

WILLIAMS COMPANIES INC
Form 10-Q
August 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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 offices)

74172-0172

(Zip Code)

Registrant's telephone number, including area code: (918) 573-2000

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report.)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large

accelerated Accelerated filer Non-accelerated filer

filer

Emerging
Smaller reporting company growth
company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes
" No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding at July 30, 2018 |
|-----------------------------|-------------------------------------|
| Common Stock, \$1 par value | 827,973,071 |

The Williams Companies, Inc.
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The reports, filings, and other public announcements of The Williams Companies, Inc. (Williams) may contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These forward-looking statements relate to anticipated financial performance, management’s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, believe or anticipate will exist or may occur in the future, are forward-looking statements. Forward-looking statements can be identified by various forms of words such as “anticipates,” “believes,” “seeks,” “could,” “may,” “should,” “continues,” “estimates,” “expects,” “forecasts,” “intends,” “might,” “goals,” “objectives,” “potential,” “projects,” “scheduled,” “will,” “assumes,” “guidance,” “outlook,” “in-service date,” or other similar expressions. Forward-looking statements are based on management’s beliefs and assumptions and on information currently available to management and include, among others, statements regarding:

- The closing and expected timing of, and anticipated financial results following, the WPZ Merger;
- Expected levels of cash distributions by Williams Partners L.P. (WPZ) with respect to limited partner interests;
- Levels of dividends to Williams stockholders;
- Future credit ratings of Williams, WPZ, and their affiliates;

- Amounts and nature of future capital expenditures;
- Expansion and growth of our business and operations;
- Expected in-service dates for capital projects;
- Financial condition and liquidity;
- Business strategy;
- Cash flow from operations or results of operations;
- Seasonality of certain business components;
- Natural gas and natural gas liquids prices, supply, and demand;
- Demand for our services.

Forward-looking statements are based on numerous assumptions, uncertainties and risks that could cause future events or results to be materially different from those stated or implied in this report. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from results contemplated by the forward-looking statements include, among others, the following:

- Satisfaction of the conditions to the completion of the WPZ Merger including receipt of the Williams stockholder approval, and our ability to close the WPZ Merger;
- Whether WPZ will produce sufficient cash flows to provide expected levels of cash distributions;
- Whether we are able to pay current and expected levels of dividends;
- Whether we will be able to effectively execute our financing plan;
- Availability of supplies, market demand, and volatility of prices;
- Inflation, interest rates, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on customers and suppliers);
- The strength and financial resources of our competitors and the effects of competition;
- Whether we are able to successfully identify, evaluate and timely execute investment opportunities;
- Our ability to acquire new businesses and assets and successfully integrate those operations and assets into existing businesses as well as successfully expand our facilities;
- Development and rate of adoption of alternative energy sources;
- The impact of operational and developmental hazards and unforeseen interruptions;

The impact of existing and future laws (including, but not limited to, the Tax Cuts and Job Acts of 2017), regulations, the regulatory environment, environmental liabilities, and litigation, as well as our ability to obtain necessary permits and approvals, and achieve favorable rate proceeding outcomes;

Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;

Changes in maintenance and construction costs;

Changes in the current geopolitical situation;

Our exposure to the credit risk of our customers and counterparties;

Risks related to financing, including restrictions stemming from debt agreements, future changes in credit ratings as determined by nationally recognized credit rating agencies, and the availability and cost of capital;

The amount of cash distributions from and capital requirements of our investments and joint ventures in which we participate;

Risks associated with weather and natural phenomena, including climate conditions and physical damage to our facilities;

Acts of terrorism, including cybersecurity threats, and related disruptions;

Additional risks described in our filings with the Securities and Exchange Commission (SEC).

Given the uncertainties and risk factors that could cause our actual results to differ materially from those contained in any forward-looking statement, we caution investors not to unduly rely on our forward-looking statements. We disclaim any obligations to and do not intend to update the above list or announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

In addition to causing our actual results to differ, the factors listed above and referred to below may cause our intentions to change from those statements of intention set forth in this report. Such changes in our intentions may also cause our results to differ. We may change our intentions, at any time and without notice, based upon changes in such factors, our assumptions, or otherwise.

Because forward-looking statements involve risks and uncertainties, we caution that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements. For a detailed discussion of those factors, see Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K filed with the SEC on February 22, 2018, and in Part II, Item 1A. Risk Factors in our Quarterly Reports on Form 10-Q.

DEFINITIONS

The following is a listing of certain abbreviations, acronyms, and other industry terminology that may be used throughout this Form 10-Q.

Measurements:

Barrel: One barrel of petroleum products that equals 42 U.S. gallons

Bcf: One billion cubic feet of natural gas

Bcf/d: One billion cubic feet of natural gas per day

British Thermal Unit (Btu): A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit

Dekatherms (Dth): A unit of energy equal to one million British thermal units

Mbbls/d: One thousand barrels per day

Mdth/d: One thousand dekatherms per day

MMcf/d: One million cubic feet per day

MMdth: One million dekatherms or approximately one trillion British thermal units

MMdth/d: One million dekatherms per day

Tbtu: One trillion British thermal units

Consolidated Entities:

Cardinal: Cardinal Gas Services, L.L.C.

Constitution: Constitution Pipeline Company, LLC

Gulfstar One: Gulfstar One LLC

Northwest Pipeline: Northwest Pipeline LLC

Transco: Transcontinental Gas Pipe Line Company, LLC

WPZ: Williams Partners L.P.

Partially Owned Entities: Entities in which we do not own a 100 percent ownership interest and which, as of June 30, 2018, we account for as an equity-method investment, including principally the following:

Aux Sable: Aux Sable Liquid Products LP

Caiman II: Caiman Energy II, LLC

Discovery: Discovery Producer Services LLC

Gulfstream: Gulfstream Natural Gas System, L.L.C.

Jackalope: Jackalope Gas Gathering Services, L.L.C.

Laurel Mountain: Laurel Mountain Midstream, LLC

OPPL: Overland Pass Pipeline Company LLC

UEOM: Utica East Ohio Midstream LLC

Government and Regulatory:

EPA: Environmental Protection Agency

FERC: Federal Energy Regulatory Commission

SEC: Securities and Exchange Commission

Other:

Charter Amendment: An amendment to our Amended and Restated Certificate of Incorporation to increase the number of our authorized shares of common stock to 1,500,000,000 shares, consisting of 1,470,000,000 shares of our common stock and 30,000,000 shares of our preferred stock, par value \$1.00 per share

Fractionation: The process by which a mixed stream of natural gas liquids is separated into constituent products, such as ethane, propane, and butane

GAAP: U.S. generally accepted accounting principles

IDR: Incentive distribution right

LNG: Liquefied natural gas; natural gas which has been liquefied at cryogenic temperatures

Merger Agreement: Merger Agreement and Plan of Merger of Williams with Energy Transfer Equity, L.P and certain of its affiliates

MVC: Minimum volume commitment

NGLs: Natural gas liquids; natural gas liquids result from natural gas processing and crude oil refining and are used as petrochemical feedstocks, heating fuels, and gasoline additives, among other applications

NGL margins: NGL revenues less any applicable Btu replacement cost, plant fuel, and third-party transportation and fractionation

RGP Splitter: Refinery grade propylene splitter

Throughput: The volume of product transported or passing through a pipeline, plant, terminal, or other facility

WPZ Merger: The merger of SCMS LLC, a Delaware limited liability company and a wholly owned subsidiary of Williams, with and into WPZ, with WPZ as the sole surviving entity

WPZ Merger Agreement: Agreement and Plan of Merger dated as of May 16, 2018, by and among The Williams Companies, Inc., SCMS LLC, Williams Partners L.P., and WPZ GP LLC

PART I – FINANCIAL INFORMATION

The Williams Companies, Inc.
Consolidated Statement of Income
(Unaudited)

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|--|---|----------|---|----------|
| | 2017 | 2018 | 2017 | 2018 |
| | (Millions, except per-share amounts) | | | |
| Revenues: | | | | |
| Service revenues | \$ 1,340 | \$ 1,282 | \$ 2,691 | \$ 2,543 |
| Service revenues – commodity consideration (Note 2) | 94 | — | 195 | — |
| Product sales | 657 | 642 | 1,293 | 1,369 |
| Total revenues | 2,091 | 1,924 | 4,179 | 3,912 |
| Costs and expenses: | | | | |
| Product costs | 636 | 537 | 1,249 | 1,116 |
| Processing commodity expenses (Note 2) | 26 | — | 61 | — |
| Operating and maintenance expenses | 388 | 392 | 745 | 763 |
| Depreciation and amortization expenses | 434 | 433 | 865 | 875 |
| Selling, general, and administrative expenses | 130 | 153 | 262 | 314 |
| Impairment of certain assets (Note 11) | 66 | 25 | 66 | 26 |
| Other (income) expense – net | 1 | 6 | 30 | 10 |
| Total costs and expenses | 1,681 | 1,546 | 3,278 | 3,104 |
| Operating income (loss) | 410 | 378 | 901 | 808 |
| Equity earnings (losses) | 92 | 125 | 174 | 232 |
| Other investing income (loss) – net (Note 4) | 68 | 2 | 72 | 274 |
| Interest incurred | (288) | (280) | (570) | (567) |
| Interest capitalized | 13 | 9 | 22 | 16 |
| Other income (expense) – net | 26 | 24 | 47 | 101 |
| Income (loss) before income taxes | 321 | 258 | 646 | 864 |
| Provision (benefit) for income taxes | 52 | 65 | 107 | 102 |
| Net income (loss) | 269 | 193 | 539 | 762 |
| Less: Net income (loss) attributable to noncontrolling interests | 134 | 112 | 252 | 308 |
| Net income (loss) attributable to The Williams Companies, Inc. | \$ 135 | \$ 81 | \$ 287 | \$ 454 |
| Amounts attributable to The Williams Companies, Inc.: | | | | |
| Basic earnings (loss) per common share: | | | | |
| Net income (loss) | \$.16 | \$.10 | \$.35 | \$.55 |
| Weighted-average shares (thousands) | 827,868 | 826,426 | 827,689 | 825,492 |
| Diluted earnings (loss) per common share: | | | | |
| Net income (loss) | \$.16 | \$.10 | \$.35 | \$.55 |
| Weighted-average shares (thousands) | 830,107 | 828,575 | 830,151 | 827,531 |
| Cash dividends declared per common share | \$.34 | \$.30 | \$.68 | \$.60 |

See accompanying notes.

The Williams Companies, Inc.
Consolidated Statement of Comprehensive Income
(Unaudited)

| | Three Months Ended June 30, 2018 2017 | | Six Months Ended June 30, 2018 2017 | |
|--|---|-------|--|-------|
| | (Millions) | | | |
| Net income (loss) | \$269 | \$193 | \$539 | \$762 |
| Other comprehensive income (loss): | | | | |
| Cash flow hedging activities: | | | | |
| Net unrealized gain (loss) from derivative instruments, net of taxes of \$3 and \$3 in 2018, and \$0 and (\$1) in 2017 | (15) | 1 | (14) | 4 |
| Reclassifications into earnings of net derivative instruments (gain) loss, net of taxes of (\$1) and (\$1) in 2018 | 3 | (2) | 3 | (2) |
| Pension and other postretirement benefits: | | | | |
| Amortization of prior service cost (credit) included in net periodic benefit cost (credit), net of taxes of \$1 and \$1 in 2017 | — | (1) | — | (2) |
| Net actuarial gain (loss) arising during the year, net of taxes of (\$1) and (\$1) in 2018 | 4 | — | 4 | — |
| Amortization of actuarial (gain) loss and net actuarial loss from settlements included in net periodic benefit cost (credit), net of taxes of (\$1) and (\$2) in 2018, and (\$2) and (\$5) in 2017 | 5 | 5 | 10 | 9 |
| Other comprehensive income (loss) | (3) | 3 | 3 | 9 |
| Comprehensive income (loss) | 266 | 196 | 542 | 771 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 130 | 112 | 249 | 309 |
| Comprehensive income (loss) attributable to The Williams Companies, Inc. | \$136 | \$84 | \$293 | \$462 |
| See accompanying notes. | | | | |

The Williams Companies, Inc.
Consolidated Balance Sheet
(Unaudited)

| | June 30, 2018 | December 31, 2017 |
|--|---|----------------------|
| | (Millions, except per-share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$275 | \$ 899 |
| Trade accounts and other receivables (net of allowance of \$10 at June 30, 2018 and \$9 at December 31, 2017) | 844 | 976 |
| Inventories | 153 | 113 |
| Other current assets and deferred charges | 269 | 191 |
| Total current assets | 1,541 | 2,179 |
| Investments | 6,810 | 6,552 |
| Property, plant, and equipment | 40,863 | 39,513 |
| Accumulated depreciation and amortization | (11,910) | (11,302) |
| Property, plant, and equipment – net | 28,953 | 28,211 |
| Intangible assets – net of accumulated amortization | 8,406 | 8,791 |
| Regulatory assets, deferred charges, and other | 664 | 619 |
| Total assets | \$46,374 | \$ 46,352 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$893 | \$ 978 |
| Accrued liabilities | 1,063 | 1,167 |
| Long-term debt due within one year | 2 | 501 |
| Total current liabilities | 1,958 | 2,646 |
| Long-term debt | 21,313 | 20,434 |
| Deferred income tax liabilities | 3,267 | 3,147 |
| Regulatory liabilities, deferred income, and other | 4,389 | 3,950 |
| Contingent liabilities (Note 12) | | |
| Equity: | | |
| Stockholders' equity: | | |
| Common stock (960 million shares authorized at \$1 par value; 862 million shares issued at June 30, 2018 and 861 million shares issued at December 31, 2017) | 862 | 861 |
| Capital in excess of par value | 18,552 | 18,508 |
| Retained deficit | (8,735) | (8,434) |
| Accumulated other comprehensive income (loss) | (293) | (238) |
| Treasury stock, at cost (35 million shares of common stock) | (1,041) | (1,041) |
| Total stockholders' equity | 9,345 | 9,656 |
| Noncontrolling interests in consolidated subsidiaries | 6,102 | 6,519 |
| Total equity | 15,447 | 16,175 |
| Total liabilities and equity | \$46,374 | \$ 46,352 |
| See accompanying notes. | | |

The Williams Companies, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

| | The Williams Companies, Inc., Stockholders | | | | | | | |
|---|--|--------------------------------------|---------------------|--|-------------------|---------------------------------|-----------------------------|-----------------|
| | Common Stock | Capital in Excess of Par Value | Retained Deficit | Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders Equity | Noncontrolling Interests | Total Equity |
| | (Millions) | | | | | | | |
| Balance – December 31, 2017 | \$861 | \$18,508 | \$(8,434) | \$ (238) | \$(1,041) | \$ 9,656 | \$ 6,519 | \$16,175 |
| Adoption of ASC 606 (Note 1) | — | — | (84) | — | — | (84) | (37) | (121) |
| Adoption of ASU 2018-02 (Note 1) | — | — | 61 | (61) | — | — | — | — |
| Net income (loss) | — | — | 287 | — | — | 287 | 252 | 539 |
| Other comprehensive income (loss) | — | — | — | 6 | — | 6 | (3) | 3 |
| Cash dividends – common stock | — | — | (563) | — | — | (563) | — | (563) |
| Dividends and distributions to noncontrolling interests | — | — | — | — | — | — | (402) | (402) |
| Stock-based compensation and related common stock issuances | 1 | 32 | — | — | — | 33 | — | 33 |
| Sales of limited partner units of Williams Partners L.P. | — | — | — | — | — | — | 46 | 46 |
| Changes in ownership of consolidated subsidiaries, net | — | 13 | — | — | — | 13 | (17) | (4) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | 11 | 11 |
| Deconsolidation of subsidiary (Note 3) | — | — | — | — | — | — | (267) | (267) |
| Other | — | (1) | (2) | — | — | (3) | — | (3) |
| Net increase (decrease) in equity | 1 | 44 | (301) | (55) | — | (311) | (417) | (728) |
| Balance – June 30, 2018 | \$862 | \$18,552 | \$(8,735) | \$ (293) | \$(1,041) | \$ 9,345 | \$ 6,102 | \$15,447 |
| See accompanying notes. | | | | | | | | |

The Williams Companies, Inc.
Consolidated Statement of Cash Flows
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2018 | 2017 |
| | (Millions) | |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 539 | \$ 762 |
| Adjustments to reconcile to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 865 | 875 |
| Provision (benefit) for deferred income taxes | 142 | 91 |
| Equity (earnings) losses | (174) | (232) |
| Distributions from unconsolidated affiliates | 316 | 404 |
| Net (gain) loss on disposition of equity-method investments | — | (269) |
| Impairment of and net (gain) loss on sale of assets | 71 | 18 |
| Amortization of stock-based awards | 30 | 44 |
| Cash provided (used) by changes in current assets and liabilities: | | |
| Accounts and notes receivable | 121 | 201 |
| Inventories | (33) | (30) |
| Other current assets and deferred charges | (63) | (17) |
| Accounts payable | (70) | 29 |
| Accrued liabilities | (7) | (177) |
| Other, including changes in noncurrent assets and liabilities | (152) | (173) |
| Net cash provided (used) by operating activities | 1,585 | 1,526 |
| FINANCING ACTIVITIES: | | |
| Proceeds from (payments of) commercial paper – net | — | (93) |
| Proceeds from long-term debt | 2,179 | 2,643 |
| Payments of long-term debt | (1,761) | (2,710) |
| Proceeds from issuance of common stock | 11 | 2,125 |
| Dividends paid | (563) | (496) |
| Dividends and distributions paid to noncontrolling interests | (356) | (447) |
| Contributions from noncontrolling interests | 11 | 10 |
| Payments for debt issuance costs | (18) | (13) |
| Other – net | (43) | (29) |
| Net cash provided (used) by financing activities | (540) | 990 |
| INVESTING ACTIVITIES: | | |
| Property, plant, and equipment: | | |
| Capital expenditures (1) | (1,890) | (1,056) |
| Dispositions – net | 3 | (14) |
| Contributions in aid of construction | 339 | 194 |
| Proceeds from dispositions of equity-method investments | — | 200 |
| Purchases of and contributions to equity-method investments | (91) | (79) |
| Other – net | (30) | (13) |
| Net cash provided (used) by investing activities | (1,669) | (768) |
| Increase (decrease) in cash and cash equivalents | (624) | 1,748 |
| Cash and cash equivalents at beginning of year | 899 | 170 |
| Cash and cash equivalents at end of period | \$ 275 | \$ 1,918 |

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| | | |
|---|------------|------------|
| (1) Increases to property, plant, and equipment | \$ (1,864) | \$ (1,160) |
| Changes in related accounts payable and accrued liabilities | (26 |) 104 |
| Capital expenditures | \$ (1,890) | \$ (1,056) |

See accompanying notes.

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The Williams Companies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – General, Description of Business, and Basis of Presentation

General

Our accompanying interim consolidated financial statements do not include all the notes in our annual financial statements and, therefore, should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017, in Exhibit 99.1 of our Form 8-K dated May 3, 2018. The accompanying unaudited financial statements include all normal recurring adjustments and others that, in the opinion of management, are necessary to present fairly our interim financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Unless the context clearly indicates otherwise, references in this report to “Williams,” “we,” “our,” “us,” or like terms refer to The Williams Companies, Inc. and its subsidiaries. Unless the context clearly indicates otherwise, references to “Williams,” “we,” “our,” and “us” include the operations in which we own interests accounted for as equity-method investments that are not consolidated in our financial statements. When we refer to our equity investees by name, we are referring exclusively to their businesses and operations.

Acquisition of WPZ Public Units

On May 16, 2018, we entered into an agreement for a stock-for-unit transaction whereby we will acquire all of the approximately 256 million publicly held outstanding common units of Williams Partners L.P. (WPZ) in exchange for shares of our common stock (WPZ Merger). Each such WPZ common unit will be converted into the right to receive 1.494 shares of our common stock or 1.513 shares if the closing does not occur before the record date of our third-quarter 2018 dividend. In the event this agreement is terminated under certain circumstances, we could be required to pay a \$410 million termination fee to WPZ, of which we currently own approximately 74 percent.

Financial Repositioning

In January 2017, we entered into agreements with WPZ, wherein we permanently waived the general partner’s incentive distribution rights and converted our 2 percent general partner interest in WPZ to a noneconomic interest in exchange for 289 million newly issued WPZ common units. Pursuant to this agreement, we also purchased approximately 277 thousand WPZ common units for \$10 million. Additionally, we purchased approximately 59 million common units of WPZ at a price of \$36.08586 per unit in a private placement transaction, funded with proceeds from our equity offering. According to the terms of this agreement, concurrent with WPZ’s quarterly distributions in February 2017 and May 2017, we paid additional consideration totaling \$56 million to WPZ for these units.

Description of Business

We are a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. Our operations are located principally in the United States. We have one reportable segment, Williams Partners. All remaining business activities as well as corporate activities are included in Other.

Williams Partners

Williams Partners consists of our consolidated master limited partnership, WPZ, and primarily includes gas pipeline and midstream businesses.

Notes (Continued)

WPZ's gas pipeline businesses primarily consist of two interstate natural gas pipelines, which are Transcontinental Gas Pipe Line Company, LLC (Transco) and Northwest Pipeline LLC (Northwest Pipeline), and several joint venture investments in interstate and intrastate natural gas pipeline systems, including a 50 percent equity-method investment in Gulfstream Natural Gas System, L.L.C., and a 41 percent interest in Constitution Pipeline Company, LLC (Constitution) (a consolidated entity), which is developing a pipeline project (see Note 3 – Variable Interest Entities). WPZ's midstream businesses primarily consist of (1) natural gas gathering, treating, compression, and processing; (2) natural gas liquid (NGL) fractionation, storage, and transportation; (3) crude oil production handling and transportation; and (4) olefins production. WPZ sold its olefins operations in July 2017. The primary service areas are concentrated in major producing basins in Colorado, Texas, Oklahoma, Kansas, New Mexico, Wyoming, the Gulf of Mexico, Louisiana, Pennsylvania, West Virginia, New York, and Ohio, which include the Barnett, Eagle Ford, Haynesville, Marcellus, Niobrara, and Utica shale plays as well as the Mid-Continent region.

The midstream businesses include equity-method investments in natural gas gathering and processing assets and NGL fractionation and transportation assets, including a 62 percent equity-method investment in Utica East Ohio Midstream, LLC, a 69 percent equity-method investment in Laurel Mountain Midstream, LLC, a 58 percent equity-method investment in Caiman Energy II, LLC, a 60 percent equity-method investment in Discovery Producer Services, LLC, a 50 percent equity-method investment in Overland Pass Pipeline, LLC, and Appalachia Midstream Services, LLC, which owns equity-method investments with an approximate average 66 percent interest in multiple gathering systems in the Marcellus Shale (Appalachia Midstream Investments), a 50 percent interest in Jackalope Gas Gathering Services, L.L.C. (Jackalope) (an equity-method investment following deconsolidation as of June 30, 2018), and our previously owned 50 percent equity-method investment in the Delaware basin gas gathering system (DBJV) in the Mid-Continent region (see Note 4 – Investing Activities).

Basis of Presentation**Consolidated master limited partnership**

As of June 30, 2018, we own 74 percent of the interests in WPZ, a variable interest entity (VIE) (see Note 3 – Variable Interest Entities). Pursuant to WPZ's distribution reinvestment program, 1,230,657 common units were issued to the public in 2018 associated with reinvested distributions of \$46 million. This common unit issuance and WPZ's quarterly distribution of additional paid-in-kind Class B units to us had the combined net impact of decreasing Noncontrolling interests in consolidated subsidiaries by \$17 million, and increasing Capital in excess of par value by \$13 million and Deferred income tax liabilities by \$4 million in the Consolidated Balance Sheet.

WPZ is self-funding and maintains separate lines of bank credit and cash management accounts and also has a commercial paper program. (See Note 9 – Debt and Banking Arrangements.) Cash distributions from WPZ to limited partners, including us, are governed by WPZ's partnership agreement.

Significant risks and uncertainties

We may monetize assets that are not core to our strategy which could result in impairments of certain equity-method investments, property, plant, and equipment, and intangible assets. Such impairments could potentially be caused by indications of fair value implied through the monetization process or, in the case of asset dispositions that are part of a broader asset group, the impact of the loss of future estimated cash flows.

On March 15, 2018, the Federal Energy Regulatory Commission (FERC) issued a revised policy statement regarding the recovery of income tax costs in rates of natural gas pipelines. The FERC found that an impermissible double recovery results from granting a Master Limited Partnership (MLP) pipeline both an income tax allowance and a return on equity pursuant to the discounted cash flow methodology. As a result, the FERC will no longer permit an MLP pipeline to recover an income tax allowance in its cost of service. The FERC further stated it will address the application of this policy to non-MLP partnership forms as those issues arise in subsequent proceedings.

On July 18, 2018, the FERC issued an order dismissing the requests for rehearing and clarification of the revised policy statement. In addition, the FERC provided guidance that an MLP pipeline (or other pass-through entity) no

Notes (Continued)

longer recovering an income tax allowance pursuant to the revised policy may eliminate previously accumulated deferred income taxes (ADIT) from its cost of service instead of flowing these previously accumulated ADIT balances to ratepayers. However, the FERC stated that the revised policy statement and such guidance do not establish a binding rule, but are instead expressions of general policy intent designed to provide guidance by notifying entities of the course of action the FERC intends to follow in future adjudications. To the extent the FERC addresses these issues in future proceedings, it will consider any arguments regarding not only the application of the revised policy to the facts of the case, but also any arguments regarding the underlying validity of the policy itself.

On March 15, 2018, the FERC also issued a Notice of Proposed Rulemaking proposing a filing process that will allow it to determine which natural gas pipelines may be collecting unjust and unreasonable rates in light of the recent reduction in the corporate income tax rate in the Tax Cuts and Jobs Act (Tax Reform) and the revised policy statement. On July 18, 2018, the FERC issued a Final Rule, retaining the filing requirement and reaffirming the options that pipelines have to either reflect the reduced tax rate or explain why no rate change is necessary. The FERC also clarified that a natural gas company organized as a pass-through entity and all of whose income or losses are consolidated on the federal income tax return of its corporate parent is considered to be subject to the federal corporate income tax and is thus eligible for a tax allowance.

On March 15, 2018, the FERC also issued a Notice of Inquiry seeking comments on the additional impacts of Tax Reform on jurisdictional rates, particularly whether, and if so how, the FERC should address changes relating to accumulated deferred income tax amounts after the corporate income tax rate reduction and bonus depreciation rules, as well as whether other features of Tax Reform require FERC action. We are evaluating the impact of these developments on our interstate natural gas pipelines and currently expect any associated impacts would be prospective and determined through subsequent rate proceedings. We also continue to monitor developments that may impact our regulatory liabilities resulting from Tax Reform. It is reasonably possible that future tariff-based rates collected by our interstate natural gas pipelines may be adversely impacted.

Accounting standards issued and adopted

During the first quarter of 2018, we early adopted Accounting Standards Update (ASU) 2018-02 “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (ASU 2018-02). As a result of Tax Reform lowering the federal income tax rate, the tax effects of items within accumulated other comprehensive income may not reflect the appropriate tax rate. ASU 2018-02 allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from Tax Reform. The adoption of ASU 2018-02 resulted in the reclassification of \$61 million from Accumulated other comprehensive income (loss) to Retained deficit on our Consolidated Balance Sheet. Effective January 1, 2018, we adopted ASU 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (ASU 2017-12). ASU 2017-12 applies to entities that elect hedge accounting in accordance with Accounting Standards Codification (ASC) 815. The ASU affects both the designation and measurement guidance for hedging relationships and the presentation of hedging results. ASU 2017-12 was applied using a modified retrospective approach for cash flow and net investment hedges existing at the date of adoption and prospectively for the presentation and disclosure guidance. The adoption of ASU 2017-12 did not have a significant impact on our consolidated financial statements.

Effective January 1, 2018, we adopted ASU 2017-07 “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (ASU 2017-07). ASU 2017-07 requires employers to report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from employee services. The other components of net benefit cost must be presented in the income statement separately from the service cost component and outside Operating income (loss). Only the service cost component is now eligible for capitalization when applicable. The presentation aspect of ASU 2017-07 must be applied retrospectively and the capitalization requirement prospectively. In accordance with this adoption, we have conformed the prior year presentation, which resulted in increases of \$3 million and \$6 million to Operating and

maintenance expenses with corresponding decreases to Operating income (loss) and increases of \$3 million and \$6 million to Other income (expense) – net below Operating income (loss) in the Consolidated Statement of Income for the three and six month periods ended June 30, 2017, respectively.

Notes (Continued)

Effective January 1, 2018, we adopted ASU 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (ASU 2016-15). Among other things, ASU 2016-15 permits an accounting policy election to classify distributions received from equity-method investees using either the cumulative earnings approach or the nature of distribution approach. We have elected to apply the nature of distribution approach and have retrospectively conformed the prior year presentation within the Consolidated Statement of Cash Flows in accordance with ASU 2016-15. For the period ended June 30, 2017, amounts previously presented as Distributions from unconsolidated affiliates in excess of cumulative earnings within Investing Activities are now presented as part of Distributions from unconsolidated affiliates within Operating Activities, resulting in an increase to Net cash provided (used) by operating activities of \$258 million with a corresponding reduction in Net cash provided (used) by investing activities.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 establishing ASC Topic 606, “Revenue from Contracts with Customers” (ASC 606). ASC 606 establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services and requires significantly enhanced revenue disclosures. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” (ASU 2015-14). Per ASU 2015-14, the standard became effective for interim and annual reporting periods beginning after December 15, 2017.

We adopted the provisions of ASC 606 effective January 1, 2018, utilizing the modified retrospective transition method for all contracts with customers, which included applying the provisions of ASC 606 beginning January 1, 2018, to all contracts not completed as of that date with the cumulative effect of applying the standard for periods prior to January 1, 2018, as an adjustment to Total equity, net of tax, upon adoption. As a result of our adoption, the cumulative impact to our Total equity, net of tax, at January 1, 2018, was a decrease of \$121 million in the Consolidated Balance Sheet.

For each revenue contract type, we conducted a formal contract review process to evaluate the impact of ASC 606. The adjustment to Total equity upon adoption of ASC 606 is primarily comprised of the impact to the timing of recognition of deferred revenue (contract liabilities) associated with certain contracts which underwent modifications in periods prior to January 1, 2018. Under the provisions of ASC 606, when a contract modification does not increase both the scope and price of the contract, and the remaining goods and services are distinct from the goods and services transferred prior to the modification, the modification is treated as a termination of the existing contract and the creation of a new contract. ASC 606 requires that the transaction price, including any remaining contract liabilities from the old contract, be allocated to the performance obligations over the term of the new contract. The contract modification adjustments are partially offset by the impact of changes to the timing of recognizing revenue which is subject to the constraint on estimates of variable consideration of certain contracts. The constraint of variable consideration will result in the acceleration of revenue recognition and corresponding de-recognition of contract liabilities for certain contracts (as compared to the previous revenue recognition model) as a result of our assessment that it is probable such recognition would not result in a significant revenue reversal in the future. Additionally, under ASC 606, our revenues will increase in situations where we receive noncash consideration, which exists primarily in certain of our gas processing contracts where we receive commodities as full or partial consideration for services provided. This increase in revenues will be offset by a similar increase in costs and expenses when the commodities received are subsequently sold. Financial systems and internal controls necessary for adoption were implemented effective January 1, 2018. (See Note 2 – Revenue Recognition.)

Accounting standards issued but not yet adopted

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (ASU 2016-13). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will

result in the earlier recognition of allowances for losses. The guidance also requires increased disclosures. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. The standard requires varying transition methods for the different categories of amendments. Although we do not expect ASU 2016-13

Notes (Continued)

to have a significant impact, it could impact our trade receivables as the related allowance for credit losses will be recognized earlier under the expected loss model.

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)” (ASU 2016-02). ASU 2016-02 establishes a comprehensive new lease accounting model. ASU 2016-02 modifies the definition of a lease, requires a dual approach to lease classification similar to current lease accounting, and causes lessees to recognize operating leases on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset, with an exception for leases with a term of one year or less. Additional disclosures will also be required regarding the amount, timing, and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU 2018-01 “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842” (ASU 2018-01). Per ASU 2018-01, land easements and rights-of-way are required to be assessed under ASU 2016-02 to determine whether the arrangements are or contain a lease. ASU 2018-01 permits an entity to elect a transition practical expedient to not apply ASU 2016-02 to land easements that exist or expired before the effective date of ASU 2016-02 and that were not previously assessed under the previous lease guidance in ASC Topic 840 “Leases.”

In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We expect to adopt ASU 2016-02 effective January 1, 2019.

We are in the process of finalizing our review of contracts to identify leases based on the modified definition of a lease, implementing a financial lease accounting system, and identifying changes to our internal controls to support management in the accounting for and disclosure of leasing activities upon adoption of ASU 2016-02. While we are still in the process of completing our implementation evaluation of ASU 2016-02, we currently believe the most significant changes to our financial statements relate to the recognition of a lease liability and offsetting right-of-use asset in our Consolidated Balance Sheet for operating leases. We are also evaluating ASU 2016-02’s available practical expedients on adoption, which we expect to elect.

Note 2 – Revenue Recognition

Customers in our gas pipeline businesses are comprised of public utilities, municipalities, gas marketers and producers, intrastate pipelines, direct industrial users, and electrical generators. Customers in our midstream businesses are comprised of oil and natural gas producer counterparties. Customers for our product sales are comprised of public utilities, gas marketers, and direct industrial users.

A performance obligation is a promise in a contract to transfer a distinct good or service (or integrated package of goods or services) to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue, when, or as, the performance obligation is satisfied. A performance obligation is distinct if the service is separately identifiable from other items in the integrated package of services and if a customer can benefit from it on its own or with other resources that are readily available to the customer. An integrated package of services typically represents a single performance obligation if the services are contained within the same contract or within multiple contracts entered into in contemplation with one another that are highly interdependent or highly interrelated, meaning each of the services is significantly affected by one or more of the other services in the contract. Service revenue contracts from our gas pipeline and midstream businesses contain a series of distinct services, with the majority of our contracts having a single performance obligation that is satisfied over time as the customer simultaneously receives and consumes the benefits provided by our performance. Most of our product sales contracts have a single performance obligation with revenue recognized at a point in time when the products have been sold and

delivered to the customer.

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Notes (Continued)

Certain customers reimburse us for costs we incur associated with construction of property, plant, and equipment utilized in our operations. For our rate-regulated gas pipeline businesses that apply ASC 980, "Regulated Operations" (Topic 980), we follow FERC guidelines with respect to reimbursement of construction costs. FERC tariffs only allow for cost reimbursement and are non-negotiable in nature; thus, the construction activities do not represent an ongoing major and central operation of our gas pipeline businesses and are not within the scope of ASC 606. Accordingly, cost reimbursements are treated as a reduction to the cost of the constructed asset. For our midstream businesses, reimbursement and service contracts with customers are viewed together as providing the same commercial objective, as we have the ability to negotiate the mix of consideration between reimbursements and amounts billed over time. Accordingly, we generally recognize reimbursements of construction costs from customers on a gross basis as a contract liability separate from the associated costs included within property, plant, and equipment. The contract liability is recognized into service revenues as the underlying performance obligations are satisfied.

Service Revenues

Gas pipeline businesses

Revenues from our interstate natural gas pipeline businesses, which are included within the caption "Regulated interstate natural gas transportation and storage" in the revenue by category table below and are subject to regulation by certain state and federal authorities, including the FERC, include both firm and interruptible transportation and storage contracts. Firm transportation and storage agreements provide for a reservation charge based on the pipeline or storage capacity reserved, and a commodity charge based on the volume of natural gas delivered/stored, each at rates specified in our FERC tariffs or based on negotiated contractual rates, with contract terms that are generally long-term in nature. Most of our long-term contracts contain an evergreen provision, which allows the contracts to be extended for periods primarily up to one year in length an indefinite number of times following the specified contract term and until terminated generally by either us or the customer. Interruptible transportation and storage agreements provide for a volumetric charge based on actual commodity transportation or storage utilized in the period in which those services are provided, and the contracts are generally limited to one month periods or less. Our performance obligations related to our interstate natural gas pipeline businesses include the following:

Guaranteed transportation or storage under firm transportation and storage contracts—an integrated package of services typically constituting a single performance obligation, which includes standing ready to provide such services and receiving, transporting or storing (as applicable), and redelivering commodities;

Interruptible transportation and storage under interruptible transportation and storage contracts—an integrated package of services typically constituting a single performance obligation, which includes receiving, transporting or storing (as applicable), and redelivering commodities upon nomination by the customer.

In situations where we consider the integrated package of services a single performance obligation, which represents a majority of our interstate natural gas pipeline contracts with customers, we do not consider there to be multiple performance obligations because the nature of the overall promise in the contract is to stand ready (with regard to firm transportation and storage contracts), receive, transport or store, and redeliver natural gas to the customer; therefore, revenue is recognized at the completion of the integrated package of services which represents a single performance obligation.

We recognize revenues for reservation charges over the performance obligation period, which is the contract term, regardless of the volume of natural gas that is transported or stored. Revenues for commodity charges from both firm and interruptible transportation services and storage services are recognized when natural gas is delivered at the agreed upon delivery point or when natural gas is injected or withdrawn from the storage facility because they specifically relate to our efforts to transfer these distinct services. Generally, reservation charges and commodity charges in our interstate natural gas pipeline businesses are recognized as revenue in the same period they are invoiced to our customers. As a result of the ratemaking process, certain amounts collected by us may be subject to refunds upon the issuance of final orders by the FERC in pending rate proceedings. We record estimates of rate refund liabilities considering our and other third-party regulatory proceedings, advice of counsel, and other risks.

Notes (Continued)

Midstream businesses

Revenues from our midstream businesses, which are included in the caption titled “Non-regulated gathering, processing, transportation, and storage” in the revenue by category table below, include contracts for natural gas gathering, processing, treating, compression, transportation, and other related services with contract terms that are generally long-term in nature and may extend up to the production life of the associated reservoir. Additionally, our midstream businesses generate revenues from fees charged for storing customers’ natural gas and NGLs, generally under prepaid contracted storage capacity contracts. In situations where we provide an integrated package of services combined into a single performance obligation, which represents a majority of this class of contracts with customers, we do not consider there to be multiple performance obligations because the nature of the overall promise in the contract is to provide gathering, processing, transportation, storage, and related services resulting in the delivery, or redelivery in the context of storage services, of pipeline-quality natural gas and NGLs to the customer. As such, revenue is recognized at the daily completion of the integrated package of services as the integrated package represents a single performance obligation. Additionally, certain contracts in our midstream businesses contain fixed or upfront payment terms that result in the deferral of revenues until such services have been performed or such capacity has been made available.

We also earn revenues from offshore crude oil and natural gas gathering and transportation and offshore production handling. These services represent an integrated package of services and are considered a single distinct performance obligation for which we recognize revenues as the services are provided to the customer.

We generally earn a contractually stated fee per unit for the volume of product transported, gathered, processed, or stored. The rate is generally fixed; however, certain contracts contain variable rates that are subject to change based on commodity prices, levels of throughput, or an annual adjustment based on a formulaic cost of service calculation. In addition, we have contracts with contractually stated fees that decline over the contract term, such as declines based on the passage of time periods or achievement of cumulative throughput amounts. For all of our contracts, we allocate the transaction price to each performance obligation based on the relative standalone selling price. The excess of consideration received over revenue recognized results in the deferral of those amounts until future periods based on a units of production or straight-line methodology. Certain of our gas gathering and processing agreements have minimum volume commitments (MVC). If a customer under such an agreement fails to meet its MVC for a specified period (thus not exercising all the contractual rights to gathering and processing services within the specified period, herein referred to as “breakage”), it is obligated to pay a contractually determined fee based upon the shortfall between the actual gathered or processed volumes and the MVC for the period contained in the contract. When we conclude it is probable that the customer will not exercise all or a portion of its remaining rights, we recognize revenue associated with such breakage amount in proportion to the pattern of exercised rights within the respective MVC period.

Under keep-whole and percent-of-liquids processing contracts, we receive commodity consideration in the form of NGLs and take title to the NGLs at the tailgate of the plant. We recognize such commodity consideration as service revenue based on the market value of the NGLs retained at the time the processing is provided. The current market value, as opposed to the market value at the contract inception date, is used due to a combination of factors, including the fact that the volume, mix, and market price of NGL consideration to be received is unknown at the time of contract execution and is not specified in our contracts with customers. Additionally, product sales revenue (discussed below) is recognized upon the sale of the NGLs to a third party based on the sales price at the time of sale. As a result, revenue is recognized both at the time the processing service is provided in Service revenues – commodity consideration and at the time the NGLs retained as part of the processing service are sold in Product sales. The recognition of revenue related to commodity consideration has the impact of increasing the book value of NGL inventory, resulting in higher cost of goods sold at the time of sale. Given that most inventory is sold in the same period that it is generated, the impact of these transactions is expected to have little impact to operating income.

Product Sales

In the course of providing transportation services to customers of our gas pipeline businesses and gathering and processing services to customers of our midstream businesses, we may receive different quantities of natural gas from customers than the quantities delivered on behalf of those customers. The resulting imbalances are primarily settled through the purchase or sale of natural gas with each customer under terms provided for in our FERC tariffs or gathering

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Notes (Continued)

and processing agreements, respectively. Revenue is recognized from the sale of natural gas upon settlement of imbalances.

In certain instances, we purchase NGLs, crude oil, and natural gas from our oil and natural gas producer customers. In addition, we retain NGLs as consideration in certain processing arrangements, as discussed above in the Service Revenues - Midstream businesses section. We recognize revenue from the sale of these commodities when the products have been sold and delivered. Our product sales contracts are primarily short-term contracts based on prevailing market rates at the time of the transaction.

Notes (Continued)

Revenue by Category

The following table presents our revenue disaggregated by major service line:

| | Northeast Midstream | Atlantic- Gulf Midstream | West Midstream | Transco | Northwest Pipeline | Other | Intercompany Eliminations | Total |
|--|------------------------|--------------------------------|-------------------|---------|-----------------------|-------|------------------------------|------------|
| (Millions) | | | | | | | | |
| Three Months Ended June 30, 2018 | | | | | | | | |
| Revenues from contracts with customers: | | | | | | | | |
| Service revenues: | | | | | | | | |
| Non-regulated gathering, processing, transportation, and storage: | | | | | | | | |
| Monetary consideration | \$ 205 | \$ 128 | \$ 414 | \$ — | \$ — | \$ 1 | \$ (18) |) \$ 730 |
| Commodity consideration | 5 | 11 | 78 | — | — | — | — | 94 |
| Regulated interstate natural gas transportation and storage | — | — | — | 450 | 108 | — | — | 558 |
| Other | 21 | 2 | 13 | 1 | — | — | (3) |) 34 |
| Total service revenues | 231 | 141 | 505 | 451 | 108 | 1 | (21) |) 1,416 |
| Product Sales: | | | | | | | | |
| NGL and natural gas | 75 | 76 | 558 | 30 | — | — | (83) |) 656 |
| Other | — | — | 4 | — | — | — | (1) |) 3 |
| Total product sales | 75 | 76 | 562 | 30 | — | — | (84) |) 659 |
| Total revenues from contracts with customers | 306 | 217 | 1,067 | 481 | 108 | 1 | (105) |) 2,075 |
| Other revenues (1) | 5 | 7 | (2) |) 2 | — | 7 | (3) |) 16 |
| Total revenues | \$ 311 | \$ 224 | \$ 1,065 | \$ 483 | \$ 108 | \$ 8 | \$ (108) |) \$ 2,091 |
| Six Months Ended June 30, 2018 | | | | | | | | |
| Revenues from contracts with customers: | | | | | | | | |
| Service revenues: | | | | | | | | |
| Non-regulated gathering, processing, transportation, and storage: | | | | | | | | |
| Monetary consideration | \$ 407 | \$ 265 | \$ 822 | \$ — | \$ — | \$ 1 | \$ (36) |) \$ 1,459 |
| Commodity consideration | 9 | 26 | 160 | — | — | — | — | 195 |
| Regulated interstate natural gas transportation and storage | — | — | — | 911 | 220 | — | (1) |) 1,130 |
| Other | 42 | 8 | 24 | 1 | — | — | (6) |) 69 |
| Total service revenues | 458 | 299 | 1,006 | 912 | 220 | 1 | (43) |) 2,853 |
| Product Sales: | | | | | | | | |
| NGL and natural gas | 173 | 144 | 1,079 | 55 | — | — | (168) |) 1,283 |
| Other | — | — | 8 | — | — | — | (1) |) 7 |
| Total product sales | 173 | 144 | 1,087 | 55 | — | — | (169) |) 1,290 |
| Total revenues from contracts with customers | 631 | 443 | 2,093 | 967 | 220 | 1 | (212) |) 4,143 |
| Other revenues (1) | 10 | 9 | 3 | 5 | — | 15 | (6) |) 36 |
| Total revenues | \$ 641 | \$ 452 | \$ 2,096 | \$ 972 | \$ 220 | \$ 16 | \$ (218) |) \$ 4,179 |

(1)

Service revenues in our Consolidated Statement of Income include leasing revenues associated with our headquarters building and management fees that we receive for certain services we provide to operated joint ventures and other investments. The leasing revenues and the management fees do not constitute revenue from contracts with customers. Product sales in our Consolidated Statement of Income include amounts associated with our derivative contracts that are not within the scope of ASC 606.

Notes (Continued)

Contract Assets

Our contract assets primarily consist of revenue recognized under contracts containing MVC features whereby management has concluded it is probable there will be a short-fall payment at the end of the current MVC period, which typically follows the calendar year, and that a significant reversal of revenue recognized currently for the future MVC payment will not occur. As a result, our contract assets related to our future MVC payments are generally expected to be collected within the next 12 months and are included within Other current assets and deferred charges in our Consolidated Balance Sheet until such time as the MVC short-fall payments are invoiced to the customer.

The following table presents a reconciliation of our contract assets:

| | Quarter-to-Date June 30, 2018 | Year-to-Date June 30, 2018 |
|---|--|----------------------------------|
| | (Millions) | |
| Balance at beginning of period | \$ 24 | \$ 4 |
| Revenue recognized in excess of cash received | 16 | 36 |
| Minimum volume commitments invoiced | (1) | (1) |
| Balance at end of period | \$ 39 | \$ 39 |

Contract Liabilities

Our contract liabilities consist of advance payments primarily from midstream business customers which include construction reimbursements, prepayments, and other billings for which future services are to be provided under the contract. These amounts are deferred until recognized in revenue when the associated performance obligation has been satisfied, which is primarily based on a units of production methodology over the remaining contractual service periods, and are classified as current or noncurrent according to when such amounts are expected to be recognized. Current and noncurrent contract liabilities are included within Accrued liabilities and Regulatory liabilities, deferred income, and other, respectively, in our Consolidated Balance Sheet.

Contracts requiring advance payments and the recognition of contract liabilities are evaluated to determine whether the advance payments provide us with a significant financing benefit. This determination is based on the combined effect of the expected length of time between when we transfer the promised good or service to the customer, when the customer pays for those goods or services, and the prevailing interest rates. We have assessed our contracts for significant financing components and determined that one group of contracts entered into in contemplation of one another for certain capital reimbursements contains a significant financing component. As a result, we recognize noncash interest expense based on the effective interest method and revenue (noncash) is recognized when the underlying asset is placed into service utilizing a units of production or straight-line methodology over the life of the corresponding customer contract.

The following table presents a reconciliation of our contract liabilities:

| | Quarter-to-Date June 30, 2018 | Year-to-Date June 30, 2018 |
|--|-------------------------------------|----------------------------------|
| | (Millions) | |
| Balance at beginning of period | \$1,574 | \$ 1,596 |
| Payments received and deferred | 126 | 218 |
| Deconsolidation of Jackalope interest (Note 3) | (52) | (52) |
| Recognized in revenue | (113) | (227) |
| Balance at end of period | \$1,535 | \$ 1,535 |

Notes (Continued)

The following table presents the amount of the contract liabilities balance as of June 30, 2018, expected to be recognized as revenue in each of the next five years as performance obligations are expected to be satisfied:

| | (Millions) |
|------------------|------------|
| 2018 (remainder) | \$ 184 |
| 2019 | 249 |
| 2020 | 128 |
| 2021 | 110 |
| 2022 | 103 |
| 2023 | 99 |
| Thereafter | 662 |

Remaining Performance Obligations

The following table presents the transaction price allocated to the remaining performance obligations under certain contracts as of June 30, 2018. These primarily include long-term contracts containing MVCs associated with our midstream businesses, fixed payments associated with offshore production handling, and reservation charges on contracted capacity on our gas pipeline firm transportation contracts with customers, as well as storage capacity contracts. Amounts included in the table below for our interstate natural gas pipeline businesses reflect the rates for such services in our current FERC tariffs for the life of the related contracts; however, these rates may change based on future tariffs approved by the FERC and the amount and timing of these changes is not currently known. As a practical expedient permitted by ASC 606, this table excludes variable consideration as well as consideration in contracts that is recognized in revenue as billed. It also excludes consideration received prior to June 30, 2018, that will be recognized in future periods (see above for Contract Liabilities and the expected recognition of those amounts within revenue). As noted above, certain of our contracts contain evergreen and other renewal provisions for periods beyond the initial term of the contract. The remaining performance obligation as of June 30, 2018, does not consider potential future performance obligations for which the renewal has not been exercised. The table below also does not include contracts with customers for which the underlying facilities have not received FERC authorization to be placed into service.

| | (Millions) |
|------------------|------------|
| 2018 (remainder) | \$ 1,239 |
| 2019 | 2,441 |
| 2020 | 2,270 |
| 2021 | 2,036 |
| 2022 | 1,842 |
| 2023 | 1,661 |
| Thereafter | 12,591 |
| Total | \$ 24,080 |

Accounts Receivable

We do not offer extended payment terms and typically receive payment within one month. We consider receivables past due if full payment is not received by the contractual due date. Interest income related to past due accounts receivable is generally recognized at the time full payment is received or collectability is assured.

The following is a summary of our Trade accounts and other receivables as it relates to contracts with customers:

| | June 30, 2018 | January 1, 2018 |
|---|---------------------|--------------------|
| | (Millions) | |
| Accounts receivable related to revenues from contracts with customers | \$742 | \$ 958 |
| Other accounts receivable | 102 | 18 |

| | | |
|---|-------|--------|
| Total reflected in Trade accounts and other receivables | \$844 | \$ 976 |
|---|-------|--------|

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Notes (Continued)

Impact of Adoption of ASC 606

The following table depicts the impact of the adoption of ASC 606 on our 2018 financial statements. The adjustment to Intangible assets – net of accumulated amortization in the table below relates to the recognition under ASC 606 of contract assets for MVC-related contracts associated with a 2014 acquisition. The recognition of these contract assets resulted in a lower purchase price allocation to intangible assets. The adoption of ASC 606 did not result in adjustments to total operating, investing, or financing cash flows.

| | As Reported | Adjustments resulting from adoption of ASC 606 | Balance without adoption of ASC 606 |
|--|----------------|--|---|
| (Millions) | | | |
| Consolidated Statement of Income | | | |
| Three Months Ended June 30, 2018 | | | |
| Service revenues | \$ 1,340 | \$ 6 | \$ 1,346 |
| Service revenues – commodity consideration | 94 | (94) | — |
| Product sales | 657 | 32 | 689 |
| Total revenues | 2,091 | (56) | 2,035 |
| Product costs | 636 | (40) | 596 |
| Processing commodity expenses | 26 | (26) | — |
| Operating and maintenance expenses | 388 | 4 | 392 |
| Total costs and expenses | 1,681 | (62) | 1,619 |
| Operating income (loss) | 410 | 6 | 416 |
| Other investing income (loss) - net | 68 | (9) | 59 |
| Interest incurred | (288) | 4 | (284) |
| Interest capitalized | 13 | (1) | 12 |
| Less: Net income (loss) attributable to noncontrolling interests | 134 | (1) | 133 |
| Net income (loss) attributable to The Williams Companies, Inc. | 135 | 1 | 136 |
| Six Months Ended June 30, 2018 | | | |
| Service revenues | \$ 2,691 | \$ 11 | \$ 2,702 |
| Service revenues – commodity consideration | 195 | (195) | — |
| Product sales | 1,293 | 42 | 1,335 |
| Total revenues | 4,179 | (142) | 4,037 |
| Product costs | 1,249 | (95) | 1,154 |
| Processing commodity expenses | 61 | (61) | — |
| Operating and maintenance expenses | 745 | 3 | 748 |
| Depreciation and amortization expenses | 865 | 1 | 866 |
| Total costs and expenses | 3,278 | (152) | 3,126 |
| Operating income (loss) | 901 | 10 | 911 |
| Equity earnings (losses) | 174 | 1 | 175 |
| Other investing income (loss) - net | 72 | (9) | 63 |
| Interest incurred | (570) | 7 | (563) |
| Interest capitalized | 22 | (4) | 18 |
| Income (loss) before income taxes | 646 | 5 | 651 |
| Net income (loss) | 539 | 5 | 544 |

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| | | | |
|--|-----|---|-----|
| Less: Net income (loss) attributable to noncontrolling interests | 252 | 1 | 253 |
| Net income (loss) attributable to The Williams Companies, Inc. | 287 | 4 | 291 |

Notes (Continued)

| | As Reported | Adjustments resulting from adoption of ASC 606 | Balance without adoption of ASC 606 |
|--|----------------|--|---|
| | (Millions) | | |
| Consolidated Statement of Comprehensive Income | | | |
| Three Months Ended June 30, 2018 | | | |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | \$ 130 | \$ (1) | \$ 129 |
| Comprehensive income (loss) attributable to The Williams Companies, Inc. | 136 | 1 | 137 |
| Six Months Ended June 30, 2018 | | | |
| Net income (loss) | \$539 | \$ 5 | \$ 544 |
| Comprehensive income (loss) | 542 | 5 | 547 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 249 | 1 | 250 |
| Comprehensive income (loss) attributable to The Williams Companies, Inc. | 293 | 4 | 297 |
| Consolidated Balance Sheet | | | |
| June 30, 2018 | | | |
| Inventories | \$ 153 | \$ (7) | \$ 146 |
| Other current assets and deferred charges | 269 | (35) | 234 |
| Total current assets | 1,541 | (42) | 1,499 |
| Investments | 6,810 | (1) | 6,809 |
| Property, plant, and equipment | 40,863 | (4) | 40,859 |
| Property, plant, and equipment – net | 28,953 | (4) | 28,949 |
| Intangible assets – net of accumulated amortization | 8,406 | 62 | 8,468 |
| Regulatory assets, deferred charges, and other | 664 | (4) | 660 |
| Total assets | 46,374 | 11 | 46,385 |
| Deferred income tax liabilities | 3,267 | 27 | 3,294 |
| Regulatory liabilities, deferred income, and other | 4,389 | (133) | 4,256 |
| Retained deficit | (8,735) | 89 | (8,646) |
| Total stockholders' equity | 9,345 | 89 | 9,434 |
| Noncontrolling interests in consolidated subsidiaries | 6,102 | 28 | 6,130 |
| Total equity | 15,447 | 117 | 15,564 |
| Total liabilities and equity | 46,374 | 11 | 46,385 |
| Consolidated Statement of Changes in Equity | | | |
| June 30, 2018 | | | |
| Adoption of ASC 606 | \$(121) | \$ 121 | \$ — |
| Net income (loss) | 539 | 5 | 544 |
| Deconsolidation of subsidiary | (267) | (9) | (276) |
| Net increase (decrease) in equity | (728) | 117 | (611) |
| Balance - June 30, 2018 | 15,447 | 117 | 15,564 |
| Note 3 – Variable Interest Entities | | | |
| WPZ | | | |

We own a 74 percent interest in WPZ, a master limited partnership that is a VIE due to the limited partners' lack of substantive voting rights, such as either participating rights or kick-out rights that can be exercised with a simple

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Notes (Continued)

majority of the vote of the limited partners. We are the primary beneficiary of WPZ because we have the power, through our general partner interest, to direct the activities that most significantly impact WPZ's economic performance.

The following table presents amounts included in our Consolidated Balance Sheet that are for the use or obligation of WPZ and/or its subsidiaries, and which comprise a significant portion of our consolidated assets and liabilities.

| | June 30, 2018 | December 31, 2017 | Classification |
|---|------------------|----------------------|---|
| (Millions) | | | |
| Assets (liabilities): | | | |
| Cash and cash equivalents | \$255 | \$ 881 | Cash and cash equivalents |
| Trade accounts and other receivables – net | 800 | 972 | Trade accounts and other receivables |
| Inventories | 153 | 113 | Inventories |
| Other current assets | 260 | 176 | Other current assets and deferred charges |
| Investments | 6,810 | 6,552 | Investments |
| Property, plant, and equipment – net | 28,718 | 27,912 | Property, plant, and equipment – net |
| Intangible assets – net | 8,405 | 8,790 | Intangible assets – net of accumulated amortization |
| Regulatory assets, deferred charges, and other noncurrent assets | 537 | 507 | Regulatory assets, deferred charges, and other |
| Accounts payable | (841) | (957) | Accounts payable |
| Accrued liabilities including current asset retirement obligations | (824) | (857) | Accrued liabilities |
| Long-term debt due within one year | (2) | (501) | Long-term debt due within one year |
| Long-term debt | (17,018) | (15,996) | Long-term debt |
| Deferred income tax liabilities | (15) | (16) | Deferred income tax liabilities |
| Noncurrent asset retirement obligations | (961) | (944) | Regulatory liabilities, deferred income, and other |
| Regulatory liabilities, deferred income, and other noncurrent liabilities | (3,269) | (2,809) | Regulatory liabilities, deferred income, and other |

Consolidated VIEs of WPZ

The assets and liabilities presented in the table above also include the consolidated interests of the following individual VIEs within WPZ:

Gulfstar One

WPZ owns a 51 percent interest in Gulfstar One LLC (Gulfstar One), a subsidiary that, due to certain risk-sharing provisions in its customer contracts, is a VIE. Gulfstar One includes a proprietary floating-production system, Gulfstar FPS, and associated pipelines which provide production handling and gathering services in the eastern deepwater Gulf of Mexico. WPZ is the primary beneficiary because it has the power to direct the activities that most significantly impact Gulfstar One's economic performance.

Constitution

WPZ owns a 41 percent interest in Constitution, a subsidiary that, due to shipper fixed-payment commitments under its long-term firm transportation contracts, is a VIE. WPZ is the primary beneficiary because it has the power to direct the activities that most significantly impact Constitution's economic performance. WPZ, as operator of Constitution, is responsible for constructing the proposed pipeline connecting its gathering system in Susquehanna County, Pennsylvania, to the Iroquois Gas Transmission and the Tennessee Gas Pipeline systems. The total remaining

Notes (Continued)

cost of the project is estimated to be approximately \$740 million, which would be funded with capital contributions from WPZ and the other equity partners on a proportional basis.

In December 2014, Constitution received approval from the FERC to construct and operate its proposed pipeline. However, in April 2016, the New York State Department of Environmental Conservation (NYSDEC) denied the necessary water quality certification under Section 401 of the Clean Water Act for the New York portion of the pipeline. In May 2016, Constitution appealed the NYSDEC's denial of the Section 401 certification to the United States Court of Appeals for the Second Circuit and in August 2017, the court issued a decision denying in part and dismissing in part Constitution's appeal. The court expressly declined to rule on Constitution's argument that the delay in the NYSDEC's decision on Constitution's Section 401 application constitutes a waiver of the certification requirement. The court determined that it lacked jurisdiction to address that contention, and found that jurisdiction over the waiver issue lies exclusively with the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). As to the denial itself, the court determined that NYSDEC's action was not arbitrary or capricious. Constitution filed a petition for rehearing with the Second Circuit Court of Appeals, but in October 2017 the court denied our petition.

In October 2017, WPZ filed a petition for declaratory order requesting the FERC to find that, by operation of law, the Section 401 certification requirement for the New York State portion of Constitution's pipeline project was waived due to the failure by the NYSDEC to act on Constitution's Section 401 application within a reasonable period of time as required by the express terms of such statute. In January 2018, the FERC denied WPZ's petition, finding that Section 401 provides that a state waives certification only when it does not act on an application within one year from the date of the application. WPZ filed a request for rehearing of the FERC's decision, but in July 2018 the FERC denied its request.

The project's sponsors remain committed to the project. Now that the FERC has issued an order on WPZ's request for rehearing, WPZ is clear to seek review of the matter with the D.C. Circuit. WPZ plans to file a petition for review with the D.C. Circuit. An unfavorable resolution could result in the impairment of a significant portion of the capitalized project costs, which total \$377 million on a consolidated basis at June 30, 2018, and are included within Property, plant, and equipment in the Consolidated Balance Sheet. Beginning in April 2016, we discontinued capitalization of development costs related to this project. It is also possible that we could incur certain supplier-related costs in the event of a prolonged delay or termination of the project.

Cardinal

WPZ owns a 66 percent interest in Cardinal Gas Services, L.L.C. (Cardinal), a subsidiary that provides gathering services for the Utica Shale region and is a VIE due to certain risks shared with customers. WPZ is the primary beneficiary because it has the power to direct the activities that most significantly impact Cardinal's economic performance. Future expansion activity is expected to be funded with capital contributions from WPZ and the other equity partner on a proportional basis.

Nonconsolidated VIEs of WPZ

Jackalope

WPZ owns a 50 percent interest in Jackalope, which provides gathering and processing services for the Powder River basin and is a VIE due to certain risks shared with customers. Prior to the second quarter of 2018 WPZ was the primary beneficiary of Jackalope. During the second quarter of 2018, the scope of Jackalope's planned future activities changed, resulting in a VIE reconsideration event. Upon evaluation, WPZ determined that it is no longer the primary beneficiary, most notably due to changes in the activities that most significantly impact Jackalope's economic performance and WPZ's determination that it does not control the power to direct such activities. These activities are primarily related to the capital decision making process. As a result, WPZ deconsolidated Jackalope on June 30, 2018 and now accounts for its interest using the equity method of accounting as it exerts significant influence over the financial and operational policies of Jackalope (see Note 4 – Investing Activities). At June 30, 2018, the carrying value of WPZ's investment in Jackalope was \$310 million. WPZ's maximum exposure to loss is limited to the carrying value

of its investment. WPZ expects to fund future capital contributions from it and the other equity partner on a proportional basis.

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Notes (Continued)

Note 4 – Investing Activities

Jackalope Deconsolidation

During the second quarter of 2018, WPZ deconsolidated its interest in Jackalope (see Note 3 – Variable Interest Entities). WPZ recorded its interest in Jackalope as an equity-method investment at its estimated fair value, resulting in a deconsolidation gain of \$62 million reflected in Other investing income (loss) – net in the Consolidated Statement of Income. WPZ estimated the fair value of its interest to be \$310 million using an income approach based on expected future cash flows and an appropriate discount rate (a Level 3 measurement within the fair value hierarchy). The determination of expected future cash flows involved significant assumptions regarding gathering and processing volumes and related capital spending. A 10.9 percent discount rate was utilized and reflected our estimate of the cost of capital as impacted by market conditions and risks associated with the underlying business. The deconsolidated carrying value of the net assets of Jackalope included \$47 million of goodwill.

Acquisition of Additional Interests in Appalachia Midstream Investments

During the first quarter of 2017, WPZ exchanged all of its 50 percent interest in DBJV for an increased interest in two natural gas gathering systems that are part of the Appalachia Midstream Investments and \$155 million in cash. This transaction was recorded based on our estimate of the fair value of the interests received as we have more insight to this value as we operate the underlying assets. Following this exchange, WPZ has an approximate average 66 percent interest in the Appalachia Midstream Investments. We continue to account for this investment under the equity-method due to the significant participatory rights of our partners such that we do not exercise control. WPZ also sold all of its interest in Ranch Westex JV LLC for \$45 million. These transactions resulted in a total gain of \$269 million reflected in Other investing income (loss) – net in the Consolidated Statement of Income.

The fair value of the increased interests in the Appalachia Midstream Investments received as consideration was estimated to be \$1.1 billion using an income approach based on expected cash flows and an appropriate discount rate (a Level 3 measurement within the fair value hierarchy). The determination of estimated future cash flows involved significant assumptions regarding gathering volumes, rates, and related capital spending. A 9.5 percent discount rate was utilized and reflected our estimate of the cost of capital as impacted by market conditions and risks associated with the underlying business.

Note 5 – Other Income and Expenses

The following table presents certain gains or losses reflected in Other (income) expense – net within Costs and expenses in our Consolidated Statement of Income:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------|------------------|-------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Millions) | | | |
| Williams Partners | | | | |
| Amortization of regulatory assets associated with asset retirement obligations | \$ 8 | \$ 9 | \$ 16 | \$ 17 |
| Accrual of regulatory liability related to overcollection of certain employee expenses | 6 | 5 | 11 | 11 |
| | (21) | — | (17) | — |

| | | | | |
|---|---|-------|----|-------|
| Adjustments to regulatory liabilities related to Tax Reform | | | | |
| Regulatory charge per approved rates related to Tax Reform | 6 | — | 12 | — |
| Gains on contract settlements and terminations | — | (2) | — | (15) |
| Gain on sale of Refinery Grade Propylene Splitter | — | (12) | — | (12) |

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Notes (Continued)

Additional Items

Certain additional items included in the Consolidated Statement of Income are as follows:

Other income (expense) – net below Operating income (loss) includes income of \$27 million and \$47 million for the three and six months ended June 30, 2018, respectively, and \$19 million and \$37 million for the three and six months ended June 30, 2017, respectively, for allowance for equity funds used during construction primarily within the Williams Partners segment. Other income (expense) – net below Operating income (loss) also includes income of \$5 million and \$10 million for the three and six months ended June 30, 2018, respectively, and \$9 million and \$37 million for the three and six months ended June 30, 2017, respectively of income associated with a regulatory asset related to deferred taxes on equity funds used during construction. These items are reported through our Other segment.

Other income (expense) – net below Operating income (loss) for the six months ended June 30, 2018, includes a \$7 million net loss associated with the March 28, 2018, early retirement of \$750 million of 4.875 percent senior unsecured notes that were due in 2024. The net loss within the Williams Partners segment reflects \$34 million in premiums paid, partially offset by \$27 million of unamortized premium. (See Note 9 – Debt and Banking Arrangements.) For the six months ended June 30, 2017, Other income (expense) – net below Operating income (loss) includes a net gain of \$30 million associated with the February 23, 2017, early retirement of \$750 million of 6.125 percent senior unsecured notes that were due in 2022. The net gain within Williams Partners reflects \$53 million of unamortized premium, partially offset by \$23 million in premiums paid.

Note 6 – Provision (Benefit) for Income Taxes

The Provision (benefit) for income taxes includes:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|--------------------------------------|--|------|---|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Millions) | | | |
| Current: | | | | |
| Federal | \$(17) | \$ — | \$(36) | \$3 |
| State | — | 2 | 1 | 8 |
| | (17) | 2 | (35) | 11 |
| Deferred: | | | | |
| Federal | 60 | 59 | 124 | 74 |
| State | 9 | 4 | 18 | 17 |
| | 69 | 63 | 142 | 91 |
| Provision (benefit) for income taxes | \$52 | \$65 | \$107 | \$102 |

The effective income tax rates for the total provision for the three and six months ended June 30, 2018, are less than the federal statutory rate primarily due to the impact of the allocation of income to nontaxable noncontrolling interests, partially offset by the effect of state income taxes.

The effective income tax rate for the total provision for the three months ended June 30, 2017, is less than the federal statutory rate primarily due to the impact of the allocation of income to nontaxable noncontrolling interests, partially offset by the effect of state income taxes.

The effective income tax rate for the total provision for the six months ended June 30, 2017, is less than the federal statutory rate primarily due to releasing a \$127 million valuation allowance on a deferred tax asset associated with a capital loss carryover and the impact of the allocation of income to nontaxable noncontrolling interests, partially offset

by the effect of state income taxes. The sale of the Geismar olefins facility in 2017 generated capital gains sufficient to offset the capital loss carryover, thereby allowing us to reverse the valuation allowance in full.

Notes (Continued)

On December 22, 2017, Tax Reform was enacted. Under the guidance provided by Securities and Exchange Commission Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, we recorded provisional adjustments related to the impact of Tax Reform in the fourth quarter of 2017. We consider all amounts recorded related to Tax Reform to be reasonable estimates. The amounts recorded continue to be provisional for the reasons disclosed in Exhibit 99.1 of our Form 8-K dated May 3, 2018, as our interpretation, assessment, and presentation of the impact of the tax law change may be further clarified with additional guidance from regulatory, tax, and accounting authorities. We are continuing to gather additional information to determine the final impact and should additional guidance be provided by these authorities or other sources, we will review the provisional amounts and adjust as appropriate.

During the next 12 months, we do not expect ultimate resolution of any unrecognized tax benefit associated with domestic or international matters to have a material impact on our unrecognized tax benefit position.

Note 7 – Earnings Per Common Share

| | Three Months Ended | | Six Months Ended | |
|--|--|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (Dollars in millions, except per-share amounts; shares in thousands) | | | |
| Net income attributable to The Williams Companies, Inc. available to common stockholders for basic and diluted earnings per common share | \$ 135 | \$ 81 | \$ 287 | \$ 454 |
| Basic weighted-average shares | 827,868 | 826,426 | 827,682 | 825,492 |
| Effect of dilutive securities: | | | | |
| Nonvested restricted stock units | 1,819 | 1,499 | 1,956 | 1,402 |
| Stock options | 420 | 650 | 506 | 637 |
| Diluted weighted-average shares | 830,107 | 828,575 | 830,138 | 827,531 |
| Earnings per common share: | | | | |
| Basic | \$.16 | \$.10 | \$.35 | \$.55 |
| Diluted | \$.16 | \$.10 | \$.35 | \$.55 |

Note 8 – Employee Benefit Plans

Net periodic benefit cost (credit) is as follows:

| | Pension Benefits | | | |
|---|--------------------|---------------|------------------|---------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (Millions) | | | |
| Components of net periodic benefit cost (credit): | | | | |
| Service cost | \$ 11 | \$ 12 | \$ 25 | \$ 25 |
| Interest cost | 12 | 14 | 23 | 29 |
| Expected return on plan assets | (15) | (21) | (31) | (41) |
| Amortization of net actuarial loss | 5 | 7 | 11 | 14 |
| Net actuarial loss from settlements | 1 | — | 1 | — |

| | | | | |
|------------------------------------|------|------|------|------|
| Net periodic benefit cost (credit) | \$14 | \$12 | \$29 | \$27 |
|------------------------------------|------|------|------|------|

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Notes (Continued)

| | Other Postretirement Benefits | | | |
|---|----------------------------------|-------|--------------------------------|-------|
| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
| | 2018 | 2017 | 2018 | 2017 |
| Components of net periodic benefit cost (credit): | | | | |
| Service cost | \$— | \$1 | \$— | \$1 |
| Interest cost | 2 | 2 | 4 | 4 |
| Expected return on plan assets | (3) | (3) | (6) | (6) |
| Amortization of prior service credit | — | (4) | (1) | (7) |
| Reclassification to regulatory liability | — | 1 | 1 | 2 |
| Net periodic benefit cost (credit) | \$(1) | \$(3) | \$(2) | \$(6) |

The components of Net periodic benefit cost (credit) other than the Service cost component are included in Other income (expense) – net below Operating income (loss) in the Consolidated Statement of Income.

Amortization of prior service credit included in Net periodic benefit cost (credit) for our other postretirement benefit plans associated with Transco and Northwest Pipeline is recorded to regulatory assets/liabilities instead of Other comprehensive income (loss). The amounts of Amortization of prior service credit recognized in regulatory liabilities were \$2 million for the three months ended June 30, 2017, and \$1 million and \$4 million for the six months ended June 30, 2018 and 2017, respectively.

During the six months ended June 30, 2018, we contributed \$45 million to our pension plans and \$3 million to our other postretirement benefit plans. We presently anticipate making additional contributions of approximately \$43 million to our pension plans and approximately \$2 million to our other postretirement benefit plans in the remainder of 2018.

Note 9 – Debt and Banking Arrangements

Long-Term Debt

Issuances and retirements

Northwest Pipeline retired \$250 million of 6.05 percent senior unsecured notes that matured on June 15, 2018.

On March 5, 2018, WPZ completed a public offering of \$800 million of 4.85 percent senior unsecured notes due 2048. WPZ used the net proceeds for general partnership purposes, primarily the March 28, 2018 repayment of \$750 million of 4.875 percent senior unsecured notes that were due in 2024.

On March 15, 2018, Transco issued \$400 million of 4 percent senior unsecured notes due 2028 and \$600 million of 4.6 percent senior unsecured notes due 2048 to investors in a private debt placement. Transco used the net proceeds to retire \$250 million of 6.05 percent senior unsecured notes that matured on June 15, 2018, and for general corporate purposes, including the funding of capital expenditures. As part of the issuance, Transco entered into a registration rights agreement with the initial purchasers of the unsecured notes. Transco is obligated to file and consummate a registration statement for an offer to exchange the notes for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended, within 365 days from closing and to use commercially reasonable efforts to complete the exchange offer. Transco is required to provide a shelf registration statement to cover resales of the notes under certain circumstances. If Transco fails to fulfill these obligations, additional interest will accrue on the affected securities. The rate of additional interest will be 0.25 percent per annum on the principal amount of the affected securities for the first 90-day period immediately following the occurrence of a registration default, increasing by an additional 0.25 percent per annum with respect to each subsequent 90-day period thereafter, up to a maximum amount for all such registration defaults of 0.5 percent annually. Following the cure of any registration defaults, the

accrual of additional interest will cease.

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Notes (Continued)

Other financing obligation

During the first half of 2018, Transco received an additional \$24 million of funding from a co-owner related to the construction of the Dalton expansion project. This additional funding is reflected as Long-term debt in the Consolidated Balance Sheet.

Commercial Paper Program

As of June 30, 2018, no commercial paper was outstanding under WPZ's \$3 billion commercial paper program.

Credit Facilities

| | June 30, 2018 | |
|---|--------------------|-------------|
| | Stated Capacity | Outstanding |
| | (Millions) | |
| WMB | | |
| Long-term credit facility | \$1,500 | \$ 125 |
| Letters of credit under certain bilateral bank agreements | | 13 |
| WPZ | | |
| Long-term credit facility (1) | 3,500 | — |
| Letters of credit under certain bilateral bank agreements | | 1 |

(1) In managing our available liquidity, we do not expect a maximum outstanding amount in excess of the capacity of WPZ's credit facility inclusive of any outstanding amounts under its commercial paper program.

During July 2018, in anticipation of the WPZ Merger closing, we entered into a new \$4.5 billion unsecured revolving credit agreement (Credit Agreement) that includes Transco and Northwest Pipeline as co-borrowers. The full amount of the credit facility will be available to us to the extent not utilized by Transco and Northwest Pipeline, each of which will have access up to \$500 million. The Credit Agreement will become effective upon closing of the WPZ Merger and will be initially available for five years from the Credit Agreement effective date.

Note 10 – Stockholders' Equity

AOCI

The following table presents the changes in Accumulated other comprehensive income (loss) (AOCI) by component, net of income taxes:

| | Cash Flow Hedges | Foreign Currency Translation | Pension and Other Postretirement Benefits | Total |
|---|------------------------|------------------------------------|--|----------|
| | (Millions) | | | |
| Balance at December 31, 2017 | \$(2) | \$ (1) | \$ (235) | \$(238) |
| Adoption of ASU 2018-02 (Note 1) | — | — | (61) | (61) |
| Other comprehensive income (loss): | | | | |
| Other comprehensive income (loss) before reclassifications | (9) | — | 4 | (5) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1 | — | 10 | 11 |
| Other comprehensive income (loss) | (8) | — | 14 | 6 |
| Balance at June 30, 2018 | \$(10) | \$ (1) | \$ (282) | \$(293) |

Notes (Continued)

Reclassifications out of AOCI are presented in the following table by component for the six months ended June 30, 2018:

| Component | Reclassifications (Millions) | Classification |
|--|---------------------------------|--|
| Cash flow hedges: | | |
| Energy commodity contracts | \$ 4 | Product sales and Product costs |
| Pension and other postretirement benefits: | | |
| Amortization of actuarial (gain) loss and net actuarial loss from settlements included in net periodic benefit cost (credit) | 12 | Note 8 – Employee Benefit Plans |
| Total before tax | 16 | |
| Income tax benefit | (3) | Provision (benefit) for income taxes |
| Net of income tax | 13 | |
| Noncontrolling interest | (2) | Net income (loss) attributable to noncontrolling interests |
| Reclassifications during the period | \$ 11 | |

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Notes (Continued)

Note 11 – Fair Value Measurements and Guarantees

The following table presents, by level within the fair value hierarchy, certain of our financial assets and liabilities. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these instruments. Therefore, these assets and liabilities are not presented in the following table.

| | Carrying Amount | Fair Value | Fair Value Measurements Using | | |
|--|-----------------|------------|--|---|---|
| | | | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (Millions) | | | | | |
| Assets (liabilities) at June 30, 2018: | | | | | |
| Measured on a recurring basis: | | | | | |
| ARO Trust investments | \$ 151 | \$ 151 | \$ 151 | \$ — | \$ — |
| Energy derivatives assets not designated as hedging instruments | 4 | 4 | 4 | — | — |
| Energy derivatives liabilities designated as hedging instruments | (16) | (16) | (15) | (1) | — |
| Energy derivatives liabilities not designated as hedging instruments | (4) | (4) | (1) | — | (3) |
| Additional disclosures: | | | | | |
| Other receivables | 21 | 21 | 21 | — | — |
| Long-term debt, including current portion | (21,315) | (22,326) | — | (22,326) | — |
| Guarantees | (43) | (30) | — | (14) | (16) |
| Assets (liabilities) at December 31, 2017: | | | | | |
| Measured on a recurring basis: | | | | | |
| ARO Trust investments | \$ 135 | \$ 135 | \$ 135 | \$ — | \$ — |
| Energy derivatives liabilities designated as hedging instruments | (3) | (3) | (2) | (1) | — |
| Energy derivatives liabilities not designated as hedging instruments | (3) | (3) | — | — | (3) |
| Additional disclosures: | | | | | |
| Other receivables | 7 | 7 | 7 | — | — |
| Long-term debt, including current portion | (20,935) | (23,005) | — | (23,005) | — |
| Guarantees | (43) | (30) | — | (14) | (16) |

Fair Value Methods

We use the following methods and assumptions in estimating the fair value of our financial instruments:

Assets and liabilities measured at fair value on a recurring basis

ARO Trust investments: Transco deposits a portion of its collected rates, pursuant to its rate case settlement, into an external trust (ARO Trust) that is specifically designated to fund future asset retirement obligations (ARO). The ARO Trust invests in a portfolio of actively traded mutual funds that are measured at fair value on a recurring basis based on quoted prices in an active market and is reported in Regulatory assets, deferred charges, and other in the Consolidated Balance Sheet. Both realized and unrealized gains and losses are ultimately recorded as regulatory assets or liabilities.

Energy derivatives: Energy derivatives include commodity-based exchange-traded contracts and over-the-counter contracts, which consist of physical forwards, futures, and swaps that are measured at fair value on a recurring basis.

The fair value amounts are presented on a gross basis and do not reflect the netting of asset and liability positions

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Notes (Continued)

permitted under the terms of our master netting arrangements. Further, the amounts do not include cash held on deposit in margin accounts that we have received or remitted to collateralize certain derivative positions. Energy derivatives assets are reported in Other current assets and deferred charges and Regulatory assets, deferred charges, and other in the Consolidated Balance Sheet. Energy derivatives liabilities are reported in Accrued liabilities and Regulatory liabilities, deferred income, and other in the Consolidated Balance Sheet.

Reclassifications of fair value between Level 1, Level 2, and Level 3 of the fair value hierarchy, if applicable, are made at the end of each quarter. No transfers between Level 1 and Level 2 occurred during the six months ended June 30, 2018 or 2017.

Additional fair value disclosures

Other receivables: Other receivables consist of margin deposits, which are reported in Other current assets and deferred charges in the Consolidated Balance Sheet. The disclosed fair value of our margin deposits is considered to approximate the carrying value generally due to the short-term nature of these items.

Long-term debt, including current portion: The disclosed fair value of our long-term debt is determined primarily by a market approach using broker quoted indicative period-end bond prices. The quoted prices are based on observable transactions in less active markets for our debt or similar instruments.

Guarantees: Guarantees primarily consist of a guarantee we have provided in the event of nonpayment by our previously owned communications subsidiary, Williams Communications Group (WilTel), on a lease performance obligation that extends through 2042. Guarantees also include an indemnification related to a disposed operation. To estimate the fair value of the WilTel guarantee, an estimated default rate is applied to the sum of the future contractual lease payments using an income approach. The estimated default rate is determined by obtaining the average cumulative issuer-weighted corporate default rate based on the credit rating of WilTel's current owner and the term of the underlying obligation. The default rate is published by Moody's Investors Service. The carrying value of the WilTel guarantee is reported in Accrued liabilities in the Consolidated Balance Sheet. The maximum potential undiscounted exposure is approximately \$30 million at June 30, 2018. Our exposure declines systematically through the remaining term of WilTel's obligation.

The fair value of the guarantee associated with the indemnification related to a disposed operation was estimated using an income approach that considered probability-weighted scenarios of potential levels of future performance. The terms of the indemnification do not limit the maximum potential future payments associated with the guarantee. The carrying value of this guarantee is reported in Regulatory liabilities, deferred income, and other in the Consolidated Balance Sheet.

We are required by our revolving credit agreements to indemnify lenders for certain taxes required to be withheld from payments due to the lenders and for certain tax payments made by the lenders. The maximum potential amount of future payments under these indemnifications is based on the related borrowings and such future payments cannot currently be determined. These indemnifications generally continue indefinitely unless limited by the underlying tax regulations and have no carrying value. We have never been called upon to perform under these indemnifications and have no current expectation of a future claim.

Nonrecurring fair value measurements

The following table presents impairments of assets associated with certain nonrecurring fair value measurements within Level 3 of the fair value hierarchy, except as specifically noted.

Notes (Continued)

| | Classification | Segment | Date of Measurement | Fair Value | Impairments Six Months Ended June 30, |
|---|--------------------------------------|---------|---------------------|------------|---------------------------------------|
| | | | | 2018 | 2017 |
| | | | | (Millions) | |
| Certain idle pipeline assets (1) | Property, plant, and equipment – net | Other | June 30, 2018 | \$ 25 | \$ 66 |
| Certain olefins pipeline project (2) | Property, plant, and equipment – net | Other | June 30, 2017 | 18 | \$ 23 |
| Fair value measurements of certain assets | | | | 66 | 23 |
| Other impairments and write-downs (3) | | | | — | 3 |
| Impairment of certain assets | | | | \$ 66 | \$ 26 |

(1) Relates to certain idle pipelines. The estimated fair value was determined by a market approach incorporating information derived from bids received for these assets, which are currently being marketed for sale together with certain other assets. These inputs result in a fair value measurement within Level 2 of the fair value hierarchy.

(2) Relates primarily to project development costs associated with an olefins pipeline project in the Gulf Coast region, the likelihood of completion of which is now considered remote. The estimated fair value of the remaining pipe and equipment considered a market approach based on our analysis of observable inputs in the principal market, as well as an estimate of replacement cost.

(3) Reflects multiple individually insignificant impairments and write-downs of other certain assets that may no longer be in use or are surplus in nature for which the fair value was determined to be lower than the carrying value.

Note 12 – Contingent Liabilities

Reporting of Natural Gas-Related Information to Trade Publications

Direct and indirect purchasers of natural gas in various states filed individual and class actions against us, our former affiliate WPX Energy, Inc. (WPX) and its subsidiaries, and others alleging the manipulation of published gas price indices and seeking unspecified amounts of damages. Such actions were transferred to the Nevada federal district court for consolidation of discovery and pre-trial issues. We have agreed to indemnify WPX and its subsidiaries related to this matter.

In the individual action, filed by Farmland Industries Inc. (Farmland), the court issued an order on May 24, 2016, granting one of our co-defendant's motion for summary judgment as to Farmland's claims. On January 5, 2017, the court extended such ruling to us, entering final judgment in our favor. Farmland appealed. On March 27, 2018, the appellate court reversed the district court's grant of summary judgment, and on April 10, 2018, the defendants filed a petition for rehearing with the appellate court, which was denied on May 9, 2018. The case has been remanded to the Nevada federal district court.

In the putative class actions, on March 30, 2017, the court issued an order denying the plaintiffs' motions for class certification. On June 13, 2017, the United States Court of Appeals for the Ninth Circuit granted the plaintiffs' petition for permission to appeal the order, and the appeal is now pending.

Notes (Continued)

Because of the uncertainty around the remaining pending unresolved issues, we cannot reasonably estimate a range of potential exposure at this time. However, it is reasonably possible that the ultimate resolution of these actions and our related indemnification obligation could result in a potential loss that may be material to our results of operations. In connection with this indemnification, we have an accrued liability balance associated with this matter, and as a result, have exposure to future developments.

Alaska Refinery Contamination Litigation

We are involved in litigation arising from our ownership and operation of the North Pole Refinery in North Pole, Alaska, from 1980 until 2004, through our wholly owned subsidiaries, Williams Alaska Petroleum Inc. (WAPI) and MAPCO Inc. We sold the refinery to Flint Hills Resources Alaska, LLC (FHRA), a subsidiary of Koch Industries, Inc., in 2004. The litigation involves three cases, with filing dates ranging from 2010 to 2014. The actions arise from sulfolane contamination allegedly emanating from the refinery. A putative class action lawsuit was filed by James West in 2010 naming us, WAPI, and FHRA as defendants. We and FHRA filed claims against each other seeking, among other things, contractual indemnification alleging that the other party caused the sulfolane contamination. In 2011, we and FHRA settled the claim with James West. Certain claims by FHRA against us were resolved by the Alaska Supreme Court in our favor. FHRA's claims against us for contractual indemnification and statutory claims for damages related to off-site sulfolane remain pending. The State of Alaska filed its action in March 2014, seeking damages. The City of North Pole (North Pole) filed its lawsuit in November 2014, seeking past and future damages, as well as punitive damages. Both we and WAPI asserted counterclaims against the State of Alaska and North Pole, and cross-claims against FHRA. FHRA has also filed cross-claims against us.

The underlying factual basis and claims in the cases are similar and may duplicate exposure. As such, in February 2017, the three cases were consolidated into one action in state court containing the remaining claims from the James West case and those of the State of Alaska and North Pole. A trial encompassing all three cases was originally scheduled to commence in May 2017 but has been rescheduled for March 2019. Due to the ongoing assessment of the level and extent of sulfolane contamination, the lack of an articulated cleanup level for sulfolane, and the lack of a concrete remedial proposal and cost estimate, we are unable to estimate a range of exposure to the State of Alaska or North Pole at this time. We currently estimate that our reasonably possible loss exposure to FHRA could range from an insignificant amount up to \$32 million, although uncertainties inherent in the litigation process, expert evaluations, and jury dynamics might cause our exposure to exceed that amount.

Independent of the litigation matter described in the preceding paragraphs, in 2013, the Alaska Department of Environmental Conservation indicated that it views FHRA and us as responsible parties, and that it intended to enter a compliance order to address the environmental remediation of sulfolane and other possible contaminants including cleanup work outside the refinery's boundaries. To date, no compliance order has been issued. Due to the ongoing assessment of the level and extent of sulfolane contamination, the ultimate cost of remediation and division of costs among the potentially responsible parties, and the previously described separate litigation, we are unable to estimate a range of exposure at this time.

Royalty Matters

Certain of our customers, including one major customer, have been named in various lawsuits alleging underpayment of royalties and claiming, among other things, violations of anti-trust laws and the Racketeer Influenced and Corrupt Organizations Act. We have also been named as a defendant in certain of these cases filed in Pennsylvania based on allegations that we improperly participated with that major customer in causing the alleged royalty underpayments. We believe that the claims asserted are subject to indemnity obligations owed to us by that major customer. That customer has reached a tentative settlement to resolve substantially all Pennsylvania royalty cases pending, which settlement would apply to both the customer and us. The settlement as reported would not require any contribution from us.

Shareholder Litigation

On March 7, 2016, a purported unitholder of WPZ filed a putative class action on behalf of certain purchasers of WPZ units in U.S. District Court in Oklahoma. The action names as defendants us, WPZ, Williams Partners GP LLC,

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Notes (Continued)

Alan S. Armstrong, and former Chief Financial Officer Donald R. Chappel and alleges violations of certain federal securities laws for failure to disclose Energy Transfer Equity, L.P.'s (Energy Transfer) intention to pursue a purchase of us conditioned on us not closing the May 2015 agreement for a unit-for-stock transaction whereby we would have acquired all of the publicly held outstanding common units of WPZ in exchange for shares of our common stock when announcing the May 2015 agreement. The complaint seeks, among other things, damages and an award of costs and attorneys' fees. The plaintiff filed an amended complaint on August 31, 2016. On October 17, 2016, we requested the court dismiss the action, and on March 8, 2017, the court dismissed the complaint with prejudice. On April 7, 2017, the plaintiff filed a notice of appeal. On May 22, 2018, the appellate court affirmed the dismissal of plaintiff's complaint.

Litigation Against Energy Transfer and Related Parties

On April 6, 2016, we filed suit in Delaware Chancery Court against Energy Transfer and LE GP, LLC (the general partner for Energy Transfer) alleging willful and material breaches of the Agreement and Plan of Merger (Merger Agreement) with Energy Transfer resulting from the private offering by Energy Transfer on March 8, 2016, of Series A Convertible Preferred Units (Special Offering) to certain Energy Transfer insiders and other accredited investors. The suit seeks, among other things, an injunction ordering the defendants to unwind the Special Offering and to specifically perform their obligations under the Merger Agreement. On April 19, 2016, we filed an amended complaint seeking the same relief. On May 3, 2016, Energy Transfer and LE GP, LLC filed an answer and counterclaims.

On May 13, 2016, we filed a separate complaint in Delaware Chancery Court against Energy Transfer, LE GP, LLC, and the other Energy Transfer affiliates that are parties to the Merger Agreement, alleging material breaches of the Merger Agreement for failing to cooperate and use necessary efforts to obtain a tax opinion required under the Merger Agreement (Tax Opinion) and for otherwise failing to use necessary efforts to consummate the merger under the Merger Agreement wherein we would be merged with and into the newly formed Energy Transfer Corp LP (ETC) (ETC Merger). The suit sought, among other things, a declaratory judgment and injunction preventing Energy Transfer from terminating or otherwise avoiding its obligations under the Merger Agreement due to any failure to obtain the Tax Opinion.

The Court of Chancery coordinated the Special Offering and Tax Opinion suits. On May 20, 2016, the Energy Transfer defendants filed amended affirmative defenses and verified counterclaims in the Special Offering and Tax Opinion suits, alleging certain breaches of the Merger Agreement by us and seeking, among other things, a declaration that we were not entitled to specific performance, that Energy Transfer could terminate the ETC Merger, and that Energy Transfer is entitled to a \$1.48 billion termination fee. On June 24, 2016, following a two-day trial, the court issued a Memorandum Opinion and Order denying our requested relief in the Tax Opinion suit. The court did not rule on the substance of our claims related to the Special Offering or on the substance of Energy Transfer's counterclaims. On June 27, 2016, we filed an appeal of the court's decision with the Supreme Court of Delaware, seeking reversal and remand to pursue damages. On March 23, 2017, the Supreme Court of Delaware affirmed the Court of Chancery's ruling. On March 30, 2017, we filed a motion for reargument with the Supreme Court of Delaware, which was denied on April 5, 2017.

On September 16, 2016, we filed an amended complaint with the Court of Chancery seeking damages for breaches of the Merger Agreement by defendants. On September 23, 2016, Energy Transfer filed a second amended and supplemental affirmative defenses and verified counterclaim with the Court of Chancery seeking, among other things, payment of the \$1.48 billion termination fee due to our alleged breaches of the Merger Agreement. On December 1, 2017, the court granted our motion to dismiss certain of Energy Transfer's counterclaims, including its claim seeking payment of the \$1.48 billion termination fee. On December 8, 2017, Energy Transfer filed a motion for reargument, which the Court of Chancery denied on April 16, 2018. The Court of Chancery scheduled trial for May 20 through May 24, 2019.

Environmental Matters

We are a participant in certain environmental activities in various stages including assessment studies, cleanup operations, and/or remedial processes at certain sites, some of which we currently do not own. We are monitoring these sites in a coordinated effort with other potentially responsible parties, the U.S. Environmental Protection Agency (EPA), or other governmental authorities. We are jointly and severally liable along with unrelated third parties in some of these

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Notes (Continued)

activities and solely responsible in others. Certain of our subsidiaries have been identified as potentially responsible parties at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other hazardous materials removal or remediation obligations under environmental laws. As of June 30, 2018, we have accrued liabilities totaling \$38 million for these matters, as discussed below. Estimates of the most likely costs of cleanup are generally based on completed assessment studies, preliminary results of studies, or our experience with other similar cleanup operations. At June 30, 2018, certain assessment studies were still in process for which the ultimate outcome may yield different estimates of most likely costs. Therefore, 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.

The EPA and various state regulatory agencies routinely promulgate and propose new rules, and issue updated guidance to existing rules. These rulemakings include, but are not limited to, rules for reciprocating internal combustion engine maximum achievable control technology, air quality standards for one hour nitrogen dioxide emissions, and volatile organic compound and methane new source performance standards impacting design and operation of storage vessels, pressure valves, and compressors. On October 1, 2015, the EPA issued its rule regarding National Ambient Air Quality Standards for ground-level ozone, setting a stricter standard of 70 parts per billion. We are monitoring the rule's implementation as the reduction will trigger additional federal and state regulatory actions that may impact our operations. Implementation of the regulations is expected to result in impacts to our operations and increase the cost of additions to Property, plant, and equipment – net in the Consolidated Balance Sheet for both new and existing facilities in affected areas. We are unable to reasonably estimate the cost of additions that may be required to meet the regulations at this time due to uncertainty created by various legal challenges to these regulations and the need for further specific regulatory guidance.

Continuing operations

Our interstate gas pipelines are involved in remediation activities related to certain facilities and locations for polychlorinated biphenyls, mercury, and other hazardous substances. These activities have involved the EPA and various state environmental authorities, resulting in our identification as a potentially responsible party at various Superfund waste sites. At June 30, 2018, we have accrued liabilities of \$7 million for these costs. We expect that these costs will be recoverable through rates.

We also accrue environmental remediation costs for natural gas underground storage facilities, primarily related to soil and groundwater contamination. At June 30, 2018, we have accrued liabilities totaling \$9 million for these costs. Former operations, including operations classified as discontinued

We have potential obligations in connection with assets and businesses we no longer operate. These potential obligations include remediation activities at the direction of federal and state environmental authorities and the indemnification of the purchasers of certain of these assets and businesses for environmental and other liabilities existing at the time the sale was consummated. Our responsibilities relate to the operations of the assets and businesses described below.

Former agricultural fertilizer and chemical operations and former retail petroleum and refining operations;

Former petroleum products and natural gas pipelines;

Former petroleum refining facilities;

Former exploration and production and mining operations;

Former electricity and natural gas marketing and trading operations.

At June 30, 2018, we have accrued environmental liabilities of \$22 million related to these matters.

Notes (Continued)

Other Divestiture Indemnifications

Pursuant to various purchase and sale agreements relating to divested businesses and assets, we have indemnified certain purchasers against liabilities that they may incur with respect to the businesses and assets acquired from us. The indemnities provided to the purchasers are customary in sale transactions and are contingent upon the purchasers incurring liabilities that are not otherwise recoverable from third parties. The indemnities generally relate to breach of warranties, tax, historic litigation, personal injury, property damage, environmental matters, right of way, and other representations that we have provided.

At June 30, 2018, other than as previously disclosed, we are not aware of any material claims against us involving the indemnities; thus, we do not expect any of the indemnities provided pursuant to the sales agreements to have a material impact on our future financial position. Any claim for indemnity brought against us in the future may have a material adverse effect on our results of operations in the period in which the claim is made.

In addition to the foregoing, various other proceedings are pending against us which are incidental to our operations, none of which are expected to be material to our expected future annual results of operations, liquidity, and financial position.

Summary

We have disclosed our estimated range of reasonably possible losses for certain matters above, as well as all significant matters for which we are unable to reasonably estimate a range of possible loss. We estimate that for all other matters for which we are able to reasonably estimate a range of loss, our aggregate reasonably possible losses beyond amounts accrued are immaterial to our expected future annual results of operations, liquidity, and financial position. These calculations have been made without consideration of any potential recovery from third parties.

Note 13 – Segment Disclosures

We have one reportable segment, Williams Partners. All remaining business activities are included in Other. (See Note 1 – General, Description of Business, and Basis of Presentation.)

Our segment presentation of Williams Partners, which includes our consolidated master limited partnership, is reflective of the parent-level focus by our chief operating decision-maker, considering the resource allocation and governance provisions associated with the master limited partnership structure. This partnership maintains capital and cash management structures that are separate from ours. It is self-funding and maintains its own lines of bank credit and cash management accounts. These factors serve to differentiate the management of this entity as a whole.

Performance Measurement

We evaluate segment operating performance based upon Modified EBITDA (earnings before interest, taxes, depreciation, and amortization). This measure represents the basis of our internal financial reporting and is the primary performance measure used by our chief operating decision maker in measuring performance and allocating resources among our reportable segments.

We define Modified EBITDA as follows:

- Net income (loss) before:
 - Income (loss) from discontinued operations;
 - Provision (benefit) for income taxes;
 - Interest incurred, net of interest capitalized;
 - Equity earnings (losses);
 - Gain on remeasurement of equity-method investment;

Notes (Continued)

Impairment of equity-method investments;

Other investing income (loss) – net;

Impairment of goodwill;

Depreciation and amortization expenses;

Accretion expense associated with asset retirement obligations for nonregulated operations.

This measure is further adjusted to include our proportionate share (based on ownership interest) of Modified EBITDA from our equity-method investments calculated consistently with the definition described above.

Notes (Continued)

The following table reflects the reconciliation of Segment revenues to Total revenues as reported in the Consolidated Statement of Income and Total assets by reportable segment.

| | Williams Partners (Millions) | Other | Eliminations | Total |
|--|------------------------------------|-------|--------------|---------|
| Three Months Ended June 30, 2018 | | | | |
| Segment revenues: | | | | |
| Service revenues | | | | |
| External | \$1,335 | \$ 5 | \$ — | \$1,340 |
| Internal | — | 3 | (3) | — |
| Total service revenues | 1,335 | 8 | (3) | 1,340 |
| Total service revenues – commodity consideration (external only) | 94 | — | — | 94 |
| Total product sales (external only) | 657 | — | — | 657 |
| Total revenues | \$2,086 | \$ 8 | \$ (3) | \$2,091 |
| Three Months Ended June 30, 2017 | | | | |
| Segment revenues: | | | | |
| Service revenues | | | | |
| External | \$1,276 | \$ 6 | \$ — | \$1,282 |
| Internal | 1 | 3 | (4) | — |
| Total service revenues | 1,277 | 9 | (4) | 1,282 |
| Total product sales (external only) | 642 | — | — | 642 |
| Total revenues | \$1,919 | \$ 9 | \$ (4) | \$1,924 |
| Six Months Ended June 30, 2018 | | | | |
| Segment revenues: | | | | |
| Service revenues | | | | |
| External | \$2,681 | \$ 10 | \$ — | \$2,691 |
| Internal | — | 6 | (6) | — |
| Total service revenues | 2,681 | 16 | (6) | 2,691 |
| Total service revenues – commodity consideration (external only) | 195 | — | — | 195 |
| Total product sales (external only) | 1,293 | — | — | 1,293 |
| Total revenues | \$4,169 | \$ 16 | \$ (6) | \$4,179 |
| Six Months Ended June 30, 2017 | | | | |
| Segment revenues: | | | | |
| Service revenues | | | | |
| External | \$2,532 | \$ 11 | \$ — | \$2,543 |
| Internal | 1 | 6 | (7) | — |
| Total service revenues | 2,533 | 17 | (7) | 2,543 |
| Total product sales (external only) | 1,369 | — | — | 1,369 |
| Total revenues | \$3,902 | \$ 17 | \$ (7) | \$3,912 |

Notes (Continued)

| | Williams Partners (Millions) | Other | Eliminations | Total |
|-------------------|------------------------------------|--------|--------------|----------|
| June 30, 2018 | | | | |
| Total assets | \$45,938 | \$ 550 | \$ (114) | \$46,374 |
| December 31, 2017 | | | | |
| Total assets | \$45,903 | \$ 589 | \$ (140) | \$46,352 |

The following table reflects the reconciliation of Modified EBITDA to Net income (loss) as reported in the Consolidated Statement of Income.

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|--|---|---------|---|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Millions) | | | |
| Modified EBITDA by segment: | | | | |
| Williams Partners | \$1,115 | \$1,076 | \$2,222 | \$2,208 |
| Other | (57) | (17) | (44) | 1 |
| | 1,058 | 1,059 | 2,178 | 2,209 |
| Accretion expense associated with asset retirement obligations for nonregulated operations | (10) | (9) | (18) | (16) |
| Depreciation and amortization expenses | (434) | (433) | (865) | (875) |
| Equity earnings (losses) | 92 | 125 | 174 | 232 |
| Other investing income (loss) – net | 68 | 2 | 72 | 274 |
| Proportional Modified EBITDA of equity-method investments | (178) | (215) | (347) | (409) |
| Interest expense | (275) | (271) | (548) | (551) |
| (Provision) benefit for income taxes | (52) | (65) | (107) | (102) |
| Net income (loss) | \$269 | \$193 | \$539 | \$762 |

Note 14 – Subsequent Events

Issuance of Preferred Shares

In July 2018, through a wholly owned subsidiary, we contributed 35,000 shares of newly issued Series B Non-Voting Perpetual Preferred Stock (Preferred Stock), par value \$1.00 per share, to The Williams Companies Foundation, Inc. (a not-for-profit corporation) for use in future charitable and nonprofit causes. The Preferred Stock was issued for an aggregate value of \$35 million, which will be recorded as an expense in the third quarter of 2018, and is expected to pay non-cumulative quarterly cash dividends when, as and if declared, at a rate of 7.25 percent per year.

Agreement to Acquire Gathering and Processing Business

In July 2018, we announced the formation of a joint venture that has entered into an agreement to acquire a natural gas and oil gathering and natural gas processing business in Colorado's DJ Basin for \$1.173 billion, subject to customary closing conditions and purchase price adjustments. Our initial contribution and economic ownership of the joint venture will be 40 percent, which we expect to account for as an equity-method investment. The acquisition is expected to be completed during the third quarter of 2018.

Agreement to Divest Four Corners Assets

Also in July 2018, we announced an agreement to sell our natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado for \$1.125 billion, subject to customary closing conditions and purchase

Notes (Continued)

price adjustments. As of June 30, 2018, the net carrying amount of these assets within the Williams Partners segment is approximately \$530 million. This transaction is expected to close in the second half of 2018.

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Item 2

Management's Discussion and Analysis of
Financial Condition and Results of Operations

General

We are an energy infrastructure company focused on connecting North America's significant hydrocarbon resource plays to growing markets for natural gas and NGLs. Our operations are located principally in the United States. We have one reportable segment, Williams Partners. All remaining business activities and corporate operations are included in Other.

Williams Partners

Williams Partners consists of our consolidated master limited partnership, WPZ, which includes gas pipeline and midstream businesses. The gas pipeline businesses include interstate natural gas pipelines and pipeline joint project investments; and the midstream businesses provide natural gas gathering, treating, and processing services; NGL production, fractionation, storage, marketing, and transportation; deepwater production handling and crude oil transportation services; and are comprised of several wholly owned and partially owned subsidiaries and joint project investments. As of June 30, 2018, we own 74 percent of the interests in WPZ.

Williams Partners' gas pipeline businesses consist primarily of Transco and Northwest Pipeline. The gas pipeline business also holds interests in joint venture interstate and intrastate natural gas pipeline systems including a 50 percent equity-method investment in Gulfstream and a 41 percent interest in Constitution (a consolidated entity), which is developing a pipeline project (see Note 3 – Variable Interest Entities of Notes to Consolidated Financial Statements). As of December 31, 2017, Transco and Northwest Pipeline owned and operated a combined total of approximately 13,600 miles of pipelines with a total annual throughput of approximately 4,533 Tbtu of natural gas and peak-day delivery capacity of approximately 18.8 MMdth of natural gas.

Williams Partners' midstream businesses primarily consist of (1) natural gas gathering, treating, compression, and processing; (2) NGL fractionation, storage, and transportation; (3) crude oil production handling and transportation; and (4) olefins production. WPZ sold its olefins operations in July 2017. The primary service areas are concentrated in major producing basins in Colorado, Texas, Oklahoma, Kansas, New Mexico, Wyoming, the Gulf of Mexico, Louisiana, Pennsylvania, West Virginia, New York, and Ohio which include the Barnett, Eagle Ford, Haynesville, Marcellus, Niobrara, and Utica shale plays as well as the Mid-Continent region.

The midstream businesses include equity-method investments in natural gas gathering and processing assets and NGL fractionation and transportation assets, including a 62 percent equity-method investment in UEOM, a 69 percent equity-method investment in Laurel Mountain, a 58 percent equity-method investment in Caiman II, a 60 percent equity-method investment in Discovery, a 50 percent equity-method investment in OPPL, and Appalachia Midstream Services, LLC, which owns an approximate average 66 percent equity-method investment interest in multiple gas gathering systems in the Marcellus Shale (Appalachia Midstream Investments), a 50 percent interest in Jackalope (an equity-method investment following deconsolidation as of June 30, 2018), and our previously owned 50 percent equity-method investment in the Delaware basin gas gathering system (DBJV) in the Mid-Continent region (see Note 4 – Investing Activities of Notes to Consolidated Financial Statements).

Williams Partners' ongoing strategy is to safely and reliably operate large-scale, interstate natural gas transmission and midstream infrastructures where our assets can be fully utilized and drive low per-unit costs. We focus on consistently attracting new business by providing highly reliable service to our customers and investing in growing markets and areas of increasing natural gas demand.

Williams Partners' interstate transmission and related storage activities are subject to regulation by the FERC and as such, our rates and charges for the transportation of natural gas in interstate commerce, and the extension, expansion or abandonment of jurisdictional facilities and accounting, among other things, are subject to regulation. The rates are established through the FERC's ratemaking process. Changes in commodity prices and volumes transported have

Management's Discussion and Analysis (Continued)

limited near-term impact on these revenues because the majority of cost of service is recovered through firm capacity reservation charges in transportation rates.

Financial Repositioning

In January 2017, we entered into agreements with WPZ, wherein we permanently waived the general partner's IDRs and converted our 2 percent general partner interest in WPZ to a noneconomic interest in exchange for 289 million newly issued WPZ common units. Pursuant to this agreement, we also purchased approximately 277 thousand WPZ common units for \$10 million. Additionally, we purchased approximately 59 million common units of WPZ at a price of \$36.08586 per unit in a private placement transaction, funded with proceeds from our equity offering. According to the terms of this agreement, concurrent with WPZ's quarterly distributions in February 2017 and May 2017, we paid additional consideration totaling \$56 million to WPZ for these units.

Dividends

In June 2018, we paid a regular quarterly dividend of \$0.34 per share.

Overview of Six Months Ended June 30, 2018

Net income (loss) attributable to The Williams Companies, Inc., for the six months ended June 30, 2018, decreased \$167 million compared to the six months ended June 30, 2017, primarily due to the absence of a \$269 million gain associated with the disposition of certain equity-method investments in 2017 and a \$75 million decrease in product margins primarily due to the absence of olefins margins associated with our former olefin operations, partially offset by increased NGL and marketing margins, and a \$58 million decrease in Equity earnings (losses). While the provision for income taxes is consistent with 2017, the prior year included a benefit of \$127 million associated with the release of a valuation allowance on a capital loss carryover. This decrease was partially offset by a \$148 million increase in service revenue primarily resulting from expansion projects placed into service in 2017 and 2018 and a \$62 million gain associated with the deconsolidation of Jackalope.

Unless indicated otherwise, the following discussion and analysis of results of operations and financial condition and liquidity should be read in conjunction with the consolidated financial statements and notes thereto of this Form 10 Q and our annual consolidated financial statements and notes thereto in Exhibit 99.1 of our Form 8-K dated May 3, 2018.

Acquisition of WPZ Public Units

On May 16, 2018, we entered into an agreement for a stock-for-unit transaction whereby we will acquire all of the approximately 256 million publicly held outstanding common units of WPZ in exchange for shares of our common stock (WPZ Merger). Each such WPZ common unit will be converted into the right to receive 1.494 shares of our common stock or 1.513 shares if the closing does not occur before the record date of our third quarter 2018 dividend. In the event this agreement is terminated under certain circumstances, we could be required to pay a \$410 million termination fee to WPZ, of which we currently own approximately 74 percent. We expect the WPZ Merger will be completed during the third quarter of 2018.

FERC Income Tax Policy Revision

On March 15, 2018, the FERC issued a revised policy statement (the March 15 Statement) regarding the recovery of income tax costs in rates of natural gas pipelines. The FERC found that an impermissible double recovery results from granting a Master Limited Partnership (MLP) pipeline both an income tax allowance and a return on equity pursuant to the discounted cash flow methodology. As a result, the FERC will no longer permit an MLP pipeline to recover an income tax allowance in its cost of service. The FERC further stated it will address the application of this policy to non-MLP partnership forms as those issues arise in subsequent proceedings. One of the benefits of the pending WPZ Merger is to allow our FERC-regulated pipelines to continue to recover an income tax allowance in their cost of service rates.

Management's Discussion and Analysis (Continued)

On July 18, 2018, the FERC issued an order dismissing the requests for rehearing and clarification of the revised policy statement. In addition, the FERC provided guidance that an MLP pipeline (or other pass-through entity) no longer recovering an income tax allowance pursuant to the revised policy may eliminate previously accumulated deferred income taxes (ADIT) from its cost of service instead of flowing these previously accumulated ADIT balances to ratepayers. This guidance, if implemented, would significantly mitigate the impact of the March 15 Statement. However, the FERC stated that the revised policy statement and such guidance do not establish a binding rule, but are instead expressions of general policy intent designed to provide guidance by notifying entities of the course of action the FERC intends to follow in future adjudications. To the extent the FERC addresses these issues in future proceedings, it will consider any arguments regarding not only the application of the revised policy to the facts of the case, but also any arguments regarding the underlying validity of the policy itself. The FERC's guidance on ADIT likely will be challenged by customers and state commissions, which would result in a long period of revenue uncertainty for pipelines eliminating ADIT from their cost of service. The WPZ Merger would have the additional benefit of eliminating this uncertainty.

On March 15, 2018, the FERC also issued a Notice of Proposed Rulemaking proposing a filing process that will allow it to determine which natural gas pipelines may be collecting unjust and unreasonable rates in light of the recent reduction in the corporate income tax rate in the Tax Cuts and Jobs Act (Tax Reform) and the revised policy statement. On July 18, 2018, the FERC issued a Final Rule, retaining the filing requirement and reaffirming the options that pipelines have to either reflect the reduced tax rate or explain why no rate change is necessary. The FERC also clarified that a natural gas company organized as a pass-through entity and all of whose income or losses are consolidated on the federal income tax return of its corporate parent is considered to be subject to the federal corporate income tax and is thus eligible for a tax allowance. We believe this Final Rule and the previously discussed WPZ Merger, will allow for the continued recovery of income tax allowances in Transco's and Northwest Pipeline's rates. Further, because of Transco's requirement to file a general rate case no later than August 31, 2018, Transco is exempt from the Final Rule's filing requirement.

On March 15, 2018, the FERC also issued a Notice of Inquiry seeking comments on the additional impacts of Tax Reform on jurisdictional rates, particularly whether, and if so how, the FERC should address changes relating to accumulated deferred income tax amounts after the corporate income tax rate reduction and bonus depreciation rules, as well as whether other features of Tax Reform require FERC action. We are evaluating the impact of these developments on our interstate natural gas pipelines and currently expect any associated impacts would be prospective and determined through subsequent rate proceedings. We also continue to monitor developments that may impact our regulatory liabilities resulting from Tax Reform. It is reasonably possible that future tariff-based rates collected by our interstate natural gas pipelines may be adversely impacted.

Revenue Recognition

As a result of the adoption of Accounting Standards Update 2014-09, Revenues from Contracts with Customers (ASC 606), we now record revenues for transactions where we receive noncash consideration, primarily in certain of our gas processing contracts that provide commodities as full or partial consideration for services provided. These revenues are reflected as Service revenues – commodity consideration in the Consolidated Statement of Income. The costs associated with these revenues, primarily related to natural gas shrink replacement, are reported as Processing commodity expenses. The revenues and costs associated with the subsequent sale of the commodity consideration received is reflected within Product sales and Product costs in the Consolidated Statement of Income. Service revenues – commodity consideration plus Product sales, less Product costs and Processing commodity expenses represents the margin that we have historically characterized as commodity margin. This presentation is being reflected prospectively in the Consolidated Statement of Income. (See Note 2 – Revenue Recognition of Notes to Consolidated Financial Statements.)

Additionally, future revenues are impacted by application of the new accounting standard to certain contracts for which we received prepayments for services and have recorded deferred revenue (contract liabilities). For these contracts, which underwent modifications in periods prior to January 1, 2018, the modification is treated as a

termination of the existing contract and the creation of a new contract. The new accounting guidance requires that the transaction price, including any remaining deferred revenue from the old contract, be allocated to the performance obligations over the term of the new contract. As a result, we will recognize the deferred revenue over longer periods than application of revenue recognition under accounting guidance prior to January 1, 2018. The application of ASC 606 to prior periods

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Management's Discussion and Analysis (Continued)

related to these contracts would have resulted in lower revenues in 2017. Annual revenues will also be lower in 2018 and 2019 than what would have been recorded under the previous guidance, offset by increased revenues in later reporting periods given the longer period of recognition.

Expansion Project Updates

Significant expansion project updates for the period, including projects placed into service are described below.

Ongoing major expansion projects are discussed later in Company Outlook.

Garden State

In March 2018, Phase 2 of the Garden State Expansion project was placed into service. This project expanded Transco's existing natural gas transmission system to provide incremental firm transportation capacity from Station 210 in New Jersey to a new interconnection on our Trenton Woodbury Lateral in New Jersey. Phase 1 of the project was placed into service in September 2017, and together they increased capacity by 180 Mdt/d.

Susquehanna Supply Hub

During the first quarter of 2018, the remaining facilities that comprise the Susquehanna Supply Hub Expansion were fully commissioned. The project added two new compression facilities with an additional 49,000 horsepower and 59 miles of 12 to 24 inch pipeline, and is expected to increase gathering capacity, allowing a certain producer to fulfill its commitment to deliver 850 Mdt/d to our Atlantic Sunrise development.

Commodity Prices

NGL per-unit margins were approximately 35 percent higher in the first six months of 2018 compared to the same period of 2017 primarily due to a 27 percent increase in per-unit non-ethane prices and an approximate 25 percent decrease in per-unit natural gas feedstock prices.

NGL margins are defined as NGL revenues less any applicable Btu replacement cost, plant fuel, and third-party transportation and fractionation. Per-unit NGL margins are calculated based on sales of our own equity volumes at the processing plants. Our equity volumes include NGLs where we own the rights to the value from NGLs recovered at our plants under both "keep-whole" processing agreements, where we have the obligation to replace the lost heating value with natural gas, and "percent-of-liquids" agreements whereby we receive a portion of the extracted liquids with no obligation to replace the lost heating value.

The potential impact of commodity prices on our business for the remainder of 2018 is further discussed in the following Company Outlook.

Company Outlook

Our strategy is to provide large-scale energy infrastructure designed to maximize the opportunities created by the vast supply of natural gas and natural gas products that exists in the United States. We accomplish this by connecting the growing demand for cleaner fuels and feedstocks with our major positions in the premier natural gas and natural gas products supply basins. We continue to maintain a strong commitment to safety, environmental stewardship, operational excellence, and customer satisfaction. We believe that accomplishing these goals will position us to deliver safe and reliable service to our customers and an attractive return to our shareholders.

Our business plan for 2018 includes a continued focus on growing our fee-based businesses, executing growth projects and accomplishing cost discipline initiatives to ensure operations support our strategy. We anticipate operating results will increase through organic business growth driven primarily by Transco expansion projects and continued growth in the Northeast region. We intend to fund planned growth capital with retained cash flow, debt, and proceeds from asset sales. Further, we anticipate closing the WPZ Merger during the third quarter of 2018.

Our updated growth capital and investment expenditures in 2018 are expected to be at least \$3.9 billion.

Approximately \$1.8 billion of our growth capital funding needs include Transco expansions and other interstate pipeline growth projects, most of which are fully contracted with firm transportation agreements. The remaining growth capital

Management's Discussion and Analysis (Continued)

spending in 2018 primarily reflects investment in gathering and processing systems in the Northeast region limited primarily to known new producer volumes, including volumes that support Transco expansion projects including our Atlantic Sunrise project, and funding for growth investment opportunities as they arise. In addition to growth capital and investment expenditures, we also remain committed to projects that maintain our assets for safe and reliable operations, as well as projects that meet legal, regulatory, and/or contractual commitments.

As a result of our significant continued capital and investment expenditures on Transco expansions and fee-based gathering and processing projects, fee-based businesses are a significant component of our portfolio and serve to reduce the influence of commodity price fluctuations on our operating results and cash flows. We expect to benefit as continued growth in demand for low-cost natural gas is driven by increases in LNG exports, industrial demand and power generation. For 2018, current forward market prices indicate oil and NGL prices are expected to be higher compared to 2017, while natural gas prices are expected to be lower or comparable with 2017. We continue to address certain pricing risks through the utilization of commodity hedging strategies. However, some of our customers may continue to curtail or delay drilling plans until there is a more sustained recovery in prices, which may negatively impact our gathering and processing volumes. The credit profiles of certain of our producer customers could be challenged as a result of lower energy commodity prices. Unfavorable changes in energy commodity prices or the credit profile of our producer customers may also result in noncash impairments of our assets.

In 2018, our operating results are expected to include increases from our regulated Transco fee-based business, primarily related to projects recently placed in-service or expected to be placed in-service in 2018 including the Atlantic Sunrise project. For our non-regulated businesses, we anticipate increases in fee-based revenue in the Northeast region, partially offset by lower fee-based revenue in the West region. As previously discussed, under the new accounting guidance for revenue recognition, deferred revenue under certain contracts will be recognized over longer periods than under the prior guidance, contributing to the decrease in annual revenue for the West region. We expect overall gathering and processing volumes to grow in 2018 and increase thereafter to meet the growing demand for natural gas and natural gas products. We also anticipate slightly lower general and administrative expenses due to the full year impact of prior year cost reduction initiatives and lower equity earnings from our investment in Discovery due to production ending on certain wells.

In accordance with the timing prescribed by its previous rate case settlement, Transco is required to file a rate case no later than August 31, 2018. If the case is filed on August 31, 2018, Transco expects the FERC to suspend rate increases to be effective March 1, 2019, subject to refund and the outcome of a hearing, and accept rate decreases to be effective October 1, 2018, not subject to refund. The final rates will be subject to a settlement agreement with customers and the FERC or the outcome of a hearing.

As previously discussed, we recorded a \$66 million impairment of certain idle pipeline assets during the second quarter of 2018. (See Note 11 - Fair Value Measurements and Guarantees of Notes to Consolidated Financial Statements.) This impairment evaluation utilized a market approach incorporating information derived from bids received for these assets, which are currently being marketed for sale together with certain other assets. If this combined group of assets is sold in a future period at prices consistent with bids received through this marketing process, we would expect this impairment charge to be more than offset by an overall gain.

Potential risks and obstacles that could impact the execution of our plan include:

- Unexpected delays or the inability to consummate the WPZ Merger;

- Certain aspects of Tax Reform, including regulatory liabilities relating to reduced corporate federal income tax rates, could adversely impact the rates we can charge on our regulated pipelines (see Note 1 – General, Description of Business, and Basis of Presentation of Notes to Consolidated Financial Statements);

- Opposition to infrastructure projects, including the risk of delay or denial in permits and approvals needed for our projects;

- Unexpected significant increases in capital expenditures or delays in capital project execution;

Management's Discussion and Analysis (Continued)

Counterparty credit and performance risk, including that of Chesapeake Energy Corporation and its affiliates;

- Lower than anticipated demand for natural gas and natural gas products which could result in lower than expected volumes, energy commodity prices and margins;

General economic, financial markets, or further industry downturn, including increased interest rates;

Physical damages to facilities, including damage to offshore facilities by named windstorms;

Production issues impacting offshore gathering volumes;

Other risks set forth under Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended

December 31, 2017, as filed with the SEC on February 22, 2018 and in Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q.

We seek to maintain a strong financial position and liquidity, as well as manage a diversified portfolio of energy infrastructure assets which continue to serve key growth markets and supply basins in the United States.

Expansion Projects

Williams Partners' ongoing major expansion projects include the following:

Atlantic Sunrise

In February 2017, we received approval from the FERC to expand Transco's existing natural gas transmission system along with greenfield facilities to provide incremental firm transportation capacity from the northeastern Marcellus producing area to markets along Transco's mainline as far south as Station 85 in west central Alabama. We placed a portion of the mainline project facilities into service in September 2017 and it increased capacity by 400 Mdth/d. We placed additional mainline facilities into service in June 2018, which increased capacity by an additional 150 Mdth/d. We expect to place the full project into service in the second half of August 2018, assuming timely receipt of the remaining regulatory approvals. The expected in-service date is based upon current contractor schedules and may be affected by weather. The full project is expected to increase capacity by 1,700 Mdth/d.

Constitution Pipeline

We currently own 41 percent of Constitution with three other parties holding 25 percent, 24 percent, and 10 percent, respectively. We are the operator of Constitution. The 126-mile Constitution pipeline is proposed to connect our gathering system in Susquehanna County, Pennsylvania, to the Iroquois Gas Transmission and Tennessee Gas Pipeline systems in New York, as well as to a local distribution company serving New York and Pennsylvania.

In December 2014, Constitution received approval from the FERC to construct and operate its proposed pipeline, which will have an expected capacity of 650 Mdth/d. However, in April 2016, the New York State Department of Environmental Conservation (NYSDEC) denied the necessary water quality certification under Section 401 of the Clean Water Act for the New York portion of the pipeline. In May 2016, Constitution appealed the NYSDEC's denial of the Section 401 certification to the United States Court of Appeals for the Second Circuit and in August 2017, the court issued a decision denying in part and dismissing in part Constitution's appeal. The court expressly declined to rule on Constitution's argument that the delay in the NYSDEC's decision on Constitution's Section 401 application constitutes a waiver of the certification requirement. The court determined that it lacked jurisdiction to address that contention, and found that jurisdiction over the waiver issue lies exclusively with the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). As to the denial itself, the court determined that NYSDEC's action was not arbitrary or capricious. Constitution filed a petition for rehearing with the Second Circuit Court of Appeals, but in October 2017 the court denied our petition.

In October 2017, we filed a petition for declaratory order requesting the FERC to find that, by operation of law, the Section 401 certification requirement for the New York State portion of Constitution's pipeline project was waived due to the failure by the NYSDEC to act on Constitution's Section 401 application within a reasonable

Management's Discussion and Analysis (Continued)

period of time as required by the express terms of such statute. In January 2018, the FERC denied our petition, finding that Section 401 provides that a state waives certification only when it does not act on an application within one year from the date of the application. We filed a request for rehearing of the FERC's decision, but in July 2018 the FERC denied our request.

The project's sponsors remain committed to the project. Now that the FERC has issued an order on our request for rehearing, we are clear to seek review of the matter with the D.C. Circuit. We plan to file a petition for review with the D.C. Circuit. (See Note 3 – Variable Interest Entities of Notes to Consolidated Financial Statements.)

Gateway

In November 2017, we filed an application with the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from PennEast Pipeline Company's proposed interconnection with Transco's mainline south of Station 205 in New Jersey to other existing Transco meter stations within New Jersey. We plan to place the project into service in the first quarter of 2021, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 65 Mdth/d.

Gulf Connector

In November 2017, we received approval from the FERC allowing Transco to expand its existing natural gas transmission system to provide incremental firm transportation capacity from Station 65 in Louisiana to delivery points in Wharton and San Patricio Counties, Texas. The project will be constructed in two phases and we plan to place both phases into service during the first half of 2019, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 475 Mdth/d.

Hillabee

In February 2016, the FERC issued a certificate order for the initial phases of Transco's Hillabee Expansion Project. The project involves an expansion of Transco's existing natural gas transmission system from Station 85 in west central Alabama to a new interconnection with the Sabal Trail pipeline in Alabama. The project will be constructed in phases, and all of the project expansion capacity is dedicated to Sabal Trail pursuant to a capacity lease agreement. We placed a portion of Phase I into service in June of 2017 and the remainder of Phase I into service in July of 2017. Phase I increased capacity by 818 Mdth/d. The in-service date of Phase II is planned for the second quarter of 2020 and together they are expected to increase capacity by 1,025 Mdth/d.

In August 2017, the Court of Appeals for the District of Columbia Circuit granted an appeal of the FERC certificate order for the Southeast Market Pipelines projects (a group of related projects, including the Hillabee Expansion Project) filed by certain non-governmental organizations. In doing so, the court (i) remanded the matter to the FERC for preparation of an Environmental Impact Statement (EIS) that conforms with the court's opinion regarding quantifying certain greenhouse gas emissions, and (ii) vacated the FERC's certificate order for the projects, which would be effective following the court's mandate (by court order, the mandate will not issue until after disposition of all petitions for rehearing). In compliance with the court's directive, on February 5, 2018, the FERC issued a Final Supplemental EIS for the projects, reaffirming that while the projects would result in temporary and permanent impacts on the environment, those impacts would not be significant. On March 14, 2018, the FERC issued an order on remand reinstating the certificate and abandonment authorizations for the Hillabee Expansion Project and the other Southeast Market Pipelines projects. As this order was issued prior to the court's mandate (which was issued on March 30, 2018), we experienced no lapse in FERC authorization for the project.

Norphlet Project

In March 2016, we announced that we have reached an agreement to provide deepwater gas gathering services to the Appomattox development in the Gulf of Mexico. The project will provide offshore gas gathering services to our existing Transco lateral, which will provide transmission services onshore to our Mobile Bay processing facility. We also plan to make modifications to our Main Pass 261 Platform to install an alternate delivery route from the platform, as well as modifications to our Mobile Bay processing facility. The project is scheduled to go into service during the second half of 2019.

Management's Discussion and Analysis (Continued)

North Seattle Lateral Upgrade

In July 2018, we received approval from the FERC to expand delivery capabilities on Northwest Pipeline's North Seattle Lateral. The project consists of the removal and replacement of approximately 5.9 miles of 8-inch diameter pipeline with new 20-inch diameter pipeline. We plan to place the project into service as early as the fourth quarter of 2019. The project is expected to increase capacity by approximately 159 Mdth/d.

Northeast Supply Enhancement

In March 2017, we filed an application with the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from Station 195 in Pennsylvania to the Rockaway Delivery Lateral transfer point in New York. On April 20, 2018, the NYSDEC denied, without prejudice, Transco's application for certain permits required for the project. We have addressed the technical issues identified by NYSDEC and in May 2018, we refiled our application for the permits. We plan to place the project into service in the fourth quarter of 2020, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 400 Mdth/d.

Ohio River Supply Hub Expansion

We agreed to expand our services for certain customers to provide additional rich gas processing capacity in the Marcellus and Upper Devonian Shale in West Virginia and Pennsylvania. Associated with these agreements, we plan to further expand the processing capacity of our Oak Grove facility by 400 MMcf/d. With one of these customers, we secured a gathering dedication agreement to gather dry gas in this same region. Additionally, we will be constructing a new NGL pipeline from Moundsville to the Harrison Hub fractionation facility to provide a new outlet for NGLs. These expansions will be supported by long-term, fee-based agreements and volumetric commitments.

Rivervale South to Market

In August 2017, we filed an application with the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from the existing Rivervale interconnection with Tennessee Gas Pipeline on Transco's North New Jersey Extension to other existing Transco locations within New Jersey. We plan to place the project into service as early as the fourth quarter of 2019, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 190 Mdth/d.

Southeastern Trail

In April 2018, we filed an application with the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from the Pleasant Valley interconnect with Dominion's Cove Point Pipeline in Virginia to the Station 65 pooling point in Louisiana. We plan to place the project into service in late 2020, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 296 Mdth/d.

Susquehanna Supply Hub Expansion

We continue to expand the gathering systems in the Susquehanna Supply Hub that are needed to meet our customers' production plans by 2020. This next expansion of the gathering infrastructure includes an additional 40,000 horsepower of new compression and gathering pipelines to bring the capacity to approximately 4.5 Bcf/d.

Wamsutter Expansion

We plan to expand our gathering and processing infrastructure in the Wamsutter region of Wyoming in order to meet our customers' production plans. The expansion includes the addition of approximately 54 miles of gathering pipelines and compression, and modifications to existing treating and processing facilities. We plan to place the project into service during the first quarter of 2019.

Management's Discussion and Analysis (Continued)

Critical Accounting Estimates

Constitution Pipeline Capitalized Project Costs

As of June 30, 2018, Property, plant, and equipment in our Consolidated Balance Sheet includes approximately \$377 million of capitalized project costs for Constitution, for which we are the construction manager and own a 41 percent consolidated interest. As a result of the events discussed in Company Outlook, we evaluated the capitalized project costs for impairment as recently as December 31, 2017, and determined that no impairment was necessary. Our evaluation considered probability-weighted scenarios of undiscounted future net cash flows, including scenarios assuming construction of the pipeline, as well as a scenario where the project does not proceed. These scenarios included our most recent estimate of total construction costs. The probability-weighted scenarios also considered our assessment of the likelihood of success of the path to obtain necessary certification, as described in Company Outlook. It is reasonably possible that future unfavorable developments, such as a reduced likelihood of success, increased estimates of construction costs, or further significant delays, could result in a future impairment.

Equity-Method Investments

As of June 30, 2018, the carrying value of our equity-method investment in Discovery is \$520 million. During the fourth quarter of 2017, certain customers of Discovery terminated a significant offshore gas gathering agreement following the shut-in of production after the associated wells ceased flowing. As a result, we evaluated this investment for impairment in the fourth quarter of 2017 and determined that no impairment was necessary.

This evaluation included probability-weighted assumptions of additional commercial development, assigning higher probabilities to those commercial development opportunities that were more advanced in the discussion and contracting process, that utilized existing infrastructure due to producer capital constraints, and/or that we believe Discovery has a competitive advantage due to geographical proximity to the prospect. We continue to monitor this investment as it is reasonably possible that an impairment could be required in the future if commercial development activities are not as successful or as timely as assumed.

Regulatory Liabilities Resulting from Tax Reform

In December 2017, Tax Reform was enacted, which, among other things, reduced the corporate income tax rate from 35 percent to 21 percent. Rates charged to customers of our regulated natural gas pipelines are subject to the rate-making policies of the FERC, which have historically permitted the recovery of an income tax allowance that includes a deferred income tax component. As a result of the reduced income tax rate from Tax Reform and the collection of historical rates that reflected historical federal income tax rates, we expect that our regulated natural gas pipelines will be required to return amounts to certain customers through future rates and have accordingly established regulatory liabilities totaling \$657 million as of June 30, 2018. The timing and actual amount of such return will be subject to future negotiations regarding this matter and many other elements of cost-of-service rate proceedings, including other costs of providing service.

Management's Discussion and Analysis (Continued)

Results of Operations

Consolidated Overview

The following table and discussion is a summary of our consolidated results of operations for the three and six months ended June 30, 2018, compared to the three and six months ended June 30, 2017. The results of operations by segment are discussed in further detail following this consolidated overview discussion.

| | Three Months | | | | Six Months | | | |
|--|--------------|---------|------------|-----------|------------|---------|------------|-----------|
| | Ended | | \$ Change* | % Change* | Ended | | \$ Change* | % Change* |
| | 2018 | 2017 | | | 2018 | 2017 | | |
| | (Millions) | | | | (Millions) | | | |
| Revenues: | | | | | | | | |
| Service revenues | \$1,340 | \$1,282 | +58 | +5 % | \$2,691 | \$2,543 | +148 | +6 % |
| Service revenues – commodity consideration | 94 | — | +94 | NM | 195 | — | +195 | NM |
| Product sales | 657 | 642 | +15 | +2 % | 1,293 | 1,369 | -76 | -6 % |
| Total revenues | 2,091 | 1,924 | | | 4,179 | 3,912 | | |
| Costs and expenses: | | | | | | | | |