

KEITH E. BAILEY
Chairman of the Board, President and
Chief Executive Officer



One Williams Center
PO Box 2400
Tulsa, Oklahoma 74102
918/573-2000

June 26, 2001

Dear Stockholder:

Effective April 23, 2001, The Williams Companies, Inc. (the "Company" or "Williams") distributed 398,500,000 shares of the common stock of Williams Communications Group, Inc. ("Communications") owned by the Company (the "Distribution"). In connection with the Distribution, Williams stockholders eligible for the distribution received approximately .822399 share of Communications common stock ("Communications Stock") for each outstanding share of Company common stock ("Williams Stock").

The Company did not issue fractional shares to stockholders in connection with the Distribution. Instead, fractional shares were aggregated and sold in the open market by Bank of New York, acting as distribution agent. Checks representing the pro-rata share of the \$4.07 per share net proceeds of the sale of the aggregated fractional shares were sent to stockholders of record entitled to these proceeds.

The IRS has ruled that stockholders of Williams Stock will incur no U.S. federal income tax upon the receipt of the Communications Stock in the Distribution (although you will recognize a taxable gain (or loss) upon the receipt of cash in lieu of fractional shares). However, because you received the Communications Stock free of tax, the law requires you to apportion the tax basis in your Williams Stock between that stock and the Communications Stock received in the Distribution, in proportion to their relative fair market values on the date of the Distribution.

The trading prices of Williams and Communications common stock at the New York Stock Exchange close on the date of the Distribution can be used as reasonable indicators of the relative fair market values of the two stocks. Based on the April 23, 2001 closing prices of \$38.65 for Williams (closing price of \$42.10 less value of Communications distribution ($\$4.20 \times .822399$)) and \$4.20 for Communications,

(1) **91.8%** of your original cost basis would be allocated to your post-Distribution Williams Stock; and

(2) **8.2%** of your original cost basis would be allocated to your Communications Stock (including any fractional shares sold on your behalf).

For example, if you owned 100 shares of Williams Stock on April 9, 2001 with a cost basis of \$20 per share (\$2,000 total basis), you would have received 82 shares of Communications Stock in the Distribution plus cash in lieu of fractional share of \$0.98. Using the allocation formula described above, your cost basis in the Williams and Communications common stock after the distribution (excluding the sale of fractional shares) would be computed as follows:

	<u>Total</u>	<u>Per share</u>
Original cost basis in Williams stock	\$2,000.00	\$20.00
Adjusted basis applicable to 100 shares of Williams stock ($\$2,000 \times 91.8\%$)	\$1,836.00	\$18.36
Adjusted basis applicable to 82 shares of Communications ($\$2,000 \times 8.2\%$) plus the \$.98 received in lieu of a fractional share	\$ 164.00	\$ 2.00

If you acquired your Williams Stock at different times or at different prices, you should allocate the basis in each block of stock separately using these percentages. The holding period for your Communications Stock and your post-Distribution Williams Stock will be the same as the holding period of your pre-Distribution

Williams Stock for purposes of determining long-term capital gains, provided that your Williams Stock was held as a capital asset on April 23, 2000.

In addition, you are required to attach to your U.S. federal income tax return a signed statement setting forth certain prescribed information about the Distribution. For your convenience, we have enclosed an IRS Code 355 Statement, which you can use when filing your 2001 federal income tax returns.

The foregoing discussion is for general information purposes only and may not be applicable to stockholders who are not citizens or residents of the United States. In addition, this discussion does not address tax consequences which may vary with your individual circumstances. Accordingly, you are urged to consult with your tax advisor to determine your particular tax consequences and filing obligations in connection with the Distribution.

An Information Statement about the Distribution is available on our web site at www.Williams.com. If you need further information with respect to the Distribution, please call Williams Investor Relations at (800) 600-3782.

Sincerely,

THE WILLIAMS COMPANIES, INC.

A handwritten signature in black ink, appearing to read "Keith Bailey". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Keith Bailey
*Chairman of the Board, President
and Chief Executive Officer*

IRS CODE SECTION 355 STATEMENT
(ATTACH TO 2001 FEDERAL INCOME TAX RETURN)

Statement of stockholders receiving a distribution of stock in Williams Communications Group, Inc. (a controlled corporation), pursuant to Regulation Section 1.355-5(b).

1. The undersigned, a stockholder owning shares of The Williams Companies, Inc. as of April 9, 2001, received a distribution of stock in a controlled corporation pursuant to Section 355.
2. The names and addresses of the corporations involved are:
 - (a) The Williams Companies, Inc. (Parent) — One Williams Center, Tulsa, OK 74172
 - (b) Williams Communications Group, Inc. (Controlled Corporation) — One Williams Center, Tulsa, OK 74172
3. No stock or securities in Williams were surrendered by the undersigned.
4. shares of Communications, Inc. were received in the distribution, constituting only common shares in such corporation.
5. By letter dated August 2, 2000, supplemented by letter dated March 27, 2001, the Internal Revenue Service ruled that the distribution of shares of Communications, Inc., was a nontaxable Section 355 corporate separation.

Stockholder (name and signature)