on deferred amounts accrues monthly at prime interest rates. Five directors elected to defer fees under this plan in 1995.

Under the Company's 1988 Stock Option Plan for Non-Employee Directors, all nonemployee directors receive an annual stock option grant of 2,000 shares of the Company's Common Stock. The options vest after six months. The exercise price is equal to the market value of the stock on the date of grant as defined by the Plan.

The Board has adopted, subject to stockholder approval at the Annual Meeting, the 1996 Stock Plan for Non-Employee Directors. See "SUMMARY OF THE 1996 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS." If approved, the new plan will continue to provide annual grants of options to purchase 2,000 shares of Common Stock. In addition, the new plan will provide for an annual grant of 250 shares of Common Stock and elective deferrals of cash fees in the form of Common Stock or deferred stock. If approved, the Board intends to reduce the amount of the annual cash retainer from \$24,000 to \$12,000.

All directors are reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the Board or any Committee or otherwise by reason of their being a director.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table provides certain summary information concerning compensation of the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company for the three fiscal years ended December 31, 1995:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		ALL OTHER COMPENSATION (1)	
		SALARY	BONUS (YR. EARNED)	AWARDS			PAYOUTS
				RESTRICTED STOCK AWARDS (2) (3)	STOCK OPTIONS		
Keith E. Bailey	1995	\$572,000	\$250,000	\$ 573,950(5)	50,000	\$ 0	\$13,740
Chairman, President and Chief Executive Officer	1994	550,000	0	1,202,750(5)	50,000	0	13,500
	1993	450,000	283,500	303,750	40,000	\$573,375	17,961
Brian E. O'Neill	1995	\$313,600	\$239,640	\$ 70,560	15,000	0	\$58,483(6)
President,	1994	304,600	109,000	82,000	16,600	0	58,243(6)
Williams' Interstate Natural Gas Pipelines	1993	267,250	96,210	108,236	16,600	0	60,345(6)
Lloyd A. Hightower	1995	\$291,600	\$167,880	\$ 50,520	15,000	0	\$13,740
President, Williams Field Services Group	1994	271,600	70,200	90,000	16,600	0	13,500
	1993	215,748	81,599	86,513	14,934	\$ 41,700	17,961
Stephen L. Cropper	1995	\$290,000	\$194,516	\$ 51,221	25,000	0	\$13,740
President, Williams Pipe Line, Williams Energy Services and Williams Energy Ventures	1994	271,600	80,500	81,000	16,600	0	13,500
	1993	220,212	96,893	109,005	16,600	\$312,750	17,961
John C. Bumgarner, Jr.	1995	\$279,450	\$246,712	\$ 312,876(7)	25,000	0	\$13,740
Senior Vice President, Corporate Development & Planning	1994	266,450	110,000	53,000	15,000	0	13,500
	1993	234,900	123,323	105,705	14,200	\$208,500	17,961

(1) Consists of contributions made by the Company to the Investment Plus Plan, a defined contribution plan, on behalf of each of the named executive officers and allocations made by the Company to the accounts of the named executive officers under the Bonus Employee Stock Ownership Plan, except as noted in Note 6.

(2) Awards reported in this column include the dollar value of awards converted to deferred stock (restricted stock in the case of Mr. Bailey for 1994 and 1995 and restricted stock and deferred stock in the case of Mr. Bumgarner for 1995) under the terms of the Company's 1990 Stock Plan. Awards converted to deferred stock are done so based on the 52-week average stock price for the award year. Receipt of deferred stock is deferred for three years. The restrictions on the restricted stock awards to Mr. Bailey will lapse in one-third increments in 2002, 2003 and 2004.

(3) The total number of restricted shares held and the aggregate market value at December 31, 1995, were as follows: Mr. Bailey, 87,000 shares valued at \$3,817,125 and Mr. Bumgarner, 10,000 shares valued at \$438,750. Dividends are paid on the restricted shares and dividend equivalents are paid on deferred stock at the same time and at the same rate as dividends paid to stockholders generally. The total number of shares of deferred stock held and the aggregate market value at December 31, 1995, were as follows: Mr. Bailey, 23,776 shares valued at \$1,043,172; Mr. O'Neill, 18,190 shares valued at \$798,086; Mr. Hightower, 10,225 shares valued at \$448,622; Mr. Cropper, 7,174 shares valued at \$314,759; and Mr. Bumgarner, 13,714 shares valued at \$601,702. Aggregate market value was calculated using \$43.875 per share, the closing price of the Company's Common Stock reported in the table entitled "New

York Stock Exchange Composite Transactions" contained in The Wall Street Journal for December 29, 1995.

- (4) The amounts shown represent payment of long-term awards made in 1990 and valued at \$26.0625 per share, the average of the high and low prices of the Company's Common Stock reported in the table entitled "New York Stock Exchange Composite Transactions" contained in The Wall Street Journal for December 13, 1993, the date of payment.
- (5) Represents 25,000 shares of restricted stock valued at the market price on date of grant (\$26) awarded in January 1994, 22,000 shares of restricted stock valued at December 31, 1994 (\$25.125) awarded in 1995 as 1994 incentive compensation and 13,100 shares of restricted stock valued at December 31, 1995 (\$43.813) awarded in 1996 as 1995 incentive compensation instead of the cash and deferred stock incentive compensation received by other executive officers.
- (6) Includes an annual payment of \$44,742 from Transcontinental Gas Pipe Line Corporation, a subsidiary of the Company, under the terms of a separation of employment agreement between Mr. O'Neill and Transco Energy Company, dated November 24, 1987.
- (7) Includes 10,000 shares of restricted stock valued at the market price on date of grant (\$25) and awarded as a special bonus in 1995. The restrictions on Mr. Bumgarner's restricted stock lapse three years from date of grant.

STOCK OPTION GRANTS IN LAST FISCAL YEAR

The following table provides certain information concerning the grant of stock options during the last completed fiscal year to the named executive officers:

OPTION GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS (1)				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (PER SHARE)	EXPIRATION DATE	5%	10%
Keith E. Bailey	16,666	0.49%	\$30.00	03/16/05	\$ 314,987	\$ 794,968
	16,667	0.49	34.00	07/22/05	357,007	901,018
	16,667	0.49	40.00	11/16/05	420,008	1,060,021
	50,000	1.47%			\$1,092,002	\$2,756,007
Brian E. O'Neill	5,000	0.15%	\$30.00	03/16/05	\$ 94,500	\$ 238,500
	5,000	0.15	34.00	07/22/05	107,100	270,300
	5,000	0.15	40.00	11/16/05	126,000	318,000
	15,000	0.45%			\$ 327,600	\$ 826,800
Lloyd A. Hightower	5,000	0.15%	\$30.00	03/16/05	\$ 94,500	\$ 238,500
	5,000	0.15	34.00	07/22/05	107,100	270,300
	5,000	0.15	40.00	11/16/05	126,000	318,000
	15,000	0.45%			\$ 327,600	\$ 826,800
Stephen L. Cropper	8,333	0.25%	\$30.00	03/16/05	\$ 157,494	\$ 397,484
	8,333	0.25	34.00	07/22/05	178,493	450,482
	8,334	0.25	40.00	11/16/05	210,017	530,042
	25,000	0.75%			\$ 546,004	\$1,378,008
John C. Bumgarner, Jr.	8,333	0.25%	\$30.00	03/16/05	\$ 157,494	\$ 397,484
	8,333	0.25	34.00	07/22/05	178,493	450,482
	8,334	0.25	40.00	11/16/05	210,017	530,042
	25,000	0.75%			\$ 546,004	\$1,378,008

(1) Options granted in 1995 to the named executive officers became exercisable in November 1995 due to a provision allowing for accelerated vesting when the Common Stock price reached 1.61 times the average stock price on the first business day of January in the award year, for five out of ten consecutive business days. Otherwise, the stock options would have vested 50 percent on January 20, 1998, and 50 percent on January 20, 1999, subject to accelerated vesting in certain circumstances. The options generally have a term of ten years, subject to earlier expiration following certain terminations of the executive officers' employment. The options permit the executive officers to elect cashless withholding of option shares to pay taxes in certain circumstances. The Company granted these options under its 1990 Stock Plan.

(2) The dollar amounts shown result from calculations using 5 percent and 10 percent appreciation rates set by the Securities and Exchange Commission, compounded annually and, therefore, are not intended to forecast possible future appreciation, if any, of the Company's stock price.

OPTION EXERCISES AND FISCAL YEAR-END VALUES

The following table provides certain information on stock option exercises in 1995 by the named executive officers and the value of such officers' unexercised options at December 31, 1995:

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED, IN-THE-MONEY OPTIONS AT FISCAL YEAR-END(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Keith E. Bailey.....	12,800	\$256,000	255,531	46,669	\$5,761,810	\$ 787,533
Brian E. O'Neill.....	0	0	122,998	16,602	2,962,209	282,000
Lloyd A. Hightower.....	0	0	42,619	16,047	742,977	269,859
Stephen L. Cropper.....	0	0	109,376	16,602	2,354,024	288,000
John C. Bumgarner, Jr.....	0	0	42,621	14,736	582,606	249,892

(1) Based on the closing price of the Company's Common Stock reported in the table entitled "New York Stock Exchange Composite Transactions" contained in The Wall Street Journal for December 29, 1995 (\$43.875), less the exercise price. The values shown reflect the value of options accumulated over periods of up to ten years. Such values had not been realized at that date and may not be realized. In the event the options are exercised, their value will depend upon the value of the Company's Common Stock on the date of exercise.

RETIREMENT PLAN

The Company's Pension Plan is a noncontributory, tax-qualified defined benefit plan subject to the Employee Retirement Income Security Act of 1974. The Pension Plan generally includes salaried employees of the Company who have completed one year of service. Except as noted below, executive officers of the Company participate in the Pension Plan on the same terms as other full-time employees.

The normal retirement benefit is a monthly annuity determined by averaging compensation during the four calendar years of employment with the highest average monthly compensation within the ten calendar years preceding retirement. Covered compensation includes amounts in the Bonus and Restricted Stock Awards columns of the Summary Compensation Table (as to deferred stock only and restricted stock in the case of Mr. Bailey). Normal retirement age is 65. Early retirement may be taken with reduced benefits beginning as early as age 55. At retirement, employees are entitled to receive a single-life annuity or one of several optional forms of settlement having an equivalent actuarial value to the single-life annuity.

The Internal Revenue Code of 1986, as amended (the "Code"), currently limits the pension benefits which can be paid from a tax-qualified defined benefit plan, such as the Pension Plan, to highly compensated individuals. These limits prevent such individuals from receiving the full pension benefit based on the same formula as is applicable to other employees. As a result, the Company has adopted an unfunded Supplemental Retirement Plan to provide a supplemental retirement benefit equal to the amount of such reduction to every employee whose benefit payable under the Pension Plan is reduced by Code limitations, including the executive officers named in the Summary Compensation Table.

The following schedule illustrates projected annual retirement benefits based on the formula in effect for service after January 1, 1987, payable under both the tax-qualified and the supplemental retirement plans based on various levels of final average annual remuneration and years of service. The benefits are not subject to deduction for any offset amounts:

PENSION PLAN TABLE

REMUNERATION	YEARS OF SERVICE				
	15	20	25	30	35
\$ 400,000.....	\$109,138	\$145,518	\$181,897	\$218,277	\$254,656
600,000.....	164,638	219,518	274,397	329,277	384,156
800,000.....	220,138	293,518	366,897	440,277	513,656
1,000,000.....	275,638	367,518	459,397	551,277	643,156
1,200,000.....	331,138	441,518	551,897	662,277	772,656
1,400,000.....	386,638	515,518	644,397	773,277	902,156

As of December 31, 1995, the years of credited service under the Pension Plan for the executive officers named in the Summary Compensation Table were:

Mr. Bailey, 22; Mr. O'Neill, 8; Mr. Hightower, 22; Mr. Cropper, 21; and Mr. Bumgarner, 19.

EMPLOYMENT AGREEMENTS

As authorized by the Board of Directors, the Company has separate employment agreements with certain of the executive officers named in the Summary Compensation Table and certain other individuals. Each agreement is for a term of thirty months, renewing monthly on an "evergreen" basis unless terminated under various termination options.

The agreements provide that if the Company terminates the agreement, other than for cause, as defined, for disability, as defined, or on less than thirty months' notice or the executive terminates the agreement for breach by the Company, including good reason, as defined, then, subject to the duty to mitigate, the executive shall be entitled to receive damages for breach of the agreement, consisting of (i) a cash payment equal to the executive's compensation, including incentive compensation, that would have been paid during the thirty-month notice period, assuming certain increases; (ii) an increase in the executive's retirement benefits based upon an additional five years of age and credited service; (iii) continuation of the executive's participation in insurance and other fringe benefit plans of the Company, or the provision of equivalent benefits, for a period of five years; and (iv) payment of an amount equal to nonvested contributions to certain other benefit plans of the Company. The Company does not believe that any of such payments would constitute "parachute payments" as defined in Section 280G of the Code and, therefore, would not be subject to the excise tax imposed under the Code. However, in the event the payments are determined to be subject to such tax, the agreements provide that the Company will pay an additional cash amount sufficient to pay such tax.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the "Committee") is composed entirely of independent outside directors. The Committee is responsible for overseeing and administering the Company's executive compensation program.

COMPENSATION POLICY

The executive compensation program of the Company is designed to serve the interests of the Company and its stockholders by aligning executive compensation with stockholder objectives and to encourage and reward management initiatives and performance. Specifically, the executive compensation program seeks to:

- (i) implement compensation practices which allow the Company to attract and retain qualified executives and maintain a competitive position in the executive marketplace with employers of comparable size and in similar lines of business;
- (ii) enhance the compensation potential of executives who are in the best position to contribute to the growth and success of the Company by providing flexibility to compensate individual performance; and
- (iii) directly align the interests of executives with the interests of stockholders through compensation opportunities in the form of ownership of Common Stock or Common Stock equivalents.

These objectives are met through a program comprised of base salary; annual cash bonus and deferred stock opportunities directly tied to individual and operating performance; and long-term incentive opportunities primarily in the form of stock options and the selective use of restricted stock. Compensation decisions under the executive compensation program with respect to those executives named in the Summary Compensation Table are made by the Committee.

COMPENSATION PROGRAM

Base Salary. Base salary ranges for the Company's executive officers, including those named in the Summary Compensation Table, are targeted at the 50th percentile of salary survey results. For this purpose, the Company compares itself to a group of natural gas transmission companies which are basically the same companies utilized by Standard & Poor's for the S&P Natural Gas Index used by the Company in the performance graph appearing elsewhere herein. In addition, general compensation survey information supplied by nationally known compensation consulting firms and other information concerning overall compensation levels and structure and levels of stock option awards, such as compensation and stock option award information disclosed in proxy statements of other companies, are used by the Committee in making compensation decisions. While the Committee did not retain a compensation consulting firm for specific advice on base salary recommendations, the Committee had available to it survey results from such sources. On average, the Company's executive officers are at salary levels equal to the midpoints in their respective salary ranges.

The Committee considers base salary adjustments for each of the Company's executive officers annually. The Committee also approves annually a merit increase budget for all officers. For 1995, the merit increase budget approved was 4.0 percent. This target was arrived at after a review of survey data. Within this framework, base salary increases for the Company's executive officers ranged from 3.0 to 4.9 percent, excluding adjustment increases. The average 1995 merit increase for such officers was 4.0 percent and was equal to the average merit increases for all salaried employees in 1995. Specific increases for individual executive officers involve consideration of certain subjective factors, principally the performance of such executive over the prior compensation period.

Cash Bonus and Deferred Stock. The bonus arrangement for Mr. Bailey is discussed elsewhere herein. The other executive officers of the Company are eligible each year for cash bonuses and deferred stock awards. Each executive officer has a target opportunity which is a percentage of base salary that can be earned if the stretch performance targets are met. The target opportunity percentages vary by level of management. The

percentages of base salary used for this purpose range from 10 percent for manager level participants to 75 percent for executive officers. The four components of the award formula are personal performance, performance to plan, performance to peers and shareholder return. Awards are earned based on the extent to which preestablished performance targets are achieved in each area. Each component is weighted, with the sum of the weights for the four components totaling one. The components are weighted differently for each level of management depending on the Committee's subjective judgment as to the particular level of management's ability to influence the achievement of performance targets for a given award component. An executive officer's award for a given year is the sum of the product of (i) the percentage actual performance bears to targeted performance (the "performance factor"); (ii) the applicable weight of the component; (iii) the target opportunity percentage; and (iv) the participant's base salary, for each of the four components.

The performance targets for the performance to plan and performance to peers components are set by the Committee at a threshold, plan and stretch level in January of each year. The plan level represents the projected level of performance for the plan year as submitted by the respective business units and as approved by the Board in January of the plan year. Threshold and stretch targets represent the Committee's subjective assessment of performance below which there should be no bonus (the threshold target) and performance at which the full bonus potential should be paid (the stretch target). If performance is at plan level, the performance factor used to calculate the award is normally 50 percent. Performance at levels above or below plan results in awards representing a linear increase/decrease from plan to stretch and from plan to threshold target levels depending upon where actual performance falls. Where results exceed the stretch target, the performance factor applied is within the sole discretion of the Committee, although, except in unusual circumstances, the performance factor may not exceed 100 percent of the award potential. Except in unusual circumstances, there are no awards for performance below the threshold level.

The personal performance assessment for each executive officer is based on a subjective analysis of the individual's performance with consideration given to such factors as significant business decisions, innovative achievements and timely completion of projects within budgeted ranges, among other things. The performance to plan performance factor for 1995 was tied to net income attributable to Common Stock for the Company's executives and operating profit or net income before tax of the individual operating companies for executives in these units. The performance to peers performance factor was tied to return on equity for the Company's executives and either operating company operating profit, return on equity or return on assets, or consolidated return on equity, for executives in these units. Shareholder return performance was determined by the Committee based on the change in value of the Company's Common Stock as compared to return averages of the S&P 500 and S&P Natural Gas companies. The Committee retains the discretion to adjust reported performance to allow for extraordinary, nonrecurring factors.

Once the award is determined for each executive officer as described above, 70 percent of the award is paid in cash and 30 percent is deferred and paid in stock. The 30 percent mandatory deferred portion vests three years from the award date. Executive officers have the option to defer all or a portion of the cash award. Participants who elect to defer all or a portion of the cash award can defer for up to five years from the award date. Deferred stock cannot be sold or otherwise disposed of until the applicable deferral period lapses. The value of the deferred award is at risk during the deferral period since the value is tied to the stock price.

Long-term Compensation. The Company's 1990 Stock Plan, approved by the stockholders in 1990, permits the Committee to grant different types of stock-based awards, including deferred stock discussed above. The 1990 Stock Plan provides for stock option awards giving executives the right to purchase Common Stock over a ten-year period at the market value per share of the Company's Common Stock, as defined by the 1990 Stock Plan, as of the date the option is granted. The stock option program was revised in 1995 with 1995 awards vesting 50 percent on January 20, 1998, and 50 percent on January 20, 1999, with a provision for accelerated vesting before such dates if the Common Stock price reaches 1.61 times the average stock price on the first business day of January in the award year, for five out of ten consecutive business days. Vesting of the options granted in 1995 accelerated under this formula in November 1995. The Committee's objective with respect to stock option awards is to provide a long-term component to overall compensation which aligns the interests of executives with the interests of stockholders through stock ownership. Compensation opportunities in the form of stock options serve this purpose.

The Committee has established stock option award targets for each level of management participating in the stock option program. The target levels for annual stock option grants have been established based on competitive market practices and range from 50,000 shares for the Chairman, President and Chief Executive Officer to 1,500 shares for manager level employees. In making decisions on stock option awards, the Committee has available to it information on previous stock option awards granted to executive officers. Stock option awards are not tied to preestablished performance targets.

The 1990 Stock Plan also provides for the issuance of restricted stock, which the executive cannot sell or otherwise dispose of until the applicable restriction period lapses. Restricted stock is normally forfeited if the executive terminates employment for any reason other than retirement, disability or death prior to the lapsing of applicable restrictions. The Committee uses restricted stock awards primarily to provide, on a selective basis, a vehicle for tying an element of compensation to the executive's willingness to remain with the Company.

CHIEF EXECUTIVE OFFICER COMPENSATION

The full Board meets in executive session in November of each year to review Mr. Bailey's performance. The session is conducted without Mr. Bailey present, and the meeting is chaired by the Chairman of the Compensation Committee. The results of this performance review, which are shared with Mr. Bailey, are used by the Compensation Committee in making its review of Mr. Bailey's performance for compensation purposes.

The Committee approved a merit increase for Mr. Bailey in 1995 of 4 percent. The recommendation was based primarily on a subjective evaluation of Mr. Bailey's performance in 1994, consideration of other actions taken as described below and a review of market survey data. Mr. Bailey's 1995 base salary, \$572,000, was at the low end of the range of salary survey results.

As previously mentioned, a special incentive compensation program has been designed for Mr. Bailey. As a result, Mr. Bailey does not participate in the cash bonus and deferred stock programs applicable to other executive officers previously described. In order to weight Mr. Bailey's base compensation more heavily in the form of stock, the incentive compensation program approved for him pays out entirely in restricted stock to the extent earned. The maximum award potential under the program is equal to 100 percent of base salary. The award earned in 1995 and paid in January 1996 was 13,100 shares of restricted stock determined by giving consideration to three equally weighted performance components. This award represents 100 percent of the award potential based on the achievement of targeted performance relative to net income attributable to Common Stock and stock performance compared to the stock performance of a peer group. The third component was a subjective evaluation of performance. The restricted stock vests in one-third annual installments beginning in 2002. The restricted stock is forfeited to the extent Mr. Bailey terminates employment prior to the lapse of the respective restriction periods whether due to resignation, voluntary retirement without prior Board consent or termination for cause.

In 1995, Mr. Bailey was primarily responsible for a substantial reshaping of the Company. More than \$6.5 billion in acquisitions and dispositions were completed resulting in the size of the Company doubling. Also in 1995, the Company's stock appreciated approximately 75 percent and market capitalization doubled. Even in a year when the stock market reached record highs, these are extraordinary accomplishments justifying, in the judgment of the Committee, a special bonus in recognition of these achievements. Accordingly, for Mr. Bailey's outstanding performance in 1995, the Committee awarded him a one-time \$250,000 cash bonus.

A stock option grant of 50,000 shares was also approved for Mr. Bailey in 1995. This award represents 100 percent of the target for stock option awards previously established by the Committee for the Chairman, President and Chief Executive Officer position. The specific award, relative to the target, was based on a subjective analysis of Mr. Bailey's performance.

OTHER MATTERS

Section 162(m) of the Code places a \$1 million per person limitation on the tax deduction the Company may take for compensation paid to its Chief Executive Officer and its four other highest paid executive officers, except compensation which constitutes performance-based compensation as defined by the Code is not subject to the \$1 million limit. The Committee believes that no compensation otherwise deductible for 1995 was subject to this deductibility limit. The Committee generally intends to grant awards under the proposed 1996 Stock Plan consistent with the terms of Section 162(m) so that such awards will not be subject to the \$1 million limit. In other respects, the Committee expects to take actions in the future that may be necessary to preserve the deductibility of executive compensation to the extent reasonably practicable and consistent with other objectives of the Company's compensation program. In doing so, the Committee may utilize alternatives such as deferring compensation to qualify compensation for deductibility and may rely on grandfathering provisions with respect to existing compensation commitments. If any executive compensation exceeds this limitation, it is expected that such cases will represent isolated, nonrecurring situations arising from special circumstances.

The Compensation Committee

Thomas H. Cruikshank, Chairman
Ralph E. Bailey
Glenn A. Cox
Ervin S. Duggan
Jack A. MacAllister
Gordon R. Parker

STOCKHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph comparing the Company's cumulative total stockholder return on its Common Stock with the cumulative total return of the S&P Corporate-500 Stock Index and the S&P Natural Gas Index for the period of five fiscal years commencing January 1, 1991:

[GRAPH]

Measurement Period (Fiscal Year Covered)	The Williams Companies, Inc.	S&P 500	S&P Natural Gas
1/1/91	100.00	100.00	100.00
12/31/91	154.61	130.47	86.93
12/31/92	165.29	140.41	96.03
12/31/93	211.48	154.56	114.02
12/31/94	224.64	156.60	108.77
12/31/95	404.62	215.45	153.85

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 22, 1996, the amount of the Company's Common Stock beneficially owned by each of its directors, each of the executive officers named in the Summary Compensation Table and by all directors and executive officers as a group who were serving in such capacities at such date.

NAME OF INDIVIDUAL OR GROUP	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP			
	SOLE VOTING AND INVESTMENT POWER	OPTIONS EXERCISABLE WITHIN 60 DAYS	OTHER BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Keith E. Bailey.....	213,357	285,532	580	*
John C. Bumgarner, Jr.....	182,095	53,356	--	*
Glenn A. Cox.....	2,000	7,334	--	*
Stephen L. Cropper.....	25,036	120,443	--	*
Thomas H. Cruikshank.....	600	12,000	--	*
Ervin S. Duggan.....	--	3,334	--	*
Patricia L. Higgins.....	--	4,459	--	*
Lloyd A. Hightower.....	78,147	53,131	--	*
Robert J. LaFortune.....	400	10,000	10,000	*
James C. Lewis.....	4,000	16,000	--	*
Jack A. MacAllister.....	4,334	2,000	--	*
James A. McClure.....	320	10,000	--	*
Peter C. Meinig.....	1,000	5,334	2,150	*
Brian E. O'Neill.....	31,048	59,265	--	*
Kay A. Orr.....	1,000	10,000	--	*
Gordon R. Parker.....	2,000	16,000	--	*
Joseph H. Williams.....	191,922	3,334	8,200	*
All directors and executive officers as a group (23 persons).....	858,439	945,045	21,548	1.7%

* Less than 1 percent.

No director or officer of the Company owns beneficially any securities of the Company's subsidiaries other than directors' qualifying shares. "Other Beneficial Ownership" represents shares held in trust over which the respective individuals have voting and investment power.

SUMMARY OF THE 1996 STOCK PLAN

INTRODUCTION

On January 21, 1996, the Board of Directors of the Company adopted the 1996 Stock Plan (the "Plan"), subject to stockholder approval. The Plan, if approved by the stockholders, will replace the Company's existing 1990 Stock Plan, and no further awards will be made under such plan. The Plan provides for awards to officers of the Company and others who are deemed by the Company to be "insiders" for purposes of Section 16 of the Securities Exchange Act of 1934. Eighteen individuals are currently eligible for consideration as participants in the Plan. The purpose of the Plan is to promote the long-term interests of the Company by providing a means of attracting and retaining key employees, rewarding superior performance and increasing participants' proprietary interest in the Company. The Plan is substantially the same as the 1990 Stock Plan except that certain changes have been made to address developments in the law since the 1990 Stock Plan was adopted by the stockholders of the Company.

Stockholders are being asked to approve the Plan, including certain material terms of performance goals for those awards that are intended to be performance-based. This approval is necessary, among other reasons, to ensure that compensation earned by and paid to certain executive officers of the Company pursuant to fair

market value stock options and SARs and performance-based awards granted under the Plan will be fully deductible by the Company for federal income tax purposes under Code Section 162(m). See "COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION."

A full copy of the Plan is attached as Exhibit A to the Proxy Statement. The material features of the Plan are summarized below and such summary is qualified in its entirety by reference to the Plan.

SUMMARY OF AWARDS UNDER THE PLAN

General. Under the terms of the Plan, 2,000,000 shares of the Common Stock of the Company will be available for issuance under the Plan. In addition, any shares currently available or which become available under the 1990 Stock Plan (estimated to be approximately 600,000) will be available for issuance under the Plan. The Plan limits the number of shares that may be issued as awards other than options or stock appreciation rights to 25 percent of the total available and also limits grants to any individual participant in any calendar year to awards relating to no more than 150,000 shares. The stock issuable under the Plan may be authorized and unissued shares or treasury shares, including shares repurchased by the Company for purposes of the Plan. If any shares subject to any award are forfeited or payment is made in a form other than shares or the award otherwise terminates without payment being made, the shares subject to such awards will again be available for issuance under the Plan. In addition, shares withheld or surrendered in payment of the exercise price for stock options or withheld for taxes upon the exercise or settlement of an award, will not be treated as issued for purposes of the Plan. As of March 22, 1996, a total of 8,966,817 shares were subject to options or other awards or available for grants under all other plans covering employees of the Company. While the level of awards under the Plan are not now determinable, if performance objectives established for 1996 are achieved, payments in 1996 under the Plan are expected to be generally as reported in the Summary Compensation Table for 1995 under the 1990 Stock Plan. At March 22, 1996, the last reported sale price of the Company's Common Stock as a New York Stock Exchange Composite transaction was \$49.50 per share.

The Plan will be administered by the Compensation Committee of the Board of Directors (the "Committee"), none of the members of which are eligible for awards under the Plan. The Committee is authorized to designate participants, determine the types and number of awards to be granted, set the terms, conditions and provisions of awards, cancel or suspend awards, prescribe forms of award agreements, interpret the Plan, establish, amend and rescind rules and regulations relating to the Plan and make all other determinations which may be necessary or advisable for the administration of the Plan.

The Plan permits the granting of any or all of the following types of awards: (i) stock options including incentive stock options ("ISOs"); (ii) stock appreciation rights ("SARs"); (iii) restricted stock; (iv) deferred stock; (v) dividend equivalents; and (vi) other awards valued in whole or in part by reference to or otherwise based on the stock or other securities of the Company. Generally, awards under the Plan are granted for no consideration other than prior and future services. Awards granted under the Plan may, in the discretion of the Committee, be granted alone or in addition to, in tandem with or in substitution for, any other award under the Plan or other plan of the Company.

Stock Options and SARs. The Committee is authorized to grant to participants stock options, including ISOs and SARs, entitling the participant to receive the excess of the fair market value of a share on the date of exercise over the grant price of the option or SAR. The purchase price per share of stock subject to a stock option and the grant price of an SAR is determined by the Committee but may not be less than the fair market value of the stock on the date of grant as defined by the Plan. The term of each option or SAR is fixed by the Committee, except the term of ISOs and SARs in tandem with ISOs is limited to ten years. Such awards are exercisable in whole or in part at such time or times as determined by the Committee. Options may be exercised by payment of the purchase price in cash, stock, other outstanding awards or as the Committee determines. Methods of exercise and settlement and other terms of the SARs will be determined by the Committee.

Restricted and Deferred Stock. The Committee may award restricted stock consisting of shares which may not be disposed of by participants until certain restrictions established by the Committee lapse. Generally, such restrictions must be for a period of not less than one year if the grant was conditioned upon achievement

of performance objectives and three years in other cases. A participant receiving restricted stock will have all of the rights of a stockholder of the Company, including the right to vote the shares and the right to receive any dividends unless the Committee otherwise determines. The Committee may also make deferred stock awards, generally consisting of a right to receive shares at the end of specified deferral periods. Awards of deferred stock are subject to such limitations as the Committee may impose, which limitations may lapse at the end of the deferral period, in installments or otherwise. Deferred stock awards carry no voting or dividend rights or other rights associated with stock ownership. Upon termination of employment during the restriction or deferral period, restricted or deferred stock will be forfeited subject to such exceptions, if any, as are authorized by the Committee.

Dividend Equivalents. The Committee is authorized to grant dividend equivalents conferring on participants the right to receive, currently or on a deferred basis, interest or dividends, or interest or dividend equivalents. Dividend equivalents may be paid directly to participants or may be reinvested under the Plan.

Other Stock-Based Awards. In order to enable the Company to respond to material developments in the area of taxes and other legislation and regulations and interpretations thereof, and to trends in executive compensation practices, the Plan authorizes the Committee to grant awards that are valued in whole or in part by reference to or otherwise based on securities of the Company. The Committee determines the terms and conditions of such awards, including consideration paid for awards granted as purchase rights (which consideration generally may not be less than the fair market value of a share on the date the purchase right is granted).

Performance-Based Awards. The Committee may require satisfaction of preestablished performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria, as a condition of awards being granted or becoming exercisable or settleable under the Plan, or as a condition to accelerating the timing of such events. If so determined by the Committee, in order to avoid the limitations of Code Section 162(m), the business criteria used by the Committee in establishing performance goals applicable to awards to the Chief Executive Officer and the four most highly compensated executive officers will be selected exclusively from among the following: (i) annual net income to Common Stock; (ii) operating profit; (iii) annual return on capital or equity; (iv) annual earnings per share; (v) annual cash flow provided by operations; (vi) changes in annual revenues; and (vii) strategic business criteria, consisting of specified revenue, market penetration, geographic business expansion goals, cost targets and goals relating to acquisitions or divestitures.

Payment and Deferral of Awards. Awards may be settled in cash, stock, other awards or other property, in the discretion of the Committee. The Committee may require or permit participants to defer the distribution of all or part of an award in accordance with such terms and conditions as the Committee may establish. The Plan authorizes the Committee to place shares or other property in trusts or make other arrangements to provide for payment of the Company's obligations under the Plan. The Committee may condition the payment of an award on the withholding of taxes and may provide that a portion of the stock or other property to be distributed will be withheld to satisfy such tax obligations.

Limitations on Awards. Awards granted under the Plan generally may not be pledged or otherwise encumbered and generally are not transferable except by will or by the laws of descent and distribution. Each award will be exercisable during the participant's lifetime only by the participant or, if permitted under applicable law, by the participant's guardian or legal representative. However, transfers of awards for estate planning purposes will be permitted under the Plan if SEC regulations are modified (as currently proposed) to permit such transfers.

Adjustments. In the event of any change affecting the shares of Common Stock by reason of any dividend or distribution, recapitalization, forward or reverse split, merger, consolidation, spin-off, combination, repurchase or exchange of securities, or other corporate transaction or event, the Committee may make such adjustment in the aggregate number or kind of shares which may be issued under the Plan or which may relate to grants to an individual in a given calendar year, and in the number, kind and exercise, grant or purchase price of shares subject to outstanding awards under the Plan, or make provisions for a cash payment relating to any award, as it deems to be appropriate in order to maintain the purpose of the original grant. The Committee

is also authorized to make adjustments in performance award criteria or in the terms and conditions of other awards in recognition of unusual or nonrecurring events affecting the Company or its subsidiaries or their financial statements or changes in applicable laws, regulations or accounting principles.

Amendment to and Termination of the Plan. The Plan may be amended, altered, suspended, discontinued or terminated by the Board without further stockholder approval, unless such approval of an amendment or alteration is required by law or regulation or under the rules of the New York Stock Exchange (or other stock exchange or automated quotation system on which the Common Stock is then listed or quoted). Thus, stockholder approval will not necessarily be required for amendments which might increase the cost of the Plan or broaden eligibility. Stockholder approval will not be deemed to be required under laws or regulations that condition favorable treatment of optionees on such approval, although the Board may, in its discretion, seek stockholder approval in any circumstance in which it deems such approval advisable. In addition, subject to the terms of the Plan, no amendment or termination of the Plan may materially and adversely affect the right of a participant under any award granted under the Plan. Unless earlier terminated by the Board, the Plan will terminate when no shares remain reserved and available for issuance, and the Company has no further obligation with respect to any award granted under the Plan.

Change of Control. In the event of a Change of Control of the Company, outstanding awards under the Plan, regardless of any limitations or restrictions, generally will become fully exercisable and freed of all restrictions. For purposes of the Plan, a Change of Control is deemed to have occurred: (i) upon the acquisition by any person of 15 percent or more of the Company's outstanding voting stock; (ii) if individuals constituting the Board, or those nominated by at least two-thirds of such individuals or successors nominated by them, cease to constitute a majority of the Board; (iii) upon stockholder approval of a merger, consolidation or similar transaction or consummation of any such transaction if stockholder approval is not required; (iv) upon approval of a plan of liquidation or the sale or disposition of substantially all of the Company's assets; or (v) if the Board adopts a resolution to the effect that a Change of Control has occurred. Upon the occurrence of a Change of Control, or a Potential Change of Control (as defined by the Plan), the Company is required to fund a trust for the benefit of participants with an amount in stock or other property equal to the value of all outstanding awards under the Plan.

Federal Income Tax Consequences. The Company believes that under present law the following are the federal tax consequences generally arising with respect to awards granted under the Plan. The grant of an option or SAR (including a stock-based award in the form of a purchase right) will create no tax consequences for the participant or the Company. The participant will have no taxable income upon exercising an ISO (except that the alternative minimum tax may apply) and the Company will receive no deduction at that time. Upon exercising an SAR or option other than an ISO, the participant must generally recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable and nonforfeitable stock acquired on the date of exercise, and upon exercising an SAR, the participant must generally recognize ordinary income equal to the cash or the fair market value of the freely transferable and nonforfeitable stock received. In each case, the Company will be entitled to a deduction for the amount recognized as ordinary income by the participant. The treatment to a participant of a disposition of shares acquired upon the exercise of an SAR or option depends on how long the shares have been held and on whether such shares are acquired by exercising an ISO or by exercising an option other than an ISO. Generally, there will be no tax consequences to the Company in connection with a disposition of shares acquired under an option except that the Company will be entitled to a deduction (and the employee will recognize ordinary taxable income) if shares acquired under an ISO are disposed of before the applicable ISO holding periods have been satisfied. Different tax rules apply with respect to participants who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, when they acquire stock in a transaction deemed to be a nonexempt purchase under that statute.

With respect to other awards granted under the Plan that may be settled either in cash or in stock or other property that is either not restricted as to transferability or not subject to a substantial risk of forfeiture, the participant must generally recognize ordinary income equal to the cash or the fair market value of shares or other property received. The Company will be entitled to a deduction for the same amount. With respect to awards involving stock or other property that is restricted as to transferability and subject to a substantial risk

of forfeiture, the participant must generally recognize ordinary income equal to the fair market value of the shares or other property received at the first time the shares or other property become transferable or not subject to a substantial risk of forfeiture, whichever occurs earlier. The Company will be entitled to a deduction for the same amount. In certain circumstances, a participant may elect to be taxed at the time of receipt of shares or other property rather than upon the lapse of restrictions on transferability or the substantial risk of forfeiture.

The foregoing provides only a general description of the application of federal income tax laws to certain types of awards under the Plan. The summary does not address the effects of foreign, state and local tax laws. Because of the variety of awards that may be made under the Plan and the complexities of the tax laws, participants are encouraged to consult a tax advisor as to their individual circumstances.

Vote Required. Adoption of the proposal to approve the Plan requires an affirmative vote of holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE

1996 STOCK PLAN.

SUMMARY OF THE 1996 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

INTRODUCTION

On March 21, 1996, the Board of Directors of the Company adopted the 1996 Stock Plan for Non-Employee Directors (the "Directors Plan"), subject to stockholder approval. The Directors Plan, if approved by the stockholders, will replace the 1988 Stock Option Plan for Non-Employee Directors (the "1988 Plan"), and no further awards will be made under such plan. The Directors Plan is intended to pay a portion of the annual compensation for non-employee Directors' services at reasonable, pre-determined levels and in ways that promote ownership of a greater proprietary interest in the Company, thereby aligning such Directors' interests more closely with the interests of stockholders of the Company and to assist the Company in attracting and retaining highly qualified persons to serve as non-employee Directors.

The 1988 Plan, which the Directors Plan will replace, provides for an automatic annual grant to each non-employee Director of an option to purchase 2,000 shares of the Company's Common Stock. Stock options in such amount will continue to be awarded each year under the Directors Plan. However, to promote the objective of increasing non-employee Director ownership in the Company, the Directors Plan will also provide for an annual grant of 250 shares of the Company's Common Stock to each non-employee Director. The Board of Directors intends that this annual grant not represent an increase in the compensation of non-employee Directors, and therefore the Board has determined to reduce by 50 percent the amount of the current annual cash retainer, from \$24,000 to \$12,000, effective upon approval of the Directors Plan by the stockholders. The amount of such reduction is approximately equal to the market value of the 250 shares at March 21, 1996, although the market value of each grant of 250 shares under the Directors Plan will depend on the market price of Common Stock at the date such shares are granted. The amount of the annual cash retainer is not a term of the Directors Plan, however, but remains subject to determinations of the Board. In addition, the Directors Plan will permit non-employee Directors to elect to receive all or part of their remaining cash fees in the form of Common Stock or deferred stock, as described below.

The following summary of the material terms of the Directors Plan is qualified in its entirety by reference to the full text of the Directors Plan, attached hereto as Exhibit B.

SUMMARY OF AWARDS UNDER THE DIRECTORS PLAN

General Terms. A total of 100,000 shares of Common Stock are reserved and available for issuance under the Directors Plan, plus the number of shares currently available or which become available for issuance under the 1988 Plan (estimated to be approximately 200,000 shares). Such shares may be authorized and unissued shares, treasury shares or shares acquired for participants' accounts. If any stock option expires without having been exercised in full, the shares subject to the unexercised portion of the option will again be available for issuance under the Directors Plan. The aggregate number and kind of shares issuable under the Directors Plan

and the exercise price of options will be appropriately adjusted in the event of a recapitalization, reorganization, merger, consolidation, spin-off, combination, repurchase, exchange of shares or other securities of the Company, stock split or reverse split, stock dividend, other extraordinary dividends, liquidation, dissolution, or other similar corporate transaction or event affecting the Common Stock, in order to prevent dilution or enlargement of non-employee Directors' rights under the Directors Plan.

The Directors Plan will be administered by the Board of Directors of the Company, provided that any action by the Board, in addition to any other required vote, shall be taken only if approved by a majority of the Directors who are not then eligible to participate in the Directors Plan, even if not a quorum. The Directors Plan may be amended, altered, suspended, discontinued or terminated by the Board without further stockholder approval, unless such approval of an amendment or alteration is required by law or regulation or under the rules of the New York Stock Exchange (or other stock exchange or automated quotation system on which the Common Stock is then listed or quoted). Thus, stockholder approval will not necessarily be required for amendments which might increase the cost of the Directors Plan or broaden eligibility. Stockholder approval will not be deemed to be required under laws or regulations that condition favorable treatment of optionees on such approval, although the Board may, in its discretion, seek stockholder approval in any circumstance in which it deems such approval advisable.

The Directors Plan will become effective upon its approval by the stockholders. Unless earlier terminated by the Board, the Directors Plan will terminate when no shares remain available under the Directors Plan, and the Company and non-employee Directors have no further rights and obligations under the Directors Plan.

Stock Options. The Directors Plan generally provides for an annual grant to each director who is not an employee of the Company or a subsidiary of the Company of an option to purchase 2,000 shares of Common Stock. Generally, such grants will be made automatically in three installments on the dates of the Company's Board meetings in March, July and November of each year, beginning in July 1996. Each non-employee Director received options to acquire 666 shares of Common Stock under the 1988 Plan in March 1996. If the nominees for election named in this proxy statement are elected, 12 directors will qualify as non-employee Directors under the Directors Plan in 1996.

Stock options granted under the Directors Plan are non-qualified stock options having an exercise price equal to 100 percent of the fair market value of the Common Stock on the date of grant as defined by the Directors Plan. Non-employee Directors are not required to pay any cash consideration at the time options are granted. The exercise price of an option may be paid in cash or by surrendering previously acquired shares of Common Stock. On March 22, 1996, the reported closing price of the Company's Common Stock in New York Stock Exchange Composite Transactions was \$49.50 per share.

Stock options granted under the Directors Plan are immediately exercisable. Such options will expire at the earlier of ten years after the date of grant or five years after the optionee ceases serving as a director for any reason. Options generally are not transferable by the optionee otherwise than by will or by the laws of descent and distribution or to a designated beneficiary in the event of death, and are exercisable during the director's lifetime only by the director, except that transfers of awards for estate planning purposes will be permitted if SEC regulations are modified (as currently proposed) to permit such transfers.

Stock Grants. In addition to stock option grants, the Directors Plan provides that each eligible non-employee Director will be granted 250 shares of Common Stock of the Company as of the close of business on the date of the adoption of the Directors Plan and each year thereafter on the date of the Company's Annual Meeting of Stockholders. As discussed above, the Board of Directors intends that this annual grant not represent an increase in the compensation of non-employee Directors. Non-employee Directors may elect to defer the receipt of such shares by making an election to do so as provided under the terms of the Directors Plan. If receipt of the Shares is deferred, dividend equivalents equal to any dividends on shares of Common Stock will be paid to the director or, at the director's election, credited to such director's deferred stock account, to be deemed reinvested in additional deferred stock.

Election to Receive Stock in Lieu of Cash. The Directors Plan also permits a non-employee Director to elect to receive the balance of fees otherwise payable in cash in the form of Common Stock, or defer receipt of such fees in the form of deferred stock. The non-employee Director may make such election for all or any portion of the fees otherwise payable to him or her, including fees for service as chairman of a Board committee. If a non-employee Director elects to receive fees in the form of Common Stock, the Company will issue to the non-employee Director or to an account designated by such director a number of shares having an aggregate fair market value equal to the fees (or as nearly as possible equal to the fees) that would have been payable at that date, but for the election to receive shares instead. If a non-employee Director elects to receive fees in the form of deferred stock, the Company will credit a deferral account established for such director with a number of shares of deferred stock equal to the number of shares (including fractional shares) having an aggregate fair market value at that date equal to the fees that otherwise would have been payable at such date but for the election to receive deferred stock instead. Dividend equivalents equal to any dividends on shares of Common Stock will be paid to the non-employee Director or, at the non-employee Director's election, credited to such director's deferred stock account, to be deemed reinvested in additional deferred stock. A non-employee Director's deferred stock account will be settled, at such time or times as may be elected by the non-employee Director in his or her original deferral election form, by delivering one share of Common Stock for each share of deferred stock then credited to the account and subject to such settlement, together with cash in lieu of any fractional share. Shares of Common Stock and deferred stock acquired under the Directors Plan are non-forfeitable.

New Plan Benefits Table. The following table sets forth the number of options and shares of Common Stock that would have been automatically granted to non-employee Directors as a group under the Directors Plan in 1995 had the Directors Plan been in effect during that year:

New Plan Benefits

1996 Stock Plan for Non-Employee Directors

----- POSITION -----	NUMBER OF UNITS -----
Non-Employee Directors as a Group (14 in number)	28,000 options granted 3,500 shares granted

It is not possible at present to predict the number of shares that will be issuable under the Directors Plan to non-employee Directors as Common Stock or deferred stock in lieu of fees at the election of each non-employee Director.

Federal Income Tax Consequences. The following is a brief description of the federal income tax consequences generally arising with respect to grants of options and stock, and acquisitions of stock or deferred stock in lieu of fees under the Directors Plan. This discussion is intended for the information of stockholders considering how to vote at the Annual Meeting of Stockholders and not as tax guidance to non-employee Directors who participate in the Directors Plan.

The grant of an option will create no tax consequences for the optionee or the Company. Upon exercise of an option, the optionee must generally recognize ordinary income equal to the fair market value of the Common Stock acquired on the date of exercise minus the exercise price, and the Company will be entitled to a deduction equal to the amount recognized as ordinary income by the optionee. A disposition of shares acquired upon the exercise of an option generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax basis (i.e., the exercise price plus the amount recognized as ordinary income) in such shares. Generally, there will be no tax consequences to the Company in connection with a disposition of option shares. Different rules may apply to an option exercised by a director less than six months after the date of grant.

A non-employee Director acquiring Common Stock under the Directors Plan, whether as a grant or in lieu of fees, will recognize ordinary income equal to the fair market value of the Common Stock acquired on the date of acquisition. If a non-employee Director defers receipt of a stock grant or elects deferred stock in

lieu of fees, he or she will not recognize ordinary income at the date the Common Stock or fees would otherwise have been granted or paid or as a result of the crediting of deferred stock to his or her account (including upon deemed reinvestment of dividend equivalents). The non-employee Director will, however, at the date of settlement of the deferred stock by issuance of Common Stock, recognize ordinary income equal to the fair market value of the Common Stock acquired at that date.

Vote Required. Adoption of the proposal to approve the Directors Plan requires the affirmative vote of holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE
1996 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS.**

**COMPLIANCE WITH SECTION 16(A) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and persons who beneficially own more than 10 percent of the Company's stock to file certain reports with the SEC and the New York Stock Exchange concerning their beneficial ownership of the Company's equity securities. The SEC regulations also require that a copy of all such Section 16(a) forms filed must be furnished to the Company by the executive officers, directors and greater than 10 percent stockholders.

Based on a review of the copies of such forms and amendments thereto received by the Company with respect to 1995, the Company is aware that Mr. Jack

A. MacAllister, a director, filed a late report relating to a single transaction.

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

Upon the recommendation of the Audit Committee, the Board of Directors has appointed, subject to stockholder approval, the firm of Ernst & Young LLP, independent public accountants, as the independent auditor of the Company for calendar year 1996. The firm of Ernst & Young LLP and its predecessor has served the Company in this capacity for many years. Management recommends a vote "FOR" the ratification of Ernst & Young LLP as auditors for 1996.

A representative of Ernst & Young LLP will be present at the Annual Meeting of Stockholders and will be available to respond to appropriate questions. Although the audit firm has indicated that no statement will be made, an opportunity for a statement will be provided.

STOCKHOLDER PROPOSALS FOR 1997

In order for a stockholder proposal to be considered for inclusion in the Company's 1997 Proxy Statement, such proposal must be received by the Company no later than December 1, 1996. The proposal should be addressed to the Secretary, The Williams Companies, Inc., One Williams Center, Tulsa, Oklahoma 74172. Upon receipt of any such proposal, the Company will determine whether or not to include such proposal in the Proxy Statement in accordance with applicable law. It is suggested that such proposals be sent by certified mail - return receipt requested.

GENERAL

The Company knows of no matters to be presented at the meeting other than those included in the Notice. Should any other matter requiring a vote of stockholders arise, including a question of adjourning the meeting, the persons named in the accompanying proxy will vote thereon according to their best judgment in what they consider the best interests of the Company. The enclosed proxy confers discretionary authority to take action with respect to any additional matters which may come before the meeting.

It is important that your stock be represented at the meeting regardless of the number of shares you hold. Whether or not you plan to attend, please sign, date and return the enclosed proxy promptly. For your convenience, a return envelope is enclosed requiring no additional postage if mailed within the United States.

By Order of the Board of Directors

David M. Higbee
Secretary

Tulsa, Oklahoma
March 27, 1996

EXHIBIT A

THE WILLIAMS COMPANIES, INC.

1996 STOCK PLAN

SECTION 1

PURPOSES

1.01 The purposes of The Williams Companies, Inc. 1996 Stock Plan (the "Plan"), are to enable The Williams Companies, Inc. (together with any successor thereto, the "Company") and its subsidiaries to attract and retain key employees, reward such employees for superior performance and encourage such employees to increase their proprietary interest in the Company in order to provide them with additional motivation to continue in the Company's employ and to further its profitable growth.

SECTION 2

DEFINITIONS; CONSTRUCTION

2.01 Definitions. In addition to the terms defined elsewhere in the Plan, the following terms as used in the Plan shall have the following meanings when used with initial capital letters:

2.01.1 "Affiliate" means any entity other than the Company in which the Company owns, directly or indirectly, at least 20 percent of the combined voting power of all classes of stock of such entity or at least 20 percent of the ownership interests in such entity.

2.01.2 "Award" means any Option, Stock Appreciation Right, Restricted Stock, Deferred Stock, Performance Award, Dividend Equivalent or Other Stock-Based Award, or any other right or interest relating to Shares or cash granted under the Plan.

2.01.3 "Award Agreement" means any written agreement, contract, notice to a Participant or other instrument or document evidencing an Award.

2.01.4 "Board" means the Company's Board of Directors.

2.01.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code include regulations hereunder and successor provisions and regulations thereto.

2.01.6 "Committee" means the Compensation Committee or such other Committee of the Board as may be designated by the Board to administer the Plan, as referred to in Section 3.01 hereof; provided, however, that the Committee will consist of not less than two directors, each of whom shall be a "disinterested person" within the meaning of Rule 16b-3 if then required in order that grants will be exempt under that Rule.

2.01.7 "Deferred Stock" means a right, granted under Section 6.05 hereof, to receive Shares at the end of a specified deferral period.

2.01.8 "Disability" means disability as determined under procedures established by the Committee for purposes of the Plan.

2.01.9 "Dividend Equivalent" means a right, granted under Section 6.07 hereof, to receive payments equal to dividends paid on a specified number of Shares.

2.01.10 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act include rules thereunder and successor provisions and rules thereto.

2.01.11 "Fair Market Value" of a Share means, as of any given date, the closing sales price of a Share reported in the table entitled "New York Stock Exchange Composite Transactions" contained in

The Wall Street Journal (or an equivalent successor table) for such date or, if no such closing sales price was reported for such date, for the most recent trading day prior to such date for which a closing sales price was reported.

2.01.12 "Incentive Stock Option" means an Option that is intended to meet the requirements of Section 422 of the Code.

2.01.13 "Non-Qualified Stock Option" means an Option that is not intended to be an Incentive Stock Option.

2.01.14 "Option" means a right, granted under Section 6.02 hereof, to purchase Shares or other Awards at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.01.15 "Other Stock-Based Awards" means a right, granted under Section 6.08 hereof, that relates to or is valued by reference to Shares or other Awards relating to Shares.

2.01.16 "Participant" means an officer of the Company or any employee of the Company or an Affiliate granted an Award which remains outstanding under the Plan.

2.01.17 "Performance Award" means a right to receive Awards based upon performance criteria specified by the Committee.

2.01.18 "Person" has the meaning assigned in the Exchange Act.

2.01.19 "Restricted Stock" means Shares, granted under Section 6.04 hereof, that are subject to certain restrictions and to a risk of forfeiture.

2.01.20 "Rule 16b-3" means Rule 16b-3, as amended from time to time, or any successor to such Rule promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

2.01.21 "Shares" means shares of the Common Stock of the Company, \$1.00 par value, and such other securities of the Company as may be substituted or resubstituted for Shares pursuant to Section 8.01 hereof.

2.01.22 "Stock Appreciation Right" means a right, granted under Section 6.03 hereof, to be paid an amount measured by the appreciation in the Fair Market Value of Shares from the date of grant of the Award, except as provided in Section 7.01, to the date of exercise of the Award, except as provided in Section 6.03, with payment to be made in cash, Shares or other Awards as specified in the Award.

Definitions of the terms "Change of Control," "Potential Change of Control," "Change of Control Price," "Related Party" and "Voting Securities" are set forth in Section 9.03 hereof.

2.02 Construction. For purposes of the Plan, the following rules of construction will apply:

2.02.1 The word "or" is disjunctive but not necessarily exclusive.

2.02.2 Words in the singular include the plural; words in the plural include the singular; and words in the neuter gender include the masculine and feminine genders and words in the masculine or feminine gender include the other and neuter genders.

SECTION 3

ADMINISTRATION

3.01 The Plan shall be administered by the Committee. The Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

(i) to designate Participants;

(ii) to determine the type or types of Awards to be granted to each Participant;

(iii) to determine the number of Awards to be granted, the number of Shares or amount of cash or other property to which an Award will relate, the terms and conditions of any Award (including, but not limited to, any exercise price, grant price or purchase price, any limitation or restriction, any schedule for or performance conditions relating to the lapse of limitations, forfeiture restrictions or restrictions on exercisability or transferability, and accelerations or waivers thereof, based in each case on such considerations as the Committee shall determine), and all other matters to be determined in connection with an Award;

(iv) to determine whether, to what extent and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, or an Award may be accelerated, vested, canceled, forfeited or surrendered;

(v) to determine whether, to what extent and under what circumstances cash, Shares, other Awards, other property and other amounts payable with respect to an Award will be deferred either automatically, at the election of the Committee or at the election of the Participant;

(vi) to prescribe the form of each Award Agreement, which need not be identical for each Participant;

(vii) to adopt, amend, suspend, waive and rescind such rules and regulations and appoint such agents as the Committee may deem necessary or advisable to administer the Plan;

(viii) to correct any defect or supply any omission or reconcile any inconsistency, and to construe and interpret the Plan, the rules and regulations, any Award Agreement or any other instrument entered into, or relating, to an Award under the Plan; and

(ix) to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

Any action of the Committee with respect to the Plan shall be final, conclusive and binding on all Persons, including the Company, Affiliates, Participants, any Person claiming any rights under the Plan from or through any Participant and stockholders, except to the extent the Committee may subsequently modify, or take further action not consistent with, its prior action. If not specified in the Plan, the time at which the Committee must or may make any determination shall be determined by the Committee, and any such determination may thereafter be modified by the Committee (subject to Section 10.01). The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or of any Affiliate the authority, subject to such terms as the Committee shall determine, to perform specified functions under the Plan; provided, however, that any function relating to a Participant then subject to Section 16 of the Exchange Act shall be performed solely by the Committee if necessary to ensure compliance with applicable requirements of Rule 16b-3 or Rule 16a-1(c)(3). Each member of the Committee or Person acting on behalf of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him by any officer, manager or other employee of the Company or any Affiliate, the Company's independent certified public accountants or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan. Any and all powers, authorizations and discretions granted by the Plan to the Committee shall likewise be exercisable at any time by the Board, except to the extent such exercise relating to a Participant then subject to Section 16 of the Exchange Act would fail to comply with applicable requirements of Rule 16b3 or Rule 16a-1(c)(3).

SECTION 4

SHARES SUBJECT TO THE PLAN

4.01 Shares Reserved and Available. Subject to adjustment as provided in Section 8.01 hereof, the total number of Shares reserved and available for distribution under the Plan shall be two million (2,000,000) Shares; provided, however, that such number shall be increased by the number of Shares currently available under The Williams Companies, Inc. 1990 Stock Plan and not covered by Awards granted thereunder or

otherwise are not issued or issuable out of the Shares reserved thereunder; provided further, that the number of Shares issued as Awards other than Options and Stock Appreciation Rights shall not exceed twenty-five percent (25%) of the total number of Shares issuable under the Plan.

For purposes of this Section 4.01, the number of Shares to which an Award relates shall be counted against the number of Shares reserved and available under the Plan at the time of grant of the Award, unless such number of Shares cannot be determined at that time, in which case the number of Shares actually distributed pursuant to the Award shall be counted against the number of Shares reserved and available under the Plan at the time of distribution; provided, however, that Awards related to or retroactively added to, or granted in tandem with, substituted for or converted into, other Awards shall be counted or not counted against the number of Shares reserved and available under the Plan in accordance with procedures adopted by the Committee so as to ensure appropriate counting but avoid double counting; and, provided further, that the number of Shares deemed to be issued under the Plan upon exercise or settlement of any Award shall be reduced by the number of Shares surrendered by the Participant or withheld by the Company in payment of the exercise or purchase price of the Award and withholding taxes relating to the Award.

If any Shares to which an Award relates are forfeited, or payment is made to the Participant in the form of cash, cash equivalents or other property other than Shares, or the Award otherwise terminates without payment being made to the Participant in the form of Shares, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of any such forfeiture, alternative payment or termination, again be available for Awards under the Plan. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares, including Shares repurchased by the Company for purposes of the Plan.

4.02 Annual Individual Limitations. During any calendar year, no Participant may be granted Awards under the Plan with respect to more than one hundred fifty thousand (150,000) Shares, subject to adjustment as provided in

Section 8.01. For purposes of this Section 4.02, unless more restrictive counting is required in order for Awards to comply with the requirements of Code

Section 162(m), this provision will limit the maximum number of Shares that potentially can be issued to a Participant under Awards (taking into consideration the terms of the Awards, including tandem exercise or settlement provisions).

SECTION 5

ELIGIBILITY

5.01 Awards may be granted only to officers of the Company or to employees of the Company or any Affiliate (including employees who also are directors or officers) who are, or are believed by the Committee likely to be, subject to

Section 16 of the Exchange Act with respect to the Company (including employees who also are directors or officers) of the Company or any Affiliate; provided, however, that no Award shall be granted to any member of the Committee.

SECTION 6

SPECIFIC TERMS OF AWARDS

6.01 General. Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise or settlement thereof, at the date of grant or thereafter (subject to the terms of Section 10.01), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment by the Participant. Except as may be required under the Delaware General Corporation Law or as provided in Section 6.09 or 7.01, Awards shall be granted for no consideration other than prior and future services.

6.02 Options. The Committee is authorized to grant Options on the following terms and conditions:

(i) Exercise Price. The exercise price per Share purchasable under an Option shall be determined by the Committee; provided, however, that, except as provided in Section 7.01, such exercise price shall not be less than the Fair Market Value of a Share on the date of grant of such Option and in no event shall be less than the par value of a Share.

(ii) Option Term. Subject to the terms of the Plan and any applicable Award Agreement, the term of each Option shall be determined by the Committee.

(iii) Methods of Exercise. Subject to the terms of the Plan, the Committee shall determine the time or times at which an Option may be exercised in whole or in part, the methods by which such exercise price may be paid or deemed to be paid, and the form of such payment, including, without limitation, cash, Shares, other outstanding Awards or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis, to the extent permitted by law).

(iv) Incentive Stock Options. The terms of any Incentive Stock Option granted under the Plan shall comply in all material respects with the provisions of Section 422 of the Code or any successor provision thereto.

6.03 Stock Appreciation Rights. The Committee is authorized to grant Stock Appreciation Rights on the following terms and conditions:

(i) Right to Payment. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of a Share on the date of exercise or, if the Committee shall so determine in the case of any such right other than one related to any Incentive Stock Option, and so specify in the Award Agreement, at any time during a specified period before or after the date of exercise, over (ii) the grant price of the Stock Appreciation Right as determined by the Committee as of the date of grant of the Stock Appreciation Right, which, except as provided in Section 7.01, shall not be less than the Fair Market Value of a Share on the date of grant.

(ii) Other Terms. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the term, methods of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right.

6.04 Restricted Stock. The Committee is authorized to grant Restricted Stock on the following terms and conditions:

(i) Issuance and Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote a Share of Restricted Stock or the right to receive dividends thereon), which restrictions may lapse separately or in combination at such times, in such installments or otherwise, as the Committee shall determine; provided, however, that Restricted Stock shall be subject to a restriction on transferability and a risk of forfeiture for a period of not less than one year after the date of grant if the grant was conditioned upon achievement of one or more performance objectives and three years after the date of grant in other cases, except that such restrictions may lapse, if so determined by the Committee, in the event of the Participant's termination of employment due to death, disability, normal or approved early retirement, or involuntary termination by the Company or an Affiliate without "cause."

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, Restricted Stock that is at that time subject to a risk of forfeiture shall be forfeited and reacquired by the Company; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, that restrictions on Restricted Stock will be waived in whole or in part in the

event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part restrictions on Restricted Stock, except as provided in Section 6.04(i).

(iii) Certificates for Shares. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine, including, without limitation, issuance of certificates representing Shares. Certificates representing Shares of Restricted Stock shall be registered in the name of the Participant and may bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock.

6.05 Deferred Stock. The Committee is authorized to grant Deferred Stock on the following terms and conditions:

(i) Issuance and Limitations. Delivery of Shares will occur upon expiration of the deferral period specified for the Award of Deferred Stock by the Committee. In addition, an Award of Deferred Stock shall be subject to such limitations as the Committee may impose, which limitations may lapse at the expiration of the deferral period or at other specified times, separately or in combination, in installments or otherwise, as the Committee shall determine at the time of grant or thereafter. A Participant awarded Deferred Stock will have no voting rights and will have no rights to receive dividends in respect of Deferred Stock, unless and only to the extent that the Committee shall award Dividend Equivalents in respect of such Deferred Stock.

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable deferral period, Deferred Stock that is at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, that forfeiture of Deferred Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Deferred Stock.

6.07 Dividend Equivalents. The Committee is authorized to grant Awards of Dividend Equivalents. Dividend Equivalents shall confer upon the Participant rights to receive payments equal to interest or dividends, when and if paid, with respect to a number of Shares determined by the Committee. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares or additional Awards or otherwise reinvested.

6.08 Other Stock-Based Awards. The Committee is authorized, subject to limitations under applicable law, to grant such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan including, without limitation, Shares awarded which are not subject to any restrictions or conditions, convertible or exchangeable debt securities or other rights convertible or exchangeable into Shares, Awards valued by reference to the value of securities of or the performance of specified Affiliates, and Awards payable in securities of Affiliates. Subject to the terms of the Plan, the Committee shall determine the terms and conditions of such Awards. Except as provided in Section 6.09 or 7.01, Shares delivered pursuant to a purchase right granted under this Section 6.08 shall be purchased for such consideration, paid for by such methods and in such forms, including, without limitation, cash, Shares, outstanding Awards or other property, as the Committee shall determine, the value of which consideration shall not be less per share than the Fair Market Value of a Share on the date of grant of such purchase right and in no event shall be less per share than the par value of a Share.

6.09 Exchange Provisions. The Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Shares or another Award, based on such terms and conditions as the Committee shall determine and communicate to the Participant at the time that such offer is made.

GENERAL TERMS OF AWARDS

7.01 Stand-Alone, Tandem and Substitute Awards. Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for, any other Award granted under the Plan or any award granted under the 1990 Stock Plan or any other plan of the Company or any Affiliate (subject to the terms of Sections 10.01 and 11.09). If an Award is granted in substitution for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. Awards granted in addition to or in tandem with other Awards or awards may be granted either at the same time as or at a different time from the grant of such other Awards or awards. The exercise price of any Option, the grant price of any Stock Appreciation Right or the purchase price of any other Award conferring a right to purchase Shares:

(i) granted in substitution for an outstanding Award or award shall either be not less than the Fair Market Value of Shares at the date such substitute Award is granted or not less than such Fair Market Value at that date reduced to reflect the Fair Market Value of the Award or award required to be surrendered by the Participant as a condition to receipt of a substitute Award; or

(ii) retroactively granted in tandem with an outstanding Award or award shall be either not less than the Fair Market Value of Shares at the date of grant of the later Award or the Fair Market Value of Shares at the date of grant of the earlier Award or award.

7.02 Compliance with Rule 16b-3.

7.02.1 Six-Month Holding Period. Unless a Participant could otherwise dispose of or exercise a derivative security or dispose of Shares issued under the Plan without incurring liability under Section 16(b) of the Exchange Act, (i) at least six months shall elapse from the date of acquisition of a derivative security under the Plan to the date of disposition of the derivative security (other than upon exercise or conversion) or its underlying equity security, and (ii) Shares granted or awarded under the Plan other than upon exercise or conversion of a derivative security, shall be held for at least six months from the date of grant or Award.

7.02.2 Reformation To Comply with Exchange Act Rules. It is the intent of the Company that this Plan comply in all respects with applicable provisions of Rule 16b-3 or Rule 16a-1(c)(3) under the Exchange Act in connection with any grant of Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act (except for transactions exempted under alternative Exchange Act rules such Participant). Accordingly, if any provision of this Plan or any Award Agreement relating to a given Award does not comply with the requirements of Rule 16b-3 or Rule 16a-1(c)(3) as then applicable to any such transaction, such provision will be construed or deemed amended to the extent necessary to conform to the then-applicable requirements of Rule 16b-3 or Rule 16a-1(c)(3) to the extent necessary so that such Participant shall avoid liability under Section 16(b). In addition, the exercise price of any Award carrying a right to exercise granted to a Participant subject to Section 16 of the Exchange Act shall be not less than 50% of the Fair Market Value of Stock as of the date such Award is granted if such pricing limitation is required under Rule 16b-3 at the time of such grant.

7.03 Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, however, that in no event shall the term of any Incentive Stock Option or a Stock Appreciation Right granted in tandem therewith exceed a period of ten years from the date of its grant.

7.04 Form of Payment of Awards. Subject to the terms of the Plan and any applicable Award Agreement, payments or substitutions to be made by the Company or an Affiliate upon the grant or exercise of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, deferred cash, Shares, other Awards or other property, and may be made in a single payment or substitution, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or

crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents in respect of installment or deferred payments denominated in Shares.

7.05 Limitations on Transferability. Awards and other rights under the Plan, including any Award or right which constitutes a derivative security as generally defined in Rule 16a-1(c) under the Exchange Act, will not be transferable by a Participant except by will or the laws of descent and distribution (or, in the event of the Participant's death, to a designated beneficiary), and, if exercisable, shall be exercisable during the lifetime of a Participant only by such Participant or his guardian or legal representative; provided, however, that such Awards and other rights (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Persons during the lifetime of the Participant in connection with the Participant's estate planning, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent then permitted under Rule 16b-3, consistent with the registration of the offer and sale of Shares on Form S-8 or Form S-3 or such other registration form of the Securities and Exchange Commission as may then be filed and effective with respect to the Plan, and permitted by the Committee. Awards and other rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered to or in favor of any Person other than the Company or an Affiliate, and shall not be subject to any lien, obligation or liability of a Participant or transferee to any Person other than the Company or any Affiliate. If so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant, and to receive any distribution with respect to any Award upon the death of the Participant. A transferee, beneficiary, guardian, legal representative or other Person claiming any rights under the Plan from or through any Participant shall be subject to all the terms and conditions of the Plan and any Award Agreement applicable to such Participant, except to the extent the Plan and Award Agreement otherwise provide with respect to such Persons, and to any additional restrictions or limitations deemed necessary or appropriate by the Committee.

7.06 Registration and Listing Compliance. The Company shall not be obligated to issue or deliver Shares in connection with any Award or take any other action under the Plan in a transaction subject to the registration requirements of the Securities Act of 1933, as amended, or any other federal or state securities law, any requirement under any listing agreement between the Company and any national securities exchange or automated quotation system, or any other law, regulation, or contractual obligation of the Company, until the Company is satisfied that such laws, regulations, and other obligations of the Company have been complied with in full.

7.07 Share Certificates. All certificates for Shares delivered under the terms of the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under federal or state securities laws, rules and regulations thereunder, and the rules of any national securities exchange or automated quotation system on which Shares are listed or quoted. The Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions or any other restrictions or limitations that may be applicable to Shares. In addition, during any period in which Awards or Shares are subject to restrictions or limitations under the terms of the Plan or any Award Agreement, or during any period during which delivery or receipt of an Award or Shares has been deferred by the Committee or a Participant, the Committee may require any Participant to enter into an agreement providing that certificates representing Shares issuable or issued pursuant to an Award shall remain in the physical custody of the Company or such other Person as the Committee may designate.

7.08 Performance-Based Awards. The Committee may, in its discretion, designate any Award that is subject to the achievement of performance conditions as a performance-based Award subject to this Section 7.08, in order to qualify such Award as "qualified performance-based compensation" within the meaning of Code Section 162(m). The performance objectives for an Award subject to this Section 7.08 shall consist of one or more business criteria and a targeted level or levels of performance with respect to such criteria, as specified by the Committee but subject to this Section 7.08. Such performance objectives shall be objective and shall otherwise meet the requirements of Section 162(m)(4)(C) of the Code. Business criteria

used by the Committee in establishing such performance objectives shall be selected exclusively from among the following:

- (1) Annual net income to common stock;
- (2) Operating profit;
- (3) Annual return on capital or equity;
- (4) Annual earnings per share;
- (5) Annual cash flow provided by operations;
- (6) Changes in annual revenues; and/or
- (7) Strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, cost targets, and goals relating to acquisitions or divestitures.

The levels of performance required with respect to such business criteria may be expressed in absolute or relative levels. Achievement of performance objectives with respect to such Awards shall be measured over a period of not less than one year nor more than five years, as the Committee may specify. Performance objectives may differ for such Awards to different Participants. The Committee shall specify the weighting to be given to each performance objective for purposes of determining the final amount payable with respect to any such Award. The Committee may, in its discretion, reduce the amount of a payout otherwise to be made in connection with an Award subject to this Section 7.08, but may not exercise discretion to increase such amount, and the Committee may consider other performance criteria in exercising such discretion. All determinations by the Committee as to the achievement of performance objectives shall be in writing. The Committee may not delegate any responsibility with respect to an Award subject to this Section 7.08.

SECTION 8

ADJUSTMENT PROVISIONS

8.01 In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, forward or reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, exchange of Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of Participants' rights under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of:

(i) the number and kind of Shares which may thereafter be issued in connection with Awards; (ii) the number and kind of Shares issued or issuable in respect of outstanding Awards; (iii) the number and kind of Shares of outstanding Restricted Stock or relating to any other outstanding Award in connection with which Shares have been issued; (iv) the number of Shares with respect to which Awards may be granted to a Participant in any calendar year, as set forth in Section 4.02; and (v) the exercise price, grant price or purchase price relating to any Award or, if deemed appropriate, make provision for a cash payment with respect to any outstanding Award; provided, however, in each case, that with respect to Incentive Stock Options, no such adjustment shall be authorized, unless previously requested by the Participant, to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Affiliate or the financial statements of the Company or any Affiliate, or in response to changes in applicable laws, regulations or accounting principles.

CHANGE OF CONTROL PROVISIONS

9.01 Acceleration of Exercisability and Lapse of Restrictions. In the event of a Change of Control, as defined in Section 9.03.1, the following acceleration provisions shall apply:

(i) All outstanding Awards pursuant to which the Participant may have rights the exercise of which is restricted or limited shall become fully exercisable, except to the extent otherwise provided in Section 7.02.1; unless the right to lapse restrictions or limitations is waived or deferred by a Participant prior to such lapse, all restrictions or limitations (including risks of forfeiture) on outstanding Awards subject to restrictions or limitations under the Plan shall lapse; and all performance criteria and other conditions to payment of Awards under which payments of cash, Shares or other property are subject to conditions shall be deemed to be achieved or fulfilled and shall be waived by the Company, except to the extent otherwise provided in Section 7.02.1, and;

(ii) In the event that any Award is subject to limitations under Section 7.02.1 at the time of a Change of Control, then, solely for the purpose of determining the rights of the Participant with respect to such Award, a Change of Control will be deemed to occur at the close of business on the first business day following the date on which the limitations on such Award under Section 7.02.1 have expired.

9.02 Creation and Funding of Trust. Upon the earlier of a Potential Change of Control as defined in Section 9.03.2, unless the Board or the Committee adopts a resolution within ten business days following the date the Potential Change of Control arises to the effect that such action is not necessary to secure any payments hereunder, or a Change of Control as defined in Section 9.03.1, the Company will deposit with the trustee of a trust for the benefit of Participants monies or other property having a Fair Market Value at least equal to the net present value of cash, Shares and other property potentially payable or distributable in connection with Awards outstanding at that date. The trust shall be an irrevocable grantor trust which shall preserve the "unfunded" status of Awards under the Plan, and shall contain other terms and conditions substantially as specified for trusts authorized under the Company's employment agreements with executives.

9.03 Definitions of Certain Terms. For purposes of this Section 9, the following definitions, in addition to those set forth in Section 2.01, shall apply:

9.03.1 "Change of Control" means and will be deemed to have occurred if: (i) any Person, other than the Company or a Related Party, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 15 percent or more of the total voting power of all the then outstanding Voting Securities; or (ii) a Person, other than the Company or a Related Party, purchases or otherwise acquires, under a tender offer, securities representing 15 percent or more of the total voting power of all the then outstanding Voting Securities; or

(iii) the individuals (a) who as of the effective date of the Plan constitute the Board or (b) who thereafter are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors as of the effective date of the Plan or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iv) the stockholders of the Company approve a merger, consolidation, recapitalization or reorganization of the Company or an acquisition by the Company, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction which would result in the Voting Securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80 percent of the total voting power represented by the Voting Securities of such surviving entity outstanding immediately after such transaction if the voting rights of each Voting Security relative to the other Voting Securities were not altered in such transaction; or (v) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets other than any such transaction which would result in a Related Party owning or acquiring more than 50 percent of the assets owned by the Company immediately prior to the transaction; or (vi) the Board

adopts a resolution to the effect that a Change of Control has occurred or adopts a resolution to the effect that a Potential Change of Control has arisen and the transaction giving rise to such resolution has been thereafter approved by the stockholders of the Company or been consummated if such approval is not sought.

9.03.2 "Potential Change of Control" means and will be deemed to have arisen if: (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change of Control; or (ii) any Person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change of Control; or (iii) any Person, other than a Related Party, files with the Securities and Exchange Commission a Schedule 13D pursuant to Rule 13d-1 under the Exchange Act with respect to Voting Securities; or (iv) any Person, other than the Company or a Related Party, files with the Federal Trade Commission a notification and report form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with respect to any Voting Securities or a major portion of the assets of the Company; or (v) the Board adopts a resolution to the effect that, for purposes of the Plan, a Potential Change of Control has arisen. A Potential Change of Control will be deemed to continue (i) with respect to an agreement within the purview of clause "(i)" of the preceding sentence, until the agreement is canceled or terminated; or (ii) with respect to an announcement within the purview of clause "(ii)" of the preceding sentence, until the Person making the announcement publicly abandons the stated intention or fails to act on such intention for a period of twelve (12) calendar months; or (iii) with respect to either the filing of a Schedule 13D within the purview of clause "(iii)" of the preceding sentence or the filing of a notification and report form within the purview of clause "(iv)" of the preceding sentence with respect to Voting Securities, until the Person involved publicly announces that its ownership or acquisition of the Voting Securities is for investment purposes only and not for the purpose of seeking a Change of Control or such Person disposes of the Voting Securities; or (iv) with respect to any Potential Change of Control, until a Change of Control has occurred or the Board, on reasonable belief after due investigation, adopts a resolution that the Potential Change of Control has ceased to exist.

9.03.3 "Related Party" means: (i) a majority-owned subsidiary of the Company; or (ii) an employee or group of employees of the Company or any majority-owned subsidiary of the Company; or (iii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any majority-owned subsidiary of the Company; or (iv) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of Voting Securities.

9.03.4 "Voting Securities" means any securities of the Company which carry the right to vote generally in the election of directors.

SECTION 10

AMENDMENTS TO AND TERMINATION OF THE PLAN

10.01 The Board may amend, alter, suspend, discontinue or terminate the Plan without the consent of stockholders or Participants, except that any amendment or alteration shall be subject to the approval of the Company's stockholders at or before the next annual meeting of stockholders for which the record date is after the date of such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other such amendments or alterations to stockholders for approval; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of the Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted, prospectively or retrospectively; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him.

Unless earlier terminated by the Board, the Plan will terminate when no Shares remain reserved and available for issuance and the Company has no further obligation with respect to any Award granted under the Plan.

SECTION 11

GENERAL PROVISIONS

11.01 No Rights to Awards. Nothing contained in the Plan shall give any Participant or employee any claim to be granted any Award under the Plan, nor give rise to any obligation for uniformity of treatment of Participants and employees.

11.02 Withholding. The Company or any Affiliate is authorized to withhold from any Award granted or any payment due under the Plan, including from a distribution of Shares, amounts of withholding taxes due with respect to an Award, its exercise or any payment thereunder, and to take such other action as the Committee may deem necessary or advisable to enable the Company and Participants to satisfy obligations for the payment of such taxes. This authority shall include authority to withhold or receive Shares, Awards or other property and to make cash payments in respect thereof in satisfaction of such tax obligations.

11.03 No Right to Employment. Nothing contained in the Plan shall confer, and no grant of an Award shall be construed as conferring, upon any Participant any right to continue in the employ of the Company or any Affiliate or to interfere in any way with the right of the Company or any Affiliate to terminate his employment at any time or increase or decrease his compensation from the rate in existence at the time of granting of an Award.

11.04 Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that, this provision shall not limit the requirements of Section 9.02, and in addition, the Committee may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines.

11.05 No Limit on Other Compensatory Arrangements. Nothing contained in this Plan shall prevent the Company or any Affiliate from adopting other or additional compensation arrangements (which may include, without limitation, employment agreements with executives and arrangements which relate to Awards under the Plan), and such arrangements may be either generally applicable or applicable only in specific cases.

11.06 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

11.07 Governing Law. The validity, interpretation, construction and effect of the Plan and any rules and regulations relating to the Plan shall be governed by the laws of the State of Delaware (without regard to the conflicts of laws thereof), and applicable federal law.

11.08 Severability. If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

11.09 Compliance with Code Section 162(m). It is the intent of the Company that Awards subject to Section 7.08 shall constitute "qualified performance-based compensation" within the meaning of Code Section 162(m). Accordingly, if any provision of the Plan or any Award Agreement relating to such an Award

does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other Person discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

SECTION 12

EFFECTIVE DATE

12.01 The Plan shall become effective at such time as approved by the affirmative vote of holders of a majority of Shares present in person or represented by proxy at the Company's 1996 Annual Meeting of Stockholders, or any adjournment thereof.

EXHIBIT B

THE WILLIAMS COMPANIES, INC.

1996 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

1. **PURPOSE.** The purpose of The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (the "Plan") is to advance the interests of The Williams Companies, Inc., a Delaware corporation (the "Company"), and its stockholders by providing a means to attract and retain highly qualified persons to serve as non-employee Directors of the Company and to promote ownership by such directors of a greater proprietary interest in the Company, thereby aligning such directors' interests more closely with the interests of stockholders of the Company.

2. **DEFINITIONS.** In addition to terms defined elsewhere in the Plan, the following are defined terms under the Plan:

(a) "Code" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code include regulations thereunder and successor provisions and regulations thereto.

(b) "Deferred Share" means a credit to a Participant's deferral account under Section 7(b) or 8 which represents the right to receive one Share upon settlement of the deferral account. Deferral accounts, and Deferred Shares credited thereto, are maintained solely as bookkeeping entries by the Company evidencing unfunded obligations of the Company.

(c) "Exchange Act" means the Securities Exchange Act of 1934, as amended. References to any provision of the Exchange Act include rules thereunder and successor provisions and rules thereto.

(d) "Fair Market Value" of a Share means, as of any given date, the closing sales price of a Share reported in the table entitled "New York Stock Exchange Composite Transactions" contained in The Wall Street Journal (or an equivalent successor table) for such date or, if no such closing sales price was reported for such date, for the most recent trading day prior to such date for which a closing sales price was reported.

(e) "Option" means the right, granted to a Participant under Section 6, to purchase a specified number of Shares at the specified exercise price for a specified period of time under the Plan. All Options shall be non-qualified stock options.

(f) "Participant" means any person who, as a non-employee Director of the Company, has been granted an Option or has been paid fees in the form of Deferred Shares or who has elected to be paid fees in the form of Shares or Deferred Shares under the Plan.

(g) "Rule 16b-3" means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(h) "Share" means a share of Common Stock, \$1 par value, of the Company and such other securities as may be substituted or resubstituted for such Share pursuant to Section 9.

3. **SHARES AVAILABLE UNDER THE PLAN.** Subject to adjustment as provided in Section 9, the total number of Shares reserved and available for issuance under the Plan is 100,000; provided, however, that the number shall be increased by the number of Shares currently available or which otherwise are not issued or issuable out of the shares reserved under the Company's 1988 Stock Option Plan for Non-Employee Directors. Such Shares may be authorized but unissued Shares, treasury Shares, or Shares acquired in the market for the account of the Participant. For purposes of the Plan, Shares that may be purchased upon exercise of an Option or delivered in settlement of Deferred Shares shall not be considered to be available after such Option has been granted or Deferred Shares credited, except for purposes of issuance in connection with such Option or Deferred Shares; provided, however, that, if an Option expires for any reason without having been exercised in

full, the Shares subject to the unexercised portion of such Option shall again be available for issuance under the Plan; and, provided further, that the number of Shares to be issued under the Plan upon exercise of an Option shall be reduced by the number of Shares surrendered by the Participant or withheld by the Company in payment of the exercise price of the Option.

4. **ADMINISTRATION OF THE PLAN.** The Plan shall be administered by the Board of Directors of the Company; provided, however, that any action by the Board relating to the Plan shall be taken only if, in addition to any other required vote, such action is approved by the affirmative vote of a majority of the directors, even if not a quorum, who are not then eligible to participate in the Plan.

5. **ELIGIBILITY.** Each director of the Company who, on any date on which an Option is to be granted under Section 6, Shares are to be granted under Section 7 or fees are to be paid which could be received in the form of Shares or deferred in the form of Deferred Shares under Section 8, is not an employee of the Company or any subsidiary of the Company will be eligible, at such date, to be granted an Option under Section 6, granted Shares under Section 7 or receive fees in the form of Shares or defer fees in the form of Deferred Shares under Section 8. No person other than those specified in this Section 5 shall be eligible to participate in the Plan.

6. **OPTIONS.** Without further action by the Board of Directors or the stockholders of the Company, each eligible director shall be automatically granted annually during the term of the Plan options subject to the terms of the Plan. Such options shall be granted in three installments, as follows: On the dates of the regularly scheduled meetings of the Board of Directors of the Company in March, July and November of each year (or if no meeting is held in such month, then on the final day of such month), an option for 666 Shares, 666 Shares and 667 Shares, respectively, shall be granted to each person who is an eligible director at that date, subject to adjustment as provided in Section 9.

(a) **Exercise Price.** The exercise price per Share purchasable upon exercise of an Option shall be equal to 100 percent of the Fair Market Value of a Share on the date of grant of the Option.

(b) **Option Expiration.** A Participant's Option shall expire at the earlier of (i) ten years after the date of grant or (ii) five years after the date the Participant ceases to serve as a director of the Company.

(c) **Exercisability.** Each option shall be exercisable at any time, or from time to time, from the date of grant through the expiration of the Option.

(d) **Method of Exercise.** A Participant may exercise an Option, in whole or in part, prior to its expiration, by giving written notice of exercise to the Human Resources Department of the Company, specifying the Option to be exercised and the number of Shares to be purchased, and paying in full the exercise price in cash (including by check) or by surrender of Shares already owned by the Participant (except for Shares acquired from the Company by exercise of an option less than six months before the date of surrender) having a Fair Market Value at the time of exercise equal to the exercise price, or by a combination of cash and Shares.

7. **STOCK GRANTS.** Subject to adjustment as provided in Section 9, 250 Shares shall be automatically granted to each director of the Company who is then eligible to receive such grant on the effective date of the Plan and, beginning in 1997, at the close of business on the day of each Annual Meeting of Stockholders at which a class of directors is elected or reelected by the Company's stockholders.

(a) **Condition of Grant and Delivery.** The grant and delivery of Shares hereunder shall be contingent upon the Participant agreeing to serve as a director of the Company and serving as such through the close of business after the first meeting of the Board of Directors at or after the date of the grant. Unless otherwise elected by the Participant under Section 7(b), the Company shall deliver to the Participant, as promptly as practicable thereafter, one or more certificates representing the Shares, registered in the name of the Participant (or, if directed by the Participant, in the joint names of the Participant and his or her spouse), or otherwise make delivery of the Shares to a designated third party for the account of such Participant.

(b) **Deferral of Shares.** Each director entitled to be granted Shares under this Section 7 may elect to receive all or part of such grant in the form of an equal number of Deferred Shares in lieu of delivery of

Shares under Section 7(a). Such election to defer must be filed with the Human Resources Department of the Company no later than the due date specified in Section 8(a), except that in 1996 and in the case of a director newly elected or appointed in a given year, such election must be filed no later than the day preceding the Annual Meeting of Stockholders in that year, and such election shall become irrevocable (except as provided in Section 8(e)) as of such due date. Such election shall be deemed to be continuing and therefore applicable to grants in subsequent Plan years unless the director revokes or changes such election by filing a new election form by such due date. Such election shall specify the number of Shares to be deferred in the form of Deferred Shares, the period or periods during which settlement of Deferred Shares will be deferred (subject to such limitations as may be specified by counsel to the Company), and whether dividend equivalents on Deferred Shares are to be credited to the Participant's deferral account. The Company shall establish a deferral account for each Participant who receives Shares under this Section 7 in the form of Deferred Shares, which account may be the same as, and shall in any event be on terms similar to the account specified in Section 8(c). Settlement of such deferral account shall be governed by Section 8(e). Dividend equivalents shall be credited in accordance with Section 8(d); provided, however, that elections to have dividend equivalents credited as additional Deferred Shares shall be subject to Section 8(f).

(c) Rights of the Participant. A Participant granted Shares hereunder shall have, upon delivery, under Section 7(a) or settlement under Section 8(e), all of the rights of a holder of the Shares, including the right to receive dividends paid on such Shares and the right to vote such Shares. Upon delivery, such Shares shall be nonforfeitable.

8. RECEIPT OF SHARES OR DEFERRED SHARES IN LIEU OF FEES. Each director of the Company may elect to be paid all or a portion of the fees earned in his or her capacity as a director (including annual retainer fees, meeting fees, fees for service on a Board committee, fees for service as chairman of a Board committee, and any other fees paid to directors) in the form of Shares or Deferred Shares in lieu of cash payment of such fees, if such director is eligible to do so under Section 5 at the date any such fee is otherwise payable. If so elected, payment of fees in the form of Shares or Deferred Shares shall be made in accordance with this Section 8.

(a) Elections. Each director who elects to be paid all or a portion of such fees for a given calendar year in the form of Shares or to defer payment of such fees in the form of Deferred Shares for such year must file a written election with the Human Resources Department of the Company no later than December 31 of the year preceding such calendar year; provided, however, that the Company shall notify such directors of any earlier date by which a director must make such election in order for the acquisition of Shares or Deferred Shares under this Section 8 to be exempt from Section 16(b) of the Exchange Act under Rule 16b-3; and provided further, that any newly elected or appointed director may file an election for any year not later than 30 days after the date such person first became a director, and a director may file an election for the year in which the Plan became effective not later than 30 days after the date of effectiveness. Such election shall only apply to fees payable for services performed in periods after the filing of such election, and shall be deemed to be continuing and therefore applicable to subsequent Plan years unless the director revokes or changes such election by filing a new election form by the due date for such form specified in this Section 8 (a). Except as provided in Section

8(e), a director's election filed prior to a year shall be irrevocable as to that year at the close of the previous year, and a director's election filed during a year (if permitted under this Section 8(a)) shall be irrevocable upon filing. The election must specify the following:

(i) A percentage of fees to be received in the form of Shares or deferred in the form of Deferred Shares under the Plan; and

(ii) In the case of a deferral, the period or periods during which settlement of Deferred Shares shall be deferred (subject to such limitations as may be specified by counsel to the Company) and whether dividend equivalents on Deferred Shares are to be credited to the Participant's deferral account.

Certain elections may not result in receipt of Shares or deferral of fees as Deferred Shares for a six-month period, as provided in Section 8(f).

(b) Payment of Fees in the Form of Shares. At any date on which fees are payable to a Participant who has elected to receive all or a portion of such fees in the form of Shares, the Company shall issue to such Participant, or to a designated third party for the account of such Participant, a number of Shares having an aggregate Fair Market Value at that date equal to the fees, or as nearly as possible equal to the fees (but in no event greater than the fees), that would have been payable at such date but for the Participant's election to receive Shares in lieu thereof. If the Shares are to be credited to an account maintained by the Participant and to the extent reasonably practicable without requiring the actual issuance of fractional Shares, the Company shall cause fractional Shares to be credited to the Participant's account. If fractional Shares are not so credited, any part of the Participant's fees not paid in the form of whole Shares shall be payable in cash to the Participant (either paid separately or included in a subsequent payment of fees, including a subsequent payment of fees subject to an election under this Section 8).

(c) Deferral of Fees in the Form of Deferred Shares. The Company shall establish a deferral account on its books for each Participant who elects to defer fees in the form of Deferred Shares under this Section 8. At any date on which fees are payable to a Participant who has elected to defer fees in the form of Deferred Shares, the Company shall credit such Participant's deferral account with a number of Deferred Shares equal to the number of Shares having an aggregate Fair Market Value at that date equal to the fees that otherwise would have been payable at such date but for the Participant's election to defer receipt of such fees in the form of Deferred Shares. The amount of Deferred Shares so credited shall include fractional Shares calculated to at least three decimal places.

(d) Crediting of Dividend Equivalents. Whenever dividends are paid or distributions made with respect to Shares, a Participant to whom Deferred Shares are then credited in a deferral account shall be entitled to receive, as dividend equivalents, an amount equal in value to the amount of the dividend paid or property distributed on a single Share multiplied by the number of Deferred Shares (including any fractional Share) credited to his or her deferral account as of the record date for such dividend or distribution. Such dividend equivalents may, if elected by the Participant under Section 7(b) or 8(a), be credited to the Participant's deferral account as a number of Deferred Shares determined by dividing the aggregate value of such dividend equivalents by the Fair Market Value of a Share at the payment date of the dividend or distribution. Absent such election, the dividend equivalents shall be paid to the Participant in cash.

(e) Settlement of Deferred Shares. The Company shall settle the Participant's deferral account by delivering to the Participant (or his or her beneficiary) a number of Shares equal to the number of whole Deferred Shares then credited to his or her deferral account (or a specified portion in the event of any partial settlement), together with cash in lieu of any fractional Share remaining at a time that less than one whole Deferred Share is credited to such deferral account. Such settlement shall be made at the time or times specified in the Participant's election filed in accordance with Section 7(b) or 8(a); provided, however, that a Participant may further defer settlement of Deferred Shares if counsel to the Company determines that such further deferral likely would be effective under applicable federal income tax laws and regulations.

(f) Delayed Effectiveness of Elections in Order To Comply with Rule 16b-3. Other provisions of Section 7(b) and this Section 8 notwithstanding, if any crediting of Deferred Shares, other than an initial deferral under Section 7(b) would occur, (i) less than six months after the Participant filed the election which would result in such crediting, (ii) at a time when the Company's employee benefit plans are being operated in conformity with Rule 16b-3 as in effect on and after May 1, 1991, and (iii) at a time that Rule 16b-3 imposes a requirement that participant-directed transactions occur more than six months after the participant's making of an irrevocable election in order for such transactions to be exempt from Section 16(b) liability, then the fees or dividend equivalents the deferral of which would result in such crediting instead shall be paid in cash on a non-deferred basis.

9. ADJUSTMENT PROVISIONS.

(a) Corporate Transactions and Events. In the event any recapitalization, reorganization, merger, consolidation, spinoff, combination, repurchase, exchange of Shares or other securities of the Company, stock split or reverse split, extraordinary dividend (whether in the form of cash, Shares, or other property), liquidation, dissolution, or other similar corporate transaction or event affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of each Participant's rights under the Plan, then an adjustment shall be made, in a manner that is proportionate to the change to the Shares and otherwise equitable in, (i) the number and kind of Shares reserved and available for issuance under Section 3, (ii) the number and kind of Shares to be subject to each automatic grant of an Option under Section 6 and of Shares under Section 7, (iii) the number and kind of Shares issuable upon exercise of outstanding Options, and/or the exercise price per Share thereof (provided that no fractional Shares shall be issued upon exercise of any Option), (iv) the number and kind of Shares to be issued in lieu of fees under Section 8, and (v) the number and kind of Shares to be issued upon settlement of Deferred Shares under Section 8. The foregoing notwithstanding, no adjustment may be made hereunder except as shall be necessary to maintain the proportionate interest of the Participant under the Plan and to preserve, without exceeding, the value of outstanding Options and potential grants of Options and the value of outstanding Deferred Shares.

(b) Insufficient Number of Shares. If at any date an insufficient number of Shares are available under the Plan for the automatic grant of Options or the receipt of fees in the form of Shares or deferral of fees in the form of Deferred Shares at that date, Shares under Section 7 and Options under Section 6 shall be automatically granted proportionately to each eligible director, to the extent Shares are then available (provided that no fractional Shares shall be issued upon exercise of any Option) and otherwise as provided under Sections 6 and 7, and then, if any Shares remain available, fees shall be paid in the form of Shares or deferred in the form of Deferred Shares proportionately among directors then eligible to participate to the extent Shares are then available and otherwise as provided under Section 8.

10. CHANGES TO THE PLAN. The Board of Directors may amend, alter, suspend, discontinue, or terminate the Plan or authority to grant Options or Shares or pay fees in the form of Shares or Deferred Shares under the Plan without the consent of stockholders or Participants, except that any amendment or alteration shall be subject to the approval of the Company's stockholders at or before the next Annual Meeting of Stockholders for which the record date is after the date of such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system as then in effect, and the Board may otherwise determine to submit other such amendments or alterations to stockholders for approval; provided, however, that, without the consent of an affected Participant, no such action may materially impair the rights of such Participant with respect to any outstanding Options or Deferred Shares; and, provided further, that any Plan provision that specifies the directors who may receive grants of Options or Shares, the amount and price of Shares that may be purchased upon the exercise of Options granted to such directors, and the timing of such grants of Options or Shares to such directors, or is otherwise a "plan provision" referred to in Rule 16b-3(c)(2)(ii)(B), shall not be amended more than once every six months, other than to comport with changes in the Code or the rules thereunder, if such limitation on the frequency of Plan amendments is then required under Rule 16b-3 as a condition in order that any Plan transactions be exempt from Section 16(b) of the Exchange Act.

11. GENERAL PROVISIONS.

(a) Agreements. Options, Deferred Shares, and any other right or obligation under the Plan may be evidenced by agreements or other documents executed by the Company and the Participant incorporating the terms and conditions set forth in the Plan, together with such other terms and conditions not inconsistent with the Plan, as the Board of Directors may from time to time approve.

(b) Compliance with Laws and Obligations. The Company shall not be obligated to issue or deliver Shares under the Plan in a transaction subject to the registration requirements of the Securities Act of 1933, as amended, or any other federal or state securities law, any requirement under any listing agreement between the Company and any stock exchange or automated quotation system, or any other

law, regulation, or contractual obligation of the Company, until the Company is satisfied that such laws, regulations, and other obligations of the Company have been complied with in full. Certificates representing Shares issued under the Plan shall be subject to such stop-transfer orders and other restrictions as may be applicable under such laws, regulations, and other obligations of the Company, including any requirement that a legend or legends be placed thereon.

(c) **Limitations on Transferability.** Options, Deferred Shares, and any other right under the Plan shall not be transferable by a Participant except by will or the laws of descent and distribution (or to a designated beneficiary in the event of a Participant's death), and shall be exercisable during the lifetime of the Participant only by such Participant or his or her guardian or legal representative; provided, however, that Options and Deferred Shares (and rights relating thereto) may be transferred to one or more trusts or other beneficiaries during the lifetime of the Participant for purposes of the Participant's estate planning or at the Participant's death, and such transferees may exercise rights thereunder in accordance with the terms thereof, but only if and to the extent then permitted under Rule 16b-3 and consistent with the registration of the offer and sale of Shares related thereto on Form S-8, Form S-3, or such other registration form of the Securities and Exchange Commission as may then be filed and effective with respect to the Plan. The Company may rely upon the beneficiary designation last filed in accordance with this Section 11(c). Options, Deferred Shares, and other rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to the claims of creditors of any Participant or permitted transferee.

(d) **Compliance with Rule 16b-3.** It is the intent of the Company that this Plan comply in all respects with applicable provisions of Rule 16b-3. Accordingly, if any provision of this Plan or any agreement hereunder does not comply with the requirements of Rule 16b-3 as then applicable to a Participant, or would preclude a director of the Company from being deemed a "disinterested person" under then-applicable provisions of Rule 16b-3, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements with respect to such Participant and to ensure the director's status as a "disinterested person" is unaffected.

(e) **No Right To Continue as a Director.** Nothing contained in the Plan or any agreement hereunder shall confer upon any Participant any right to continue to serve as a director of the Company.

(f) **No Stockholder Rights Conferred.** Nothing contained in the Plan or any agreement hereunder shall confer upon any Participant (or any person or entity claiming rights by or through a Participant) any rights of a stockholder of the Company unless and until Shares are in fact issued to such Participant (or person) or, in the case of an Option, such Option is validly exercised in accordance with Section 6.

(g) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board of Directors nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other compensatory arrangements for directors as it may deem desirable.

(h) **Nonforfeitability.** The interest of each Participant in Options, Shares or Deferred Shares (and any deferral account relating thereto) granted or delivered under the Plan at all times shall be nonforfeitable, subject to the service requirement of Section 7(a).

(i) **Governing Law.** The validity, construction, and effect of the Plan and any agreement hereunder shall be determined in accordance with the Delaware General Corporation Law and other laws (including those governing contracts) of the State of Delaware, without giving effect to principles of conflicts of laws, and applicable federal law.

12. STOCKHOLDER APPROVAL, EFFECTIVE DATE, AND PLAN TERMINATION. The Plan shall be effective if, and at such time as, the stockholders of the Company have approved it by the affirmative votes of the holders of a majority of the voting securities of the Company present, or represented, and entitled to vote on the subject matter at a duly held meeting of stockholders, provided, however, that such approval must be obtained not later than the final adjournment of the first Annual Meeting of Stockholders of the Company held after the date the Board of Directors has adopted the Plan. Unless earlier terminated by action of the Board of Directors, the Plan shall remain in effect until such time as no Shares remain available for issuance under the Plan and the Company and Participants have no further rights or obligations under the Plan.

Adopted by the Board of Directors: March 21, 1996.

EXHIBIT 21

THE WILLIAMS COMPANIES, INC. & AFFILIATES

March 15, 1996

	Jurisdiction of Incorporation -----	Owned by Immediate Parent -----
The Williams Companies, Inc.	Delaware	
KERN RIVER ACQUISITION CORPORATION	Delaware	100%
Kern River Gas Supply Corporation	Delaware	100%
Kern River Gas Transmission Company	Texas (Partnership)	49.9%
Kern River Funding Corporation	Delaware	100%
Kern River Service Corporation	Delaware	100%
NORTHWEST PIPELINE CORPORATION	Delaware	100%
TEXAS GAS TRANSMISSION CORPORATION	Delaware	100%
TRANSCONTINENTAL GAS PIPE LINE CORPORATION	Delaware	100%
Cardinal Operating Company	Delaware	100%
Pine Needle Operating Company	Delaware	100%
TransCardinal Company	Delaware	100%
TransCarolina LNG Company.	Delaware	100%
WGP Enterprises, Inc.	Delaware	100%
WILLIAMS HOLDINGS OF DELAWARE, INC.	Delaware	100%
Apco Argentina Inc.	Cayman Islands	64.51%
Apco Properties Ltd.	Cayman Islands	100%
Beech Grove Processing Company	Tennessee	100%
Inland Ports, Inc.	Tennessee	100%
Langside Limited	Bermuda	100%
Longhorn Enterprises of Texas, Inc.	Delaware	100%
Northwest Exploration Company	Delaware	100%
Realco Realty Corp.	Delaware	100%
Realco of Crown Center, Inc.	Delaware	100%
Realco of San Antonio, Inc.	Delaware	100%
Realco Realty Developments, Inc.	Delaware	100%
The Tennessee Coal Company	Delaware	100%
The WilTech Group, Inc.	Delaware	100%
Vyvx, Inc.	Delaware	100%
Williams Learning Network, Inc.	Delaware	100%
Williams Wireless, Inc.	Delaware	100%
WilTech Cable Television Services, Inc.	Delaware	100%
Transco Energy Company	Delaware	100%
Energy Tech, Inc.	Delaware	100%
Gasco Insurance Company Limited	Bermuda	100%
Hazleton Fuel Management Company	Delaware	100%
Hazleton Pipeline Company	Delaware	100%
TM Cogeneration Company	Delaware	100%
Transco Coal Gas Company	Delaware	100%
Transco Energy Investment Company	Delaware	100%
Transco Exploration Company	Delaware	100%
Transco Gas Company	Delaware	100%
Border Gas, Inc.	Delaware	10%
Liberty Operating Company	Delaware	100%
NESP Supply Corp.	Delaware	33.33%
Trans-Jeff Chemical Corporation	Delaware	100%
Transco Blue Ridge Pipeline Company	Delaware	100%
Transco Liberty Pipeline Company	Delaware	100%
Transeastern Gas Pipeline Company, Inc.	Delaware	100%

	Jurisdiction of Incorporation -----	Owned by Immediate Parent -----
Transco P-S Company	Delaware	100%
Transco Resources, Inc.	Delaware	100%
ForTran Exploration Company	Delaware	100%
Magnolia Methane Corp.	Delaware	100%
Transco Transportation Company	Delaware	100%
Tubexpress, Inc.	Delaware	50%
Transco Terminal Company	Delaware	100%
Transco Tower Realty, Inc.	Delaware	100%
Tulsa Williams Company	Delaware	100%
Valley View Coal, Inc.	Tennessee	100%
WCS Communications Systems, Inc.	Delaware	100%
Willco, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.	New Jersey	100%
Agrico Foreign Sales Corporation	Guam	100%
Fishhawk Ranch, Inc.	Florida	100%
Reserveco Inc.	Delaware	15%
Williams Aircraft, Inc.	Delaware	100%
Williams Energy Company	Delaware	100%
Williams Energy Services Company	Delaware	100%
Transco Gas Marketing Company	Delaware	100%
TXG Gas Marketing Company	Delaware	100%
TXG Intrastate Pipeline Company	Delaware	100%
Transco Energy Marketing Company	Delaware	100%
Williams Gas Company	Delaware	100%
Williams Power Trading Company	Delaware	100%
Williams Information & Trading Systems Co.	Delaware	100%
TransNetwork Holding Company	Delaware	20%
Williams Canadian Holding, Inc.	Delaware	100%
Williams Energy Network, Inc.	Delaware	100%
Williams Energy Systems Company	Delaware	100%
Williams U.S. Holding, Inc.	Delaware	100%
Williams Energy Ventures, Inc.	Delaware	100%
Nebraska Energy, L.L.C.	Kansas	71%
Wiljet, LLC	Arizona	50%
Williams Ethanol Production Company	Delaware	100%
Pekin Energy Company	Illinois (General Partnership)	99%
Williams Ethanol Services, Inc.	Delaware	100%
Pekin Energy Company	Illinois (General Partnership)	1%
Williams Enterprises of Delaware, Inc.	Delaware	100%
Williams Exploration Company	Delaware	100%
Rainbow Resources, Inc.	Colorado	100%
Williams Field Services Group, Inc.	Delaware	100%
Carbon County UCG, Inc.	Delaware	100%
F T & T, Inc.	Delaware	100%
WFS - Gas Gathering Company	Delaware	100%
WFS - Offshore Gathering Company	Delaware	100%
WFS - Pipeline Company	Delaware	100%
WFS Gas Resources Company	Delaware	100%
WFS Investment Co.	Delaware	100%
WFS - Liquids Company	Delaware	100%
HI-BOL Pipeline Company	Delaware	100%
WFS Management Co.	Delaware	100%

	Jurisdiction of Incorporation -----	Owned by Immediate Parent -----
WFS - Nuval Gathering Co.	Delaware	100%
WFS - OCS Gathering Co.	Delaware	100%
WFS - Power Services Company	Delaware	100%
Energy International Corporation	Pennsylvania	100%
WFS - Production Services Company	Delaware	100%
Williams CNG Company	Delaware	100%
Williams Field Services Company	Utah	100%
Williams Gas Processing - Blanco, Inc.	Delaware	100%
Williams Gas Processing Company	Delaware	100%
Williams Gas Processing - Kansas Hugoton Company	Delaware	100%
Williams Gas Processing - Mid-Continent Region Company	Delaware	100%
Williams Gas Processing - Wamsutter Company	Delaware	100%
Williams Power Company	Delaware	100%
Williams Production Company	Delaware	100%
Williams Headquarters Acquisition Company	Delaware	100%
Williams Headquarters Building Company	Delaware	100%
Williams Headquarters Management Company	Delaware	100%
Williams Information Services Corporation	Delaware	100%
Williams International Company	Delaware	100%
Williams International (Bermuda) Limited	Bermuda	100%
Williams International Investments (Cayman) Limited	Cayman Islands	100%
Williams International Ventures (Bermuda) Ltd.	Bermuda	100%
Williams International Pipeline Company	Delaware	100%
Williams International Pipeline Company - Colombia	Delaware	100%
Williams International Ventures Company	Delaware	100%
WEV, Inc. (New Zealand)	Delaware	100%
Williams Energy Ventures Corporation (New Zealand)	Delaware	100%
Williams Pipe Line Company	Delaware	100%
WillBros Terminal Company	Delaware	100%
Williams Terminals Company	Delaware	100%
Williams Pipeline Services Company	Delaware	100%
Williams Production Finance Company	Delaware	100%
Williams Relocation Management, Inc.	Delaware	100%
Williams Telecommunications Systems, Inc.	Delaware	100%
WCS, Inc.	Delaware	100%
WCS Microwave Services, Inc.	Nevada	100%
Williams Underground Gas Storage Company	Delaware	100%
Williams Western Holding Company, Inc.	Delaware	100%
Northwest Alaskan Pipeline Company	Delaware	100%
Northwest Argentina Corporation	Utah	100%
Northwest Border Pipeline Company	Delaware	100%
Northern Border Partners, L.P.	Delaware(Limited Partnership	4.375%
Northern Border Intermediate Limited Partnership	Delaware(Limited Partnership	0.175%
Northwest Land Company	Delaware	100%
WilMart, Inc.	Delaware	100%
WilTel Financial Corporation	Delaware	100%
WILLIAMS NATURAL GAS COMPANY	Delaware	100%
WNG - Kansas Hugoton, Inc.	Delaware	100%
WNG - Oklahoma Hugoton, Inc.	Delaware	100%
Williams Gathering Company	Delaware	100%

	Jurisdiction of Incorporation -----	Owned by Immediate Parent -----
WILLIAMS STORAGE COMPANY	Delaware	100%
WILLIAMS WESTERN PIPELINE COMPANY	Delaware	100%
Kern River Gas Transmission Company	Texas (Partnership)	50%

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements on Form S-3 and related prospectuses and in the following registration statements on Form S-8 of The Williams Companies, Inc. of our report dated February 9, 1996, with respect to the consolidated financial statements and schedules of The Williams Companies, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1995.

Form S-3: Registration No. 33-47061; Registration No. 33-53662; Registration No. 33-49835

Form S-8: Registration No. 33-2442; Registration No. 33-24322; Registration No. 33-36770; Registration No. 33-44381; Registration No. 33-40979; Registration No. 33-45550; Registration No. 33-43999; Registration No. 33-51539; Registration No. 33-51543; Registration No. 33-51551; Registration No. 33-51549; Registration No. 33-51547; Registration No. 33-51545; Registration No. 33-56521

ERNST & YOUNG LLP

Tulsa, Oklahoma

March 26, 1996

EXHIBIT 24

THE WILLIAMS COMPANIES, INC.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned individuals, in their capacity as a director or officer, or both, as hereinafter set forth below their signature, of THE WILLIAMS COMPANIES, INC., a Delaware corporation ("Williams"), does hereby constitute and appoint J. FURMAN LEWIS, BOBBY E. POTTS and DAVID M. HIGBEE their true and lawful attorneys and each of them (with full power to act without the others) their true and lawful attorneys for them and in their name and in their capacity as a director or officer, or both, of Williams, as hereinafter set forth below their signature, to sign Williams' Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 1995, and any and all amendments thereto or all instruments necessary or incidental in connection therewith; and

THAT the undersigned Williams does hereby constitute and appoint J. FURMAN LEWIS, BOBBY E. POTTS and DAVID M. HIGBEE its true and lawful attorneys and each of them (with full power to act without the others) its true and lawful attorney for it and in its name and on its behalf to sign said Form 10-K and any and all amendments thereto and any and all instruments necessary or incidental in connection therewith.

Each of said attorneys shall have full power of substitution and resubstitution, and said attorneys or any of them or any substitute appointed by any of them hereunder shall have full power and authority to do and perform in the name and on behalf of each of the undersigned, in any and all capacities, every act whatsoever requisite or necessary to be done in the premises, as fully to all intents and purposes as each of the undersigned might or could do in person, the undersigned hereby ratifying and approving the acts of said attorneys or any of them or of any such substitute pursuant hereto.

IN WITNESS WHEREOF, the undersigned have executed this instrument, all as of the 21st day of January, 1996.

/s/ Keith E. Bailey

/s/ Jack D. McCarthy

Keith E. Bailey
Chairman of the Board,
President and
Chief Executive Officer
(Principal Executive Officer)

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

/s/ Gary R. Belitz

Gary R. Belitz
Controller
(Principal Accounting Officer)

/s/ Harold W. Andersen

Harold W. Andersen
Director

/s/ Glenn A. Cox

Glenn A. Cox
Director

/s/ Ervin S. Duggan

Ervin S. Duggan
Director

/s/ Robert J. LaFortune

Robert J. LaFortune
Director

/s/ Jack A. MacAllister

Jack A. MacAllister
Director

/s/ Peter C. Meinig

Peter C. Meinig
Director

/s/ Gordon R. Parker

Gordon R. Parker
Director

/s/ Ralph E. Bailey

Ralph E. Bailey
Director

/s/ Thomas H. Cruikshank

Thomas H. Cruikshank
Director

/s/ Patricia L. Higgins

Patricia L. Higgins
Director

/s/ James C. Lewis

James C. Lewis
Director

/s/ James A. McClure

James A. McClure
Director

/s/ Kay A. Orr

Kay A. Orr
Director

/s/ Joseph H. Williams

Joseph H. Williams
Director

THE WILLIAMS COMPANIES, INC.

By /s/ J. Furman Lewis

J. Furman Lewis
Senior Vice President

ATTEST:

/s/ David M. Higbee

David M. Higbee
Secretary

EXHIBIT 24

THE WILLIAMS COMPANIES, INC.

I, the undersigned, DAVID M. HIGBEE, Secretary of THE WILLIAMS COMPANIES, INC., a Delaware company (hereinafter called the "Company"), do hereby certify that at a meeting of the Board of Directors of the Company, duly convened and held on January 21, 1996, at which a quorum of said Board was present and acting throughout, the following resolution was duly adopted:

RESOLVED that the Chairman of the Board, the President or any Vice President of the Company be, and each of them hereby is, authorized and empowered to execute a Power of Attorney for use in connection with the execution and filing, for and on behalf of the Company, under the Securities Exchange Act of 1934, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.

I further certify that the foregoing resolution has not been modified, revoked or rescinded and is in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of THE WILLIAMS COMPANIES, INC., this 19th day of March, 1996.

/s/ David M. Higbee

David M. Higbee
Secretary

(CORPORATE SEAL)

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	DEC 31 1995
CASH	90,383
SECURITIES	0
RECEIVABLES	688,595
ALLOWANCES	(11,338)
INVENTORY	189,038
CURRENT ASSETS	1,343,809
PP&E	9,478,732
DEPRECIATION	(1,463,987)
TOTAL ASSETS	10,494,836
CURRENT LIABILITIES	2,049,949
BONDS	2,874,042
COMMON	105,337
PREFERRED MANDATORY	0
PREFERRED	173,486
OTHER SE	2,908,275
TOTAL LIABILITY AND EQUITY	10,494,836
SALES	0
TOTAL REVENUES	2,855,674
CGS	0
TOTAL COSTS	2,184,962
OTHER EXPENSES	0
LOSS PROVISION	3,767
INTEREST EXPENSE	277,924
INCOME PRETAX	401,360
INCOME TAX	101,988
INCOME CONTINUING	299,372
DISCONTINUED	1,018,805
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,318,177
EPS PRIMARY	12.77
EPS DILUTED	12.48

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