Financial Highlights

(UNAUDITED)

(Millions, except per-share amounts)	Three months ended December 31, **2003**	Three months ended December 31, 2002*	Years ended December 31, **2003**	Years ended December 31, 2002*
Revenues	**$ 3,529.3**	$ 1,122.1	**$ 16,814.2**	$ 3,716.6
Income (loss) from continuing operations	**$ (96.8)**	$ (151.2)	**$ 2.9**	$ (611.7)
Income (loss) from discontinued operations	**$ 30.8**	$ (68.0)	**$ 253.9**	$ (143.0)
Cumulative effect of change in accounting principles	**$ -**	$ -	**$ (761.3)**	$ -
Net loss	**$ (66.0)**	$ (219.2)	**$ (504.5)**	$ (754.7)
Basic and diluted earnings (loss) per common share:				
Loss from continuing operations	**$ (.19)**	$ (.31)	**$ (.05)**	$ (1.35)
Income (loss) from discontinued operations	**$ .06**	$ (.13)	**$ .49**	$ (.28)
Cumulative effect of change in accounting principles	**$ -**	$ -	**$ (1.47)**	$ -
Net loss	**$ (.13)**	$ (.44)	**$ (1.03)**	$ (1.63)
Average shares (thousands)	**518,502**	517,104	**518,137**	516,793
Shares outstanding at December 31 (thousands)			**518,232**	516,731

* Amounts have been restated as described in Note 1 of Notes to Consolidated Statement of Operations.

Consolidated Statement of Operations

(Unaudited)

	(Millions, except per-share amounts)	Three months ended December 31, 2003	Three months ended December 31, 2002*	Years ended December 31, 2003	Years ended December 31, 2002*
REVENUES	Power	**$2,565.5**	$ 130.1	**$13,175.6**	$ 56.2
	Gas Pipeline	**347.1**	322.3	**1,299.0**	1,241.8
	Exploration & Production	**166.9**	208.2	**779.7**	860.4
	Midstream Gas & Liquids	**833.6**	428.8	**3,319.2**	1,525.2
	Other	**12.9**	45.4	**72.0**	124.1
	Intercompany eliminations	**(396.7)**	(12.7)	**(1,831.3)**	(91.1)
	Total revenues	**3,529.3**	1,122.1	**16,814.2**	3,716.6
SEGMENT COSTS AND EXPENSES	Costs and operating expenses	**3,183.7**	624.2	**15,156.8**	2,218.6
	Selling, general and administrative expenses	**90.6**	116.0	**412.2**	568.7
	Other (income) expense – net	**160.6**	239.7	**(88.7)**	276.8
	Total segment costs and expenses	**3,434.9**	979.9	**15,480.3**	3,064.1
	General corporate expenses	**24.5**	26.4	**87.0**	142.8
OPERATING INCOME	Power	**(130.5)**	(13.6)	**125.4**	(471.7)
	Gas Pipeline	**142.4**	115.4	**539.0**	470.6
	Exploration & Production	**48.3**	79.9	**392.5**	504.9
	Midstream Gas & Liquids	**40.2**	(32.1)	**285.7**	165.6
	Other	**(6.0)**	(7.4)	**(8.7)**	(16.9)
	General corporate expenses	**(24.5)**	(26.4)	**(87.0)**	(142.8)
	Total operating income	**69.9**	115.8	**1,246.9**	509.7
	Interest accrued	**(251.3)**	(360.4)	**(1,286.4)**	(1,159.6)
	Interest capitalized	**10.9**	9.0	**45.5**	27.3
	Interest rate swap income (loss)	**4.2**	1.0	**(2.2)**	(124.2)
	Investing income (loss)	**29.6**	9.8	**73.4**	(113.1)
	Minority interest in income and preferred returns of consolidated subsidiaries	**(4.3)**	(6.1)	**(19.4)**	(41.8)
	Other income (expense) – net	**(65.8)**	5.3	**(26.1)**	24.3
	Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principles	**(206.8)**	(225.6)	**31.7**	(877.4)
	Provision (benefit) for income taxes	**(110.0)**	(74.4)	**28.8**	(265.7)
	Income (loss) from continuing operations	**(96.8)**	(151.2)	**2.9**	(611.7)
	Income (loss) from discontinued operations	**30.8**	(68.0)	**253.9**	(143.0)
	Income (loss) before cumulative effect of change in accounting principles	**(66.0)**	(219.2)	**256.8**	(754.7)
	Cumulative effect of change in accounting principles	**-**	-	**(761.3)**	-
	Net loss	**(66.0)**	(219.2)	**(504.5)**	(754.7)
	Preferred stock dividends	**-**	6.8	**29.5**	90.1
	Loss applicable to common stock	**$ (66.0)**	$ (226.0)	**$ (534.0)**	$ (844.8)
EARNINGS (LOSS) PER SHARE	Basic and diluted earnings (loss) per common share:				
	Loss from continuing operations	**$ (.19)**	$ (.31)	$ **(.05)**	$ (1.35)
	Income (loss) from discontinued operations	**.06**	(.13)	**.49**	(.28)
	Income (loss) before cumulative effect of change in accounting principles	**(.13)**	(.44)	**.44**	(1.63)
	Cumulative effect of change in accounting principles	**-**	-	**(1.47)**	-
	Net loss	**$ (.13)**	$ (.44)	**$ (1.03)**	$ (1.63)

* Certain amounts have been restated or reclassified as described in Note 1 of Notes to Consolidated Statement of Operations.

See accompanying notes.

1. BASIS OF PRESENTATION

Discontinued operations

In accordance with the provisions related to discontinued operations within Statement of Financial Accounting Standard (SFAS) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the results of operations for the following components have been reflected in the Consolidated Statement of Operations as discontinued operations (see Note 6):

- refining, retail and pipeline operations in Alaska, part of the previously reported Petroleum Services segment;
- Gulf Liquids New River Project LLC, previously part of the Midstream Gas & Liquids segment;
- certain gas processing, natural gas liquids fractionation, storage and distribution operations in western Canada and at a plant in Redwater, Alberta, previously part of the Midstream Gas & Liquids segment;
- the Colorado soda ash mining operations, part of the previously reported International segment;
- our general partnership interest and limited partner investment in Williams Energy Partners, previously the Williams Energy Partners segment;
- bio-energy operations, part of the previously reported Petroleum Services segment;
- natural gas properties in the Hugoton and Raton basins, previously part of the Exploration & Production segment;
- Texas Gas Transmission Corporation, previously one of Gas Pipeline’s segments;
- refining and marketing operations in the Midsouth, including the Midsouth refinery, part of the previously reported Petroleum Services segment;
- retail travel centers concentrated in the Midsouth, part of the previously reported Petroleum Services segment;
- Central natural gas pipeline, previously one of Gas Pipeline’s segments;
- two natural gas liquids pipeline systems, Mid-American Pipeline and Seminole Pipeline, previously part of the Midstream Gas & Liquids segment; and
- Kern River Gas Transmission (Kern River), previously one of Gas Pipeline’s segments.

Unless indicated otherwise, the information in the Notes to the Consolidated Statement of Operations relates to our continuing operations. We expect that other components of our business may be classified as discontinued operations in the future as the sales of those assets occur.

As previously disclosed, Power recognized $80.7 million of revenue in the second quarter of 2003 from a correction of the accounting treatment previously applied to certain third party derivative contracts during 2002 and 2001. Results for 2003 include $105 million of revenue related to these prior period items, of which $24 million was recorded prior to the correction. Management, after consultation with its independent auditor, concluded that the effect of the previous accounting treatment was not material to prior periods, 2003 results and trend of earnings.

2. SEGMENT REVENUES AND PROFIT (LOSS)

We currently evaluate performance based on segment profit (loss) from operations, which includes revenues from external and internal customers, operating costs and expenses, depreciation, depletion and amortization, equity earnings (losses) and income (loss) from investments including gains/losses on impairments related to investments accounted for under the equity method. Equity earnings (losses) and income (loss) from investments are reported in investing income (loss) in the Consolidated Statement of Operations.

During third-quarter 2003, we announced the name change of Energy Marketing & Trading to Power. Our management believes the new name more accurately reflects the emphasis of the segment’s current business activity.

Power has entered into intercompany interest rate swaps with the corporate parent, the effect of which is included in Power’s segment revenues and segment profit (loss) as shown in the reconciliation within the following tables. The results of parent company interest rate swaps with external counterparties are shown as interest rate swap income (loss) in the Consolidated Statement of Operations below operating income.

The majority of energy commodity hedging by certain of our business units is done through intercompany derivatives with Power which, in turn, enters into offsetting derivative contracts with unrelated third parties. Power bears the counterparty performance risks associated with unrelated third parties.

2. SEGMENT REVENUES AND PROFIT (LOSS) (continued)

(Millions)	Power	Gas Pipeline	Exploration & Production	Midstream Gas & Liquids	Other	Eliminations	Total
Three months ended December 31, 2003							
Segment revenues:							
External	**$2,364.3**	**$344.7**	**$ (8.8)**	**$826.0**	**$ 3.1**	**$ -**	**$3,529.3**
Internal	**210.9**	**2.4**	**175.7**	**7.6**	**9.8**	**(406.4)**	**-**
Total segment revenues	**2,575.2**	**347.1**	**166.9**	**833.6**	**12.9**	**(406.4)**	**3,529.3**
Less intercompany interest rate swap income	**9.7**	**-**	**-**	**-**	**-**	**(9.7)**	**-**
Total revenues	**$2,565.5**	**$347.1**	**$166.9**	**$833.6**	**$ 12.9**	**$(396.7)**	**$3,529.3**
Segment profit (loss)	**$ (121.3)**	**$148.4**	**$ 50.1**	**$ 45.9**	**$ (7.7)**	**$ -**	**$ 115.4**
Less:							
Equity earnings (losses)	**-**	**6.0**	**1.8**	**1.4**	**(1.1)**	**-**	**8.1**
Income (loss) from investments	**(.5)**	**-**	**-**	**4.3**	**(.6)**	**-**	**3.2**
Intercompany interest rate swap income	**9.7**	**-**	**-**	**-**	**-**	**-**	**9.7**
Segment operating income (loss)	**$ (130.5)**	**$142.4**	**$ 48.3**	**$ 40.2**	**$ (6.0)**	**$ -**	**94.4**
General corporate expenses							**(24.5)**
Consolidated operating income							**$ 69.9**
Three months ended December 31, 2002							
Segment revenues:							
External	$338.1	$313.2	$ 4.2	$432.7	$ 33.9	$ -	$1,122.1
Internal	(209.5)*	9.1	204.0	(3.9)	11.5	(11.2)	-
Total segment revenues	128.6	322.3	208.2	428.8	45.4	(11.2)	1,122.1
Less intercompany interest rate swap loss	(1.5)	-	-	-	-	1.5	-
Total revenues	$130.1	$322.3	$208.2	$428.8	$ 45.4	$(12.7)	$1,122.1
Segment profit (loss)	$(22.8)	$122.1	$ 81.5	$ (27.0)	$(20.8)	$ -	$ 133.0
Less:							
Equity earnings (losses)	(5.7)	5.6	1.6	5.1	(13.6)	-	(7.0)
Income (loss) from investments	(2.0)	1.1	-	-	.2	-	(.7)
Intercompany interest rate swap loss	(1.5)	-	-	-	-	-	(1.5)
Segment operating income (loss)	$(13.6)	$115.4	$ 79.9	$ (32.1)	$ (7.4)	$ -	142.2
General corporate expenses							(26.4)
Consolidated operating income							$ 115.8

* Prior to January 1, 2003, Power intercompany cost of sales, which are netted in revenues consistent with fair-value accounting, exceed intercompany revenue. Beginning January 1, 2003, Power intercompany cost of sales are no longer netted in revenues due to the adoption of EITF Issue No. 02-3. Segment revenues and profit for Power include net realized and unrealized mark-to-market gains of $84.6 million from derivative contracts accounted for on a fair value basis for the three months ended December 31, 2003.

2. SEGMENT REVENUES AND PROFIT (LOSS) (continued)

(Millions)	Power	Gas Pipeline	Exploration & Production	Midstream Gas & Liquids	Other	Eliminations	Total
Year ended December 31, 2003							
Segment revenues:							
External	**$12,268.6**	**$1,275.0**	**$ (36.3)**	**$3,274.6**	**$ 32.3**	**$ -**	**$16,814.2**
Internal	**904.1**	**24.0**	**816.0**	**44.6**	**39.7**	**(1,828.4)**	**-**
Total segment revenues	**13,172.7**	**1,299.0**	**779.7**	**3,319.2**	**72.0**	**(1,828.4)**	**16,814.2**
Less intercompany interest rate swap loss	**(2.9)**	**-**	**-**	**-**	**-**	**2.9**	**-**
Total revenues	**$13,175.6**	**$1,299.0**	**$779.7**	**$3,319.2**	**$ 72.0**	**$(1,831.3)**	**$16,814.2**
Segment profit (loss)	**$ 134.2**	**$ 554.9**	**$401.4**	**$ 286.0**	**$ (50.5)**	**$ -**	**$ 1,326.0**
Less:							
Equity earnings (losses)	**-**	**15.8**	**8.9**	**(5.7)**	**1.3**	**-**	**20.3**
Income (loss) from investments	**11.7**	**.1**	**-**	**6.0**	**(43.1)**	**-**	**(25.3)**
Intercompany interest rate swap loss	**(2.9)**	**-**	**-**	**-**	**-**	**-**	**(2.9)**
Segment operating income (loss)	**$ 125.4**	**$ 539.0**	**$392.5**	**$ 285.7**	**$ (8.7)**	**$ -**	**1,333.9**
General corporate expenses							**(87.0)**
Consolidated operating income							**$ 1,246.9**
Year ended December 31, 2002							
Segment revenues:							
External	$ 909.6	$1,184.7	$ 62.6	$1,492.8	$66.9	$ -	$3,716.6
Internal	(994.8)*	57.1	797.8	32.4	57.2	50.3	-
Total segment revenues	(85.2)	1,241.8	860.4	1,525.2	124.1	50.3	3,716.6
Less intercompany interest rate swap loss	(141.4)	-	-	-	-	141.4	-
Total revenues	$ 56.2	$1,241.8	$860.4	$1,525.2	$124.1	$(91.1)	$3,716.6
Segment profit (loss)	$(624.8)	$ 545.1	$508.6	$ 183.2	$ 14.1	$ -	$ 626.2
Less:							
Equity earnings (losses)	(9.7)	88.4	3.7	17.6	(27.0)	-	73.0
Income (loss) from investments	(2.0)	(13.9)	-	-	58.0	-	42.1
Intercompany interest rate swap loss	(141.4)	-	-	-	-	-	(141.4)
Segment operating income (loss)	$(471.7)	$470.6	$504.9	$ 165.6	$ (16.9)	$ -	652.5
General corporate expenses							(142.8)
Consolidated operating income							$ 509.7

* Prior to January 1, 2003, Power intercompany cost of sales, which are netted in revenues consistent with fair-value accounting, exceed intercompany revenue. Beginning January 1, 2003, Power intercompany cost of sales are no longer netted in revenues due to the adoption of EITF Issue No. 02-3. Segment revenues and profit for Power include net realized and unrealized mark-to-market gains of $388.9 million from derivative contracts accounted for on a fair value basis for the year ended December 31, 2003.

3. ASSET SALES, IMPAIRMENTS AND OTHER ACCRUALS

Significant gains or losses from asset sales, impairments and other accruals included in other (income) expense – net within segment costs and expenses for the three months and the years ended December 31, 2003 and 2002, are as follows:

	(Income) Expense			
	Three months ended December 31,		Years ended December 31,	
(millions)	**2003**	2002	**2003**	2002
Power				
Gain on sale of Jackson power contract	**$ -**	$ -	**$(188.0)**	$ -
Commodity Futures Trading Commission settlement	**-**	-	**20.0**	-
Guarantee loss accruals and write-offs	**-**	(6.2)	**-**	56.2
Impairment of goodwill	**45.0**	3.6	**45.0**	61.1
Impairment of generation facilities	**44.1**	44.7	**44.1**	44.7
Loss accruals and impairment of other power related assets	**-**	50.8	**-**	82.6
California rate refund and other accrual adjustments	**19.5**	-	**19.5**	-
Gas Pipeline				
Write-off of software development costs due to cancelled implementation	**-**	-	**25.6**	-
Exploration & Production				
Net gain on sale of certain natural gas properties	**(.3)**	2.2	**(96.7)**	(141.7)
Midstream Gas & Liquids				
Gain on sale of the wholesale propane business	**(16.2)**	-	**(16.2)**	-
Impairment of Canadian assets	**41.7**	115.0	**41.7**	115.0

Power

In June 2002, we announced our intent to exit the Power business. As a result, Power pursued efforts to sell all or portions of our power, natural gas, and crude and refined products portfolios in the latter half of 2002 and in 2003. Based on bids received in these sales efforts, we impaired certain assets and projects in 2002. We also sold or terminated energy contracts for less than their carrying value, which resulted in significant 2002 losses. During 2003, we continued our focus on exiting the Power business and, as a result, impaired certain assets.

Guarantee loss accruals and write-offs. The 2002 guarantee loss accruals and write-offs within Power of $56.2 million includes accruals for commitments for certain assets that were previously planned to be used in power projects, write-offs associated with a terminated power plant project and a $13.2 million reversal of loss accruals related to the wind-down of our mezzanine lending business.

Goodwill. The fair value of the Power reporting unit used to calculate the goodwill impairment loss in 2002 was based on the estimated fair value of the trading portfolio inclusive of the fair value of contracts with affiliates. In 2002, the trading portfolio was reflected at fair value in the financial statements and the affiliate contracts were not. The fair value of the affiliate contracts was estimated using a discounted cash flow model with natural gas pricing assumptions based on current market information.

During 2003, we continued to focus on exiting the Power business. Because of this and the current market conditions in which this business operates, we evaluated Power's remaining goodwill for impairment. In estimating the fair value of the Power reporting unit, we considered our derivative portfolio which is carried at fair value on the balance sheet and our non-derivative portfolio which is no longer carried at fair value on the balance sheet. Because of the significant negative fair value of certain of our non-derivative contracts, we may be unable to realize our carrying value of this reporting unit. As a result, we recognized an impairment of the remaining goodwill within Power during 2003.

Generation facilities. The 2003 impairment relates to the Hazelton generation facility. Fair value was estimated using future cash flows based on current market information and discounted at a risk adjusted rate. The 2002 impairment was of the Worthington generation facility. Fair value was estimated based on expected proceeds from the sale of the facility, which closed in first-quarter 2003.

Loss accruals and impairment of other power related assets. The 2002 loss accruals and impairments of other power related assets were recorded pursuant to reducing activities associated with the distributive power generation business.

California rate refund and other accrual adjustments. In addition to the $19.5 million charge included in other (income) expense - net within segment costs and expenses, a $13.8 million charge is recorded within costs and operating expenses. These two amounts, totaling $33.3 million are for California rate refund and other accrual adjustments and relate to power marketing activities in California during 2000 and 2001.

Midstream Gas & Liquids

Canadian assets. Approximately $38 million of the 2002 Canadian asset impairment reflects a reduction of carrying cost to management's estimate of fair market value for our natural gas liquid extraction plants, determined primarily from information available from efforts to sell these assets in a single transaction. The balance is associated with an olefin fractionation facility whose carrying costs were determined to be not fully recoverable. Fair value was estimated using discounted future cash flows.

During 2003, efforts to sell the natural gas liquid extraction plants were temporarily suspended and these assets were reevaluated individually. This resulted in an additional impairment of certain of the natural gas liquid extraction plants to fair value. We estimated fair value using an earnings multiple applied to projected 2005 earnings. This estimate was validated by a range of discounted future cash flows for the assets.

4. INVESTING INCOME (LOSS)

Investing income (loss) for the three months and the years ended December 31, 2003 and 2002, is as follows:

	Three months ended December 31,		Years ended December 31,	
(millions)	**2003**	2002	**2003**	2002
Equity earnings (losses)*	**$ 8.1**	$(7.0)	**$ 20.3**	$ 73.0
Income (loss) from investments*	**3.2**	(.7)	**(25.3)**	42.1
Impairments of cost based investments	**(.4)**	.3	**(35.0)**	(12.1)
Loss provision for WilTel receivables	**-**	1.2	**-**	(268.7)
Interest income and other	**18.7**	16.0	**113.4**	52.6
Total	**$29.6**	$ 9.8	**$ 73.4**	$(113.1)

*Item also included in segment profit.

Equity earnings for the year ended December 31, 2002, include a benefit of $27.4 million for a contractual construction completion fee received by one of our equity affiliates whose operations are accounted for under the equity method of accounting. This equity affiliate served as the general contractor on the Gulfstream pipeline project for Gulfstream Natural Gas System (Gulfstream), an interstate natural gas pipeline subject to FERC regulations and an equity affiliate of ours. The fee paid by Gulfstream was for the early completion during second-quarter 2002 of the construction of Gulfstream's pipeline. It was capitalized by Gulfstream as property, plant and equipment and is included in Gulfstream's rate base to be recovered in future revenues.

Income (loss) from investments for the year ended December 31, 2003, includes:

- $43.1 million impairment of our investment in equity and debt securities of Longhorn Partners Pipeline L.P., which is included in the Other segment;
- $14.1 million impairment of our equity interest in Aux Sable, which is included in the Midstream Gas & Liquids segment;
- $13.5 million gain on the sale of stock in eSpeed Inc., which is included in the Power segment; and
- $11.1 million gain on sale of our equity interest in West Texas LPG Pipeline, L.P. which is included in the Midstream Gas & Liquids segment.

Income (loss) from investments for the year ended December 31, 2002, includes:

- $58.5 million gain on sale of our investment in AB Mazeikiu Nafta, a Lithuanian oil refinery, pipeline and terminal complex, which was included in the Other segment;
- $12.3 million write-off of Gas Pipeline's investment in a pipeline project which was cancelled in 2002;
- $10.4 million net write-down pursuant to the sale of our equity interest in Alliance Pipeline, a Canadian and U.S. gas pipeline, which was included in the Gas Pipeline segment; and
- $8.7 million gain on sale of our general partner equity interest in Northern Border Partners, L.P., which was included in the Gas Pipeline segment.

Impairments of cost based investments for the years ended December 31, 2003 and 2002, primarily include impairments of various international investments.

5. EARLY RETIREMENT OF DEBT

Other income (expense) - net, below operating income, for the quarter and year-ended December 31, 2003 includes $66.8 million of costs for the early retirement of debt. These costs include payments in excess of the carrying value of the debt, dealer fees and the write-off of deferred debt issuance costs and discount/premium on the debt. Approximately $721 million of senior unsecured 9.25 percent notes and approximately $230 million of other notes and debentures were prepaid as a result of these tender offers.

6. DISCONTINUED OPERATIONS

During 2002, we began the process of selling assets and/or businesses to address liquidity issues. The businesses discussed below represent components that have been sold or approved for sale by our board of directors as of December 31, 2003; therefore, their results of operations (including any impairments, gains or losses) have been reflected in the consolidated financial statement of operations as discontinued operations.

Summarized results of discontinued operations

Summarized results of discontinued operations for the years ended December 31, 2003 and 2002 are as follows:

	Three months ended December 31,		Years ended December 31,	
(millions)	**2003**	2002	**2003**	2002
Revenues	**$253.6**	$1,435.4	**$2,431.5**	$5,685.0
Income from discontinued operations before income taxes	**$ 25.4**	80.8	**$ 150.1**	314.3
(Impairments) and gain (loss) on sales-net	**22.8**	(190.4)	**210.7**	(531.0)
Benefit (provision) for income taxes	**(17.4)**	41.6	**(106.9)**	73.7
Total income (loss) from discontinued operations	**$ 30.8**	$ (68.0)	**$ 253.9**	$ (143.0)

Held for sale at December 31, 2003

Alaska refining, retail and pipeline operations

On November 17, 2003, we entered into agreements to sell our Alaska refinery, retail and pipeline assets for approximately $265 million in cash, subject to various closing adjustments. The transactions are expected to close in the first quarter of 2004 following the completion of various closing conditions.

Throughout the sales negotiation process, we regularly reassessed the estimated fair value of these assets based on information obtained from the sales negotiations using a probability-weighted approach. As a result, impairment charges of $8 million and $18.4 million were recorded during 2003 and 2002, respectively. These impairments are included in the preceding table. These operations were part of the previously reported Petroleum Services segment.

Gulf Liquids New River Project LLC

During second-quarter 2003, our board of directors approved a plan authorizing management to negotiate and facilitate a sale of these assets. Impairment charges totaling $108.7 million were recognized during 2003 to reduce the carrying cost of the long-lived assets to estimated fair value less costs to sell the assets, and are included in the preceding table. Fair value was estimated based on a probability-weighted analysis of various scenarios including expected sales prices, salvage valuations and discounted cash flows. The sale of these operations is expected to be completed within one year of the board's approval. These operations are part of our Midstream Gas & Liquids segment.

2003 Completed transactions

Canadian liquids operations

During 2003, we completed the sale of certain gas processing, natural gas liquids fractionation, storage and distribution operations in western Canada and at our Redwater, Alberta plant for total proceeds of $246 million in cash. We recognized pre-tax gains totaling $92.1 million in 2003 on the sales which are included in the preceding table. These operations were part of our Midstream Gas & Liquids segment.

Soda ash operations

On September 9, 2003, we completed the sale of our soda ash mining facility located in Colorado. The December 31, 2002 carrying value reflected the then estimated fair value less cost to sell. During 2003, ongoing sale negotiations continued to provide new information regarding estimated fair value, and, as a result, additional impairment charges of $17.4 million were recognized in 2003. We recognized a loss on the sale of $4.2 million. These impairments, the loss on the sale and $133.5 million of 2002 impairments are included in the preceding table. The soda ash operations were part of the previously reported International segment.

6. DISCONTINUED OPERATIONS (continued)

Williams Energy Partners

On June 17, 2003, we completed the sale of our 100 percent general partnership interest and 54.6 percent limited partner investment in Williams Energy Partners for $512 million in cash and assumption by the purchasers of $570 million in debt. In December 2003, we received additional proceeds of $20 million following the occurrence of a contingent event. We recognized a pre-tax gain of $310.8 million on the sale, which is included in the preceding table. We deferred an additional $113 million associated with our indemnifications of the purchasers for a variety of matters, including obligations that may arise associated with existing environmental contamination relating to operations prior to April 2002 and identified prior to April 2008.

Bio-energy facilities

On May 30, 2003, we completed the sale of our bio-energy operations for $59 million in cash. The December 31, 2002 carrying value reflected the estimated fair value less cost to sell. During 2003, we recognized an additional pre-tax loss on the sale of $5.4 million. Impairment charges totaling $195.7 million, including $23 million related to goodwill, were recorded during December 31, 2002, to reduce the carrying cost to our estimate of fair value at that time. Both the additional loss and impairment charges are included in the preceding table. These operations were part of the previously reported Petroleum Services segment.

Natural gas properties

On May 30, 2003, we completed the sale of natural gas exploration and production properties in the Raton Basin in southern Colorado and the Hugoton Embayment of the Anadarko Basin in southwestern Kansas. This sale included all of our interests within these basins. A $39.7 million gain on the sale was recognized during 2003 and is included in the preceding table. These properties were part of the Exploration & Production segment.

Texas Gas

On May 16, 2003, we completed the sale of Texas Gas Transmission Corporation for $795 million in cash and the assumption by the purchaser of $250 million in existing Texas Gas debt. A $109 million impairment charge was recorded in first-quarter 2003 reflecting the excess of the carrying cost of the long-lived assets over our estimate of fair value based on an assessment of the expected sales price pursuant to the purchase and sale agreement. The impairment charge is included in the preceding table. No significant gain or loss was recognized on the subsequent sale. Texas Gas was a segment within Gas Pipeline.

Midsouth refinery and related assets

On March 4, 2003, we completed the sale of our refinery and other related operations located in Memphis, Tennessee for $455 million in cash. These assets were previously written down by $240.8 million to their estimated fair value less cost to sell at December 31, 2002. A pre-tax gain on sale of $4.7 million was recognized in the first quarter of 2003. During the second quarter of 2003, we recognized a $24.7 million pre-tax gain on the sale of an earn-out agreement that we retained in the sale of the refinery. The 2002 impairment charge and subsequent gains are included in the preceding table. These operations were part of the previously reported Petroleum Services segment.

Williams travel centers

On February 27, 2003, we completed the sale of the travel centers for approximately $189 million in cash. These assets were previously written down by $146.6 million to their estimated fair value less cost to sell at December 31, 2002. This impairment is included in the preceding table. No significant gain or loss was recognized on the sale. These operations were part of the previously reported Petroleum Services segment.

2002 Completed transactions

Central

On November 15, 2002, we completed the sale of our Central natural gas pipeline for $380 million in cash and the assumption by the purchaser of $175 million in debt. Impairment charges totaling $91.3 million during 2002 are included in the preceding table. Central was a segment within Gas Pipeline.

Mid-America and Seminole Pipelines

On August 1, 2002, we completed the sale of our 98 percent interest in Mid-America Pipeline and 98 percent of our 80 percent ownership interest in Seminole Pipeline for $1.2 billion. The sale generated net cash proceeds of $1.15 billion. The preceding table includes a pre-tax gain of $301.7 million during 2002 and a $11.4 million reduction of the gain during 2003. These assets were part of the Midstream Gas & Liquids segment.

6. DISCONTINUED OPERATIONS (continued)

Kern River

On March 27, 2002, we completed the sale of our Kern River pipeline for $450 million in cash and the assumption by the purchaser of $510 million in debt. As part of the agreement, $32.5 million of the purchase price was contingent upon Kern River receiving a certificate from the FERC to construct and operate a future expansion. This certificate was received in July 2002, and the contingent payment plus interest was recognized as income from discontinued operations in third-quarter 2002. Included in the preceding table is a pre-tax loss of $6.4 million for the year ended December 31, 2002. Kern River was a segment within Gas Pipeline.

7. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES

The Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and amends SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." The Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, and that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002 with the impact of adoption to be reported as a cumulative effect of change in accounting principle.

We adopted the new rules on asset retirement obligations on January 1, 2003. As required by the new rules, we recorded liabilities equal to the present value of expected future asset retirement obligations at January 1, 2003. The obligations related to producing wells, offshore platforms and underground storage caverns. The liabilities are partially offset by increases in net assets, net of accumulated depreciation, recorded as if the provisions of the Statement had been in effect at the date the obligation was incurred. As a result of the adoption of SFAS No. 143, we recorded a long-term liability of $33.4 million; property, plant and equipment, net of accumulated depreciation, of $24.8 million and a credit to earnings of $1.2 million (net of $.1 million benefit for income taxes). We also recorded a $9.7million regulatory asset for retirement costs expected to be recovered through regulated rates. In connection with adoption of SFAS No. 143, we changed our method of accounting to include salvage value of equipment related to producing wells in the calculation of depreciation. The impact of this change is included in the amounts discussed above.

On October 25, 2002, the EITF reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." This Issue rescinds EITF Issue No. 98-10, the impact of which is to preclude fair value accounting for energy trading contracts that are not derivatives pursuant to SFAS No. 133 and commodity trading inventories. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are held for trading purposes. The consensus is applicable for fiscal periods beginning after December 15, 2002, except for physical trading commodity inventories purchased after October 25, 2002 which may not be reported at fair value. We initially applied the consensus effective January 1, 2003 and reported the initial application as a cumulative effect of a change in accounting principle. The effect of initially applying the consensus reduced net income by approximately $762.5 million on an after tax basis. Physical trading commodity inventories at December 31, 2003 that were purchased prior to October 25, 2002 were reported at fair value at December 31, 2003 and included in the effect of initially applying the consensus. The change results primarily from power tolling load serving, transportation and storage contracts not meeting the definition of a derivative and no longer being reported at fair value. These contracts will be accounted for under an accrual model. Physical trading commodity inventories will be stated at cost, not to be in excess of market.

8. PREFERRED STOCK

Concurrent with the sale of Kern River to MidAmerican Energy Holdings Company (MEHC) on March 27, 2002, we issued approximately 1.5 million shares of 9 7/8 percent cumulative convertible preferred stock to MEHC for $275 million. The terms of the preferred stock allowed the holder to convert, at any time, one share of preferred stock into 10 shares of our common stock at $18.75 per share. Preferred shares had a liquidation preference equal to the stated value of $187.50 per share plus any dividends accumulated and unpaid. Dividends on the preferred stock were payable quarterly. At the time the preferred stock was issued, the conversion price was less than the market price of our common stock and thus deemed beneficial to the purchaser. Proper accounting treatment required that the benefit be recorded as a noncash dividend of $69.4 million, which was a reduction to our retained earnings. An offset to this amount was recorded as an increase to capital in excess of par value.

On June 10, 2003, Williams redeemed all of the outstanding 9 7/8 percent cumulative-convertible preferred shares for approximately $289 million, plus $5.3 million for accrued dividends. These shares were repurchased with proceeds from a private placement of 5.5 percent junior subordinated convertible debentures due 2033. Preferred stock dividends for the year ended December 31, 2003 include a $13.8 million premium representing the excess of the purchase price over the carrying value of the shares.