Financial Highlights
(Unaudited)

	Three months ended December 31,		Years ended December 31,	
(Millions, except per-share amounts)	**2002**	2001*	**2002**	2001*
Revenues	**$ 1,702.7**	$ 1,575.4	**$ 5,608.4**	$ 7,065.5
Income (loss) from continuing operations	**$ (106.4)**	$ (24.4)	**$ (483.3)**	$ 802.7
Loss from discontinued operations	**$ (94.6)**	$ (1,213.3)	**$ (253.2)**	$ (1,280.4)
Net loss	**$ (201.0)**	$ (1,237.7)	**$ (736.5)**	$ (477.7)
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	**$ (.22)**	$ (.05)	**$ (1.11)**	$ 1.62
Loss from discontinued operations	**$ (.18)**	$ (2.34)	**$ (.49)**	$ (2.58)
Net loss	**$ (.40)**	$ (2.39)	**$ (1.60)**	$ (.96)
Average shares (thousands)	**517,104**	518,071	**516,793**	496,935
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	**$ (.22)**	$ (.05)	**$ (1.11)**	$ 1.61
Loss from discontinued operations	**$ (.18)**	$ (2.34)	**$ (.49)**	$ (2.56)
Net loss	**$ (.40)**	$ (2.39)	**$ (1.60)**	$ (.95)
Average shares (thousands)	**517,104**	518,071	**516,793**	500,567
Shares outstanding at December 31 (thousands)			**516,731**	515,548

* 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, 2002	Three months ended December 31, 2001*	Years ended December 31, 2002	Years ended December 31, 2001*
REVENUES	Energy Marketing & Trading	**$ 130.1**	$ 276.6	**$ 56.2**	$ 1,705.6
	Gas Pipeline	**397.4**	377.5	**1,503.8**	1,426.0
	Exploration & Production	**222.1**	205.0	**899.9**	615.2
	Midstream Gas & Liquids	**569.3**	400.0	**1,909.1**	1,906.8
	Williams Energy Partners	**120.1**	91.8	**423.7**	402.5
	Petroleum Services	**261.3**	222.6	**866.0**	1,109.7
	Other	**15.7**	20.3	**65.9**	80.3
	Intercompany eliminations	**(13.3)**	(18.4)	**(116.2)**	(180.6)
	Total revenues	**1,702.7**	1,575.4	**5,608.4**	7,065.5
SEGMENT COSTS AND EXPENSES	Costs and operating expenses	**1,063.8**	900.5	**3,653.5**	3,846.6
	Selling, general and administrative expenses	**156.0**	208.7	**723.9**	793.0
	Other (income) expense – net	**255.4**	31.2	**289.4**	(16.1)
	Total segment costs and expenses	**1,475.2**	1,140.4	**4,666.8**	4,623.5
	General corporate expenses	**26.4**	35.5	**142.8**	124.3
OPERATING INCOME (LOSS)	Energy Marketing & Trading	**(13.6)**	164.1	**(471.7)**	1,294.6
	Gas Pipeline	**156.6**	119.5	**594.8**	497.9
	Exploration & Production	**85.4**	69.9	**516.8**	219.5
	Midstream Gas & Liquids	**(25.8)**	48.0	**171.7**	185.9
	Williams Energy Partners	**29.5**	17.6	**99.3**	101.2
	Petroleum Services	**1.2**	19.0	**48.1**	145.8
	Other	**(5.8)**	(3.1)	**(17.4)**	(2.9)
	General corporate expenses	**(26.4)**	(35.5)	**(142.8)**	(124.3)
	Total operating income	**201.1**	399.5	**798.8**	2,317.7
	Interest accrued	**(383.1)**	(213.6)	**(1,229.5)**	(720.6)
	Interest capitalized	**9.4**	6.0	**29.0**	38.4
	Interest rate swap gain (loss)	**1.0**	-	**(124.2)**	-
	Investing income (loss)	**17.9**	(194.4)	**(101.7)**	(168.6)
	Minority interest in income and preferred returns of consolidated subsidiaries	**(18.6)**	(12.2)	**(79.3)**	(80.7)
	Other income – net	**5.9**	13.9	**26.4**	26.1
	Income (loss) from continuing operations before income taxes	**(166.4)**	(.8)	**(680.5)**	1,412.3
	Provision (benefit) for income taxes	**(60.0)**	23.6	**(197.2)**	609.6
	Income (loss) from continuing operations	**(106.4)**	(24.4)	**(483.3)**	802.7
	Loss from discontinued operations	**(94.6)**	(1,213.3)	**(253.2)**	(1,280.4)
	Net loss	**(201.0)**	(1,237.7)	**(736.5)**	(477.7)
	Preferred stock dividends	**6.8**	-	**90.1**	**-**
	Loss applicable to common stock	**$ (207.8)**	$(1,237.7)	**$ (826.6)**	$ (477.7)
EARNINGS (LOSS) PER SHARE	Basic earnings (loss) per common share:				
	Income (loss) from continuing operations	**$ (.22)**	$ (.05)	$ **(1.11)**	$ 1.62
	Loss from discontinued operations	**(.18)**	(2.34)	**(.49)**	(2.58)
	Net loss	**$ (.40)**	$ (2.39)	**$ (1.60)**	$ (.96)
	Diluted earnings (loss) per common share:				
	Income (loss) from continuing operations	**$ (.22)**	$ (.05)	**$ (1.11)**	$ 1.61
	Loss from discontinued operations	**(.18)**	(2.34)	**(.49)**	(2.56)
	Net loss	**$ (.40)**	$ (2.39)	**$ (1.60)**	$ (.95)

* 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 5):

- Kern River Gas Transmission (Kern River), previously one of Gas Pipeline's segments
- Central natural gas pipeline, previously one of Gas Pipeline's segments
- The Colorado soda ash mining operations, part of the previously reported International segment
- Two natural gas liquids pipeline systems, Mid-American Pipeline and Seminole Pipeline, previously part of the Midstream Gas & Liquids segment
- Refining and marketing operations in the Midsouth, including the Midsouth refinery, previously part of the Petroleum Services segment
- Retail travel centers concentrated in the Midsouth, previously part of the Petroleum Services segment
- Bio-energy operations, previously part of the Petroleum Services segment

Additionally, the results of operations of Williams Communications Group, Inc. (WCG) are also reflected in the Consolidated Statement of Operations.

Unless indicated otherwise, the information in the Notes to the Consolidated Statement of Operations relates to the continuing operations of Williams. Williams expects that other components of its business will be classified as discontinued operations in the future as the sales of those assets occur.

Segment reclassification of operations

Additionally, activities of certain of Williams' segments were realigned or changed due to certain transactions during 2002. These realignments include the following:

- During first-quarter 2002, management of APCO Argentina was transferred from the previously reported International segment to the Exploration & Production segment.
- On April 11, 2002, Williams Energy Partners L.P., a partially owned and consolidated entity of Williams, acquired Williams Pipe Line, an operation previously included within the Petroleum Services segment. Accordingly, Williams Pipe Line's operations have been transferred from the Petroleum Services segment to the Williams Energy Partners segment.
- Effective July 1, 2002, management of certain operations previously conducted by Energy Marketing & Trading, International and Petroleum Services segments was transferred to the Midstream Gas & Liquids segment. These operations included natural gas liquids trading, activities in Venezuela and a petrochemical plant, respectively.
- The remaining operations of the previously reported International segment have been included within Other as a result of the decrease in significance of that segment.

Any segment information in the Notes to the Consolidated Statement of Operations has been restated for all prior periods presented to reflect the changes noted above.

Certain prior year amounts have been reclassified to conform to current year classifications.

2. SEGMENT REVENUES AND PROFIT (LOSS)

Williams currently evaluates performance based upon 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. Equity earnings (losses) and income (loss) from investments are reported in investing income (loss) in the Consolidated Statement of Operations.

In first-quarter 2002, Williams began managing its interest rate risk on an enterprise basis by the corporate parent. The more significant of these risks relate to its debt instruments and its energy risk management and trading portfolio. To facilitate the management of the risk, entities within Williams may enter into derivative instruments (usually swaps) with the corporate parent. The level, term and nature of derivative instruments entered into with external parties are determined by the corporate parent. Energy Marketing & Trading has entered into intercompany interest rate swaps with the corporate parent, the effect of which is included in Energy Marketing & Trading's segment revenues and segment profit (loss) as shown in the reconciliation within the following tables. The results of interest rate swaps with external counterparties are shown as interest rate swap gain (loss) in the Consolidated Statement of Operations below operating income.

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

(Millions)	Energy Marketing & Trading	Gas Pipeline	Exploration & Production	Midstream Gas & Liquids	Williams Energy Partners	Petroleum Services	Other	Eliminations	Total
Three months ended December 31, 2002									
Segment revenues:									
External	$ 361.4	$387.5	$ 4.3	$573.0	$112.8	$257.7	$ 6.0	$ -	$1,702.7
Internal	(232.8)*	9.9	217.8	(3.7)	7.3	3.6	9.7	(11.8)	-
Total segment revenues	128.6	397.4	222.1	569.3	120.1	261.3	15.7	(11.8)	1,702.7
Less intercompany interest rate swap gain (loss)	(1.5)	-	-	-	-	-	-	1.5	-
Total revenues	$ 130.1	$397.4	$222.1	$569.3	$120.1	$261.3	$ 15.7	$(13.3)	$1,702.7
Segment profit (loss)	$ (22.8)	$163.3	$ 87.0	$ (20.7)	$ 29.5	$ (5.0)	$ (5.7)	$ -	$ 225.6
Less:									
Equity earnings (losses)	(5.7)	5.6	1.6	5.1	-	(6.2)	(.1)	-	.3
Income (loss) from investments	(2.0)	1.1	-	-	-	-	.2	-	(.7)
Intercompany interest rate swap gain (loss)	(1.5)	-	-	-	-	-	-	-	(1.5)
Segment operating income (loss)	$ (13.6)	$156.6	$ 85.4	$ (25.8)	$ 29.5	$ 1.2	$ (5.8)	$ -	227.5
General corporate expenses									(26.4)
Total operating income									$ 201.1
Three months ended December 31, 2001									
Segment revenues:									
External	$ 487.8	$360.6	$ 27.9	$399.1	$ 82.5	$207.0	$ 10.5	$ -	$1,575.4
Internal	(211.2)*	16.9	177.1	.9	9.3	15.6	9.8	(18.4)	-
Total segment revenues	276.6	377.5	205.0	400.0	91.8	222.6	20.3	(18.4)	1,575.4
Less intercompany interest rate swap gain (loss)	-	-	-	-	-	-	-	-	-
Total revenues	$ 276.6	$377.5	$205.0	$400.0	$ 91.8	$222.6	$ 20.3	$(18.4)	$1,575.4
Segment profit (loss)	$ 161.4	$135.7	$ 68.7	$ 45.5	$ 17.6	$ 18.8	$(11.8)	$ -	$ 435.9
Less:									
Equity earnings (losses)	(2.7)	16.2	(1.2)	(2.5)	-	(.2)	(8.7)	-	.9
Income (loss) from investments	-	-	-	-	-	-	-	-	-
Intercompany interest rate swap gain (loss)	-	-	-	-	-	-	-	-	-
Segment operating income (loss)	$ 164.1	$119.5	$ 69.9	$ 48.0	$ 17.6	$ 19.0	$ (3.1)	$ -	435.0
General corporate expenses									(35.5)
Total operating income									$ 399.5

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

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

(Millions)	Energy Marketing & Trading	Gas Pipeline	Exploration & Production	Midstream Gas & Liquids	Williams Energy Partners	Petroleum Services	Other	Eliminations	Total
Year ended December 31, 2002									
Segment revenues:									
External	**$ 977.8**	**$1,443.2**	**$ 62.7**	**$1,869.9**	**$386.7**	**$ 841.5**	**$ 26.6**	**$ -**	**$5,608.4**
Internal	**(1,063.0)***	**60.6**	**837.2**	**39.2**	**37.0**	**24.5**	**39.3**	**25.2**	**-**
Total segment revenues	**(85.2)**	**1,503.8**	**899.9**	**1,909.1**	**423.7**	**866.0**	**65.9**	**25.2**	**5,608.4**
Less intercompany interest rate swap gain (loss)	**(141.4)**	**-**	**-**	**-**	**-**	**-**	**-**	**141.4**	**-**
Total revenues	**$ 56.2**	**$1,503.8**	**$899.9**	**$1,909.1**	**$423.7**	**$ 866.0**	**$ 65.9**	**$(116.2)**	**$5,608.4**
Segment profit (loss)	**$ (624.8)**	**$ 669.3**	**$520.5**	**$ 189.3**	**$ 99.3**	**$ 40.8**	**$ 27.9**	**$ -**	**$ 922.3**
Less:									
Equity earnings (losses)	**(9.7)**	**88.4**	**3.7**	**17.6**	**-**	**(6.6)**	**(13.4)**	**-**	**80.0**
Income (loss) from investments	**(2.0)**	**(13.9)**	**-**	**-**	**-**	**(.7)**	**58.7**	**-**	**42.1**
Intercompany interest rate swap gain (loss)	**(141.4)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(141.4)**
Segment operating income (loss)	**$ (471.7)**	**$ 594.8**	**$516.8**	**$ 171.7**	**$ 99.3**	**$ 48.1**	**$(17.4)**	**$ -**	**941.6**
General corporate expenses									**(142.8)**
Total operating income									**$ 798.8**
Year ended December 31, 2001									
Segment revenues:									
External	$ 2,260.2	$1,384.5	$121.6	$1,826.3	$354.1	$1,077.8	$ 41.0	$ -	$7,065.5
Internal	(554.6)*	41.5	493.6	80.5	48.4	31.9	39.3	(180.6)	-
Total segment revenues	1,705.6	1,426.0	615.2	1,906.8	402.5	1,109.7	80.3	(180.6)	7,065.5
Less intercompany interest rate swap gain (loss)	-	-	-	-	-	-	-	-	-
Total revenues	$ 1,705.6	$1,426.0	$615.2	$1,906.8	$402.5	$1,109.7	$ 80.3	$(180.6)	$7,065.5
Segment profit (loss)	$ 1,270.0	$ 571.7	$234.1	$ 171.9	$101.2	$ 145.7	$(25.7)	$ -	$2,468.9
Less:									
Equity earnings (losses)	(1.3)	46.3	14.6	(14.0)	-	(.1)	(22.8)	-	22.7
Income (loss) from investments	(23.3)	27.5	-	-	-	-	-	-	4.2
Intercompany interest rate swap gain (loss)	-	-	-	-	-	-	-	-	-
Segment operating income (loss)	$ 1,294.6	$ 497.9	$219.5	$ 185.9	$101.2	$ 145.8	$ (2.9)	$ -	2,442.0
General corporate expenses									(124.3)
Total operating income									$2,317.7

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

3. ASSET SALES, IMPAIRMENTS AND OTHER ACCRUALS

In first-quarter 2002, Williams offered an enhanced-benefit early retirement option to certain employee groups. The deadline for electing the early retirement option was April 26, 2002. The year ended December 31, 2002, reflects $30 million of expense associated with the early retirement option, of which $24 million is recorded in selling, general and administrative expenses and the remaining in general corporate expenses.

Significant gains or losses from asset sales, impairments and other accruals included in other (income) expense – net within segment costs and expenses are included in the following table:

	Expense (Income)			
	Three months ended December 31,		Years ended December 31,	
(millions)	**2002**	2001	**2002**	2001
Energy Marketing & Trading				
Guarantee loss accruals and write-offs	**$ (6.2)**	$ -	$ **56.2**	$ -
Impairment of Worthington generation facility	**44.7**	-	**44.7**	-
Loss accruals and impairment of other power related assets	**50.8**	-	**82.6**	-
Impairment of goodwill	**3.6**	-	**61.1**	-
Impairment of plant for terminated expansion	**-**	13.3	**-**	13.3
Gas Pipeline				
Loss accrual for royalty claims	**-**	18.3	**-**	18.3
Exploration & Production				
Gain on sale of natural gas production properties in Wyoming	**2.0**	-	**(120.3)**	-
Gain on sale of natural gas production properties in Anadarko basin	**.2**	-	**(21.4)**	-
Midstream Gas & Liquids				
Impairment of Canadian assets	**115.0**	-	**115.0**	-
Impairment of south Texas assets	**-**	(1.3)	**-**	13.8
Petroleum Services				
Impairment of Alaska assets	**18.4**	-	**18.4**	-
Gain on sale of certain convenience stores	**-**	(3.2)	**-**	(75.3)
Impairment of end-to-end mobile computing systems business	**-**	.9	-	12.1

The guarantee loss accruals and write-offs within Energy Marketing & Trading of $56.2 million in 2002 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 its mezzanine lending business. The impairment of the Worthington generation facility was recorded pursuant to the sale of the facility in first-quarter 2003. The loss accruals and impairments of other power related assets were recorded pursuant to management's decision to exit the distributive power generation business. The impairment of goodwill includes a $57.5 million goodwill impairment loss in second-quarter 2002 reflecting a decline in the fair value from deteriorating market conditions in the merchant energy sector in which it operates and Energy Marketing & Trading's resulting announcement in June 2002 to scale back its own energy marketing and risk management business. The fair value of Energy Marketing & Trading used to calculate the goodwill impairment loss was based on the estimated fair value of the trading portfolio inclusive of the fair value of contracts with affiliates, which are not reflected at fair value in the financial statements. The fair value of these contracts was estimated using a discounted cash flow model with natural gas pricing assumptions based on current market information. The remaining goodwill was evaluated for impairment at the end of 2002 and an additional impairment of $3.0 million was required based on management's estimate of the fair value of Energy Marketing & Trading at December 31, 2002.

Approximately $38 million of the Canadian asset impairment reflects a reduction of carrying cost to management's estimate of fair market value, determined primarily from information available from efforts to sell these assets. The balance is associated with assets whose carrying cost were not fully recoverable and reduced to estimated fair value.

4. INVESTING INCOME (LOSS)

Investing income (loss) for the three months and the years ended December 31, 2002 and 2001, is as follows:

	Three months ended December 31,		Years ended December 31,	
(millions)	**2002**	2001	**2002**	2001
Equity earnings (losses)*	**$ .3**	$ .9	**$ 80.0**	$ 22.7
Income (loss) from investments*	**(.7)**	-	**42.1**	4.2
Write-down of WCG common stock investment	**-**	(25.0)	**-**	(95.9)
Loss provision for WCG receivables (see Note 5)	**1.2**	(188.0)	**(268.7)**	(188.0)
Interest income and other	**17.1**	17.7	**44.9**	88.4
Total	**$17.9**	$(194.4)	**$(101.7)**	$(168.6)

*Item also included in segment profit.

Equity earnings for the year ended December 31, 2002, include a benefit of $27.4 million, reflecting a contractual construction completion fee received by an equity affiliate of Williams 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 Pipeline Natural Gas System (Gulfstream), an interstate natural gas pipeline subject to Federal Energy Regulatory Commission (FERC) regulations and an equity affiliate of Williams. The fee paid by Gulfstream, associated with the early completion during second-quarter of the construction of Gulfstream's pipeline, was capitalized by Gulfstream as property, plant and equipment and is included in Gulfstream's rate base to be recovered in future revenues.

4. INVESTING INCOME (LOSS) (continued)

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

- $58.5 million gain on sale of Williams' investment in a Lithuanian oil refinery, pipeline and terminal complex, which was included in the previously reported International segment
- $12.3 million write-down of Gas Pipeline's investment in a pipeline project which was cancelled in 2002
- $10.4 ($1.2 million adjustment during fourth-quarter) million net write-down pursuant to the sale of Williams' equity interest in a Canadian and U.S. gas pipeline, which was included in the Gas Pipeline segment
- $8.7 million gain on sale of Williams' general partner equity interest in Northern Border Partners, L.P., which was included in the Gas Pipeline segment

Income (loss) from investments for the year ended December 31, 2001, includes the following:

- $27.5 million gain on the sale of Williams' limited partnership interest in Northern Border Partners, L.P., which was included in the Gas Pipeline segment
- $23.3 million of write-downs of certan other investments, which were included in the Energy Marketing & Trading segment

The common stock write-downs of the WCG investment resulted from a decline in the value of the WCG common stock which was determined to be other than temporary.

5. DISCONTINUED OPERATIONS

Summarized Financial Information

Summarized results of discontinued operations for the three months and years ended December 31, 2002 and 2001, are as follows:

	Three months ended December 31,		Years ended December 31,	
(millions)	**2002**	2001	**2002**	2001
2002 Transactions:				
Income from operations before income taxes	**$ 19.2**	$ 57.7	**$ 115.0**	$ 238.0
(Impairments) and gains and (losses) on sales	**(172.0)**	(184.7)	**(512.6)**	(184.7)
(Provision) benefit for income taxes	**58.2**	47.7	**144.4**	(20.6)
Income (loss)	**(94.6)**	(79.3)	**(253.2)**	32.7
2001 Transactions:				
Loss from operations before income taxes	**-**	-	**-**	(271.3)
Estimated losses attributable to probable performance on WCG guarantee obligations	**-**	(1,839.2)	**-**	(1,839.2)
Benefit for income taxes	**-**	705.2	**-**	797.4
Loss	**-**	(1,134.0)	**-**	(1,313.1)
Loss from discontinued operations	**$ (94.6)**	$(1,213.3)	**$(253.2)**	$(1,280.4)

2002 Transactions

In accordance with the provisions related to discontinued operations within SFAS No. 144, the results of operations for the following asset and/or business sales have been reflected in the Consolidated Statement of Operations as discontinued operations:

Kern River

On March 27, 2002, Williams completed the sale of its 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 as a component of (impairments) and gains and (losses) on sales (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.

5. DISCONTINUED OPERATIONS (continued)

Central

During third-quarter 2002, Williams' board of directors approved an agreement to sell one of its Gas Pipeline segments, Central natural gas pipeline, for $380 million in cash and the assumption by the purchaser of $175 million in debt. The sale closed November 15, 2002. The sales agreement resulted from efforts to market this asset through a reserve price auction process that was initiated during second-quarter 2002. Included as a component of (impairments) and gains and (losses) on sales (included in the preceding table) is a pre-tax loss of $91.3 million for the year ended December 31, 2002.

Soda ash operations

In March 2002, Williams announced its intentions to sell its soda ash mining facility located in Colorado, which was part of Williams' previously reported International segment and was previously written down by $170 million in fourth-quarter 2001 to estimated fair value at December 31, 2001. In April 2002, Williams initiated a reserve-auction process. As this process and negotiations with interested parties progressed throughout 2002, new information regarding estimated fair value became available. As a result, additional pre-tax impairment charges of $44.1 million, $48.2 million and $41.2 million were recognized in second, third and fourth quarters of 2002, respectively. During third-quarter 2002, Williams' board of directors approved a plan authorizing management to negotiate and facilitate a sale of its interest in the soda ash operations pursuant to terms of a proposed sales agreement. As a result of the board of directors' approval and management's expectation of consummation of a sale, these operations met the criteria within SFAS No. 144 to be held for sale at December 31, 2002. The impairment charges are recorded as a component of (impairments) and gains and (losses) on sales (included in the preceding table), and are reflective of management's estimate of fair value associated with revised terms of its negotiations to sell the operations.

Mid-America and Seminole pipelines

On August 1, 2002, Williams completed the sale of 98 percent of its interest in Mid-America Pipeline and 98 percent of its 80 percent ownership interest in Seminole Pipeline for $1.2 billion. The sale generated net cash proceeds of $1.15 billion. Included as a component of (impairments) and gains (losses) on sales from discontinued operations (included in the preceding table) is a pre-tax gain of $301.7 million for the year ended December 31, 2002. Mid-America Pipeline is a 7,726-mile natural gas liquids pipeline system. Seminole Pipeline is a 1,281-mile natural gas liquids pipeline system. These assets were part of the Midstream Gas & Liquids segment.

Midsouth Refinery and related assets

During the second quarter of 2002, management announced its intention to sell its refining operations within the Petroleum Services segment as part of the strategy to improve the company's financial position. On November 26, 2002 and pursuant to Board of Director approval, Williams announced it had reached an agreement to sell its refinery and other related operations located in Memphis, Tennessee. Impairments of $176.2 million and $64.6 million were recorded in the third and fourth quarters of 2002, respectively, to reduce the carrying cost to management's estimate of fair market value based on information available through the reserve auction process used to market the facilities. These impairments are recorded as components of (impairments) and gains and (losses) on sales (included in the preceding table) and were recorded pursuant to the sales agreement which is expected to close in March 2003.

Williams Travel Centers

During the fourth quarter of 2002, Williams announced the sale of the travel centers which were included in the Petroleum Services segment. The travel centers have been identified as a business that does not fit into the new core focus and have been marketed for sale by a reserve-auction process. As a result of this process, information on the fair market value of these assets became available and it was determined impairments were required. A $27 million loss was recorded in second-quarter 2002 to recognize both an impairment charge and liability accruals associated with a residual value guarantee of certain travel centers under an operating lease. Additional impairments of $112.1 million and $7.5 million were recorded in the third and fourth quarters of 2002, respectively, to reduce the carrying cost to the estimated fair market value based on management's estimate of fair value, which was based largely upon the available information from the reserve auction process. The sale is expected to close by the end of February 2003.

5. DISCONTINUED OPERATIONS (continued)

Bio-energy operations

Williams' bio-energy operations, which were previously part of the Petroleum Services segment, have been identified as assets not related to the new, more narrowly focused business. Williams initiated a reserve-auction process for the sale of the facilities which are primarily engaged in the production and marketing of ethanol. During 2002, Williams Board of Director's approved a plan authorizing management to negotiate and facilitate a sale of its bio-energy operations. Impairments of $144.3 million and $51.4 million were recorded in the third and fourth quarters of 2002, respectively, to reduce the carrying cost to management's estimate of fair market value based on information from the reserve auction process. These impairments are recorded as components of (impairments) and gains and losses on sales (included in the preceding table).

2001 Transactions

Williams Communications Group, Inc.

On March 30, 2001, Williams' Board of Directors approved a tax-free spinoff of WCG to Williams' shareholders. Williams distributed 398.5 million shares, or approximately 95 percent of the WCG common stock held by Williams, to holders of record on April 9, 2001, of Williams' common stock. Distribution of .822399 of a share of WCG common stock for each share of Williams common stock occurred on April 23, 2001. In accordance with APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions," the results of operations, financial position and cash flows for WCG have been reflected in the accompanying Consolidated Statement of Operations and related notes as discontinued operations.

At December 31, 2001, Williams had financial exposure from WCG of $375 million of receivables and $2.21 billion of guarantees and payment obligations. Receivables included a $106 million deferred payment for services provided to WCG prior to the spin-off and $269 million from the long-term lease to WCG of the Technology Center and aircraft. Disclosures and announcements by WCG, prior to the filing of Williams' 2001 Annual Report on Form 10-K on March 7, 2002, including WCG's announcement that it might seek to reorganize under the U.S. Bankruptcy Code, resulted in Williams concluding that it was probable that it would not fully realize the $375 million of receivables from WCG at December 31, 2001, nor recover its investment in WCG common stock. In addition, Williams determined that it was probable that it would be required to perform under the $2.21 billion of guarantees and payment obligations discussed above. Accordingly, Williams recorded a $2.05 billion charge in 2001 based on the estimated minimum amount of the range of loss to its WCG exposure. The $2.05 billion charge in 2001 is reported in the Consolidated Statement of Operations as a $1.84 billion pre-tax charge to discontinued operations and a $213 million pre-tax charge to investing income (loss) within continuing operations (see Note 4). The $213 million pre-tax charge included loss provisions consisting of $85 million and $103 million related to the assessment of recoverability of carrying amounts of the $106 million deferred payment for services and $269 million minimum lease payments receivable.

On April 22, 2002, WCG filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. On October 15, 2002, WCG consummated its Chapter 11 Plan of Reorganization (Plan). The Plan was confirmed by the United States Bankruptcy Court for the Southern District of New York (Court) on September 30, 2002. The Plan included a sale by Williams of its claims against WCG to Leucadia for $180 million in cash and the sale of the Technology Center to WCG for promissory notes. Both transactions closed in 2002. In 2002, Williams recorded in investing income (loss) within continuing operations (see Note 4) additional pre-tax charges of $268.7 million related to the recovery and settlement of these receivables and claims.

At December 31, 2002, Williams has a $121.5 million receivable from WCG for the promissory notes relating to the sale of the Technology Center. The notes were initially recorded at fair value based on contractual cash flows and an estimated discount rate considering the creditworthiness of WCG, the amount and timing of the cash flows and Williams' security in the Technology Center and certain other collateral.

6. PREFERRED DIVIDENDS

Concurrent with the sale of Kern River to Mid American Energy Holdings Company (MEHC), Williams 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 allow the holder to convert, at any time, one share of preferred stock into 10 shares of Williams common stock at $18.75 per share. Preferred shares have a liquidation preference equal to the stated value of $187.50 per share plus any dividends accumulated and unpaid. Dividends on the preferred stock are payable quarterly.

Preferred dividends for the year ended December 31, 2002, include $69.4 million associated with the accounting for a preferred security that contains a conversion option that is beneficial to the purchaser at the time the security was issued. This is accounted for as a noncash dividend (reduction to retained earnings) and results from the conversion price being less than the market price of Williams common stock on the date the preferred stock was issued. The reduction in retained earnings was offset by an increase in capital in excess of par value.