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CONNERS
& BERRY PLC

LAW OFFICES
414 UNION STREET, SUITE 1600
POST OFFICE BOX 198062
NASHVILLE, TENNESSEE 37219

REC'D TN REGULATORY AUTH.
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OFFICE OF THE EXECUTIVE SECRETARY

Michael B. Bressman
(615) 252-2399
Fax: (615) 252-6399
Email: mbressma@bccb.com

TELEPHONE (615) 244-2582
FACSIMILE (615) 252-2380
INTERNET WEB http://www.bccb.com/

July 16, 1999

David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Supplemental Information for Application of Williams Communications, Inc. d/b/a Vyvx, Inc., Docket No. 99-00398

Dear Mr. Waddell:

Pursuant to my discussions with TRA staff and the information contained in the recently-released "CLEC application pack," Williams Communications, Inc. d/b/a Vyvx, Inc. ("Williams") hereby provides an original and thirteen (13) copies of the following information to supplement its application, which was filed on June 3, 1999 ("Application"). This submission incorporates the information filed earlier with the TRA. Because certain portions of this submission contain confidential and proprietary information of Williams and its parent corporation, those portions are being filed separately under seal pursuant to TRA Rule 1220-1-1-.03(8). Williams requests that the information filed under seal not be disclosed to the public or to any of its competitors.

I. Managerial Requirements.

Applicants should provide data regarding the key managerial staff to include:

a. Degrees held-such as B.S. or Masters in accounting, engineering, management, etc.

b. Any professional licenses-such as Attorney, CPA, PE-Professional engineer, etc.

c. Experience in management, telecom industry experience, etc.

Response: See Application at p. 4 and Exhibits 4 and 5.

II. Technical Requirements.

a. Applicants should provide data regarding the key technical staff as in I, a, b, & c above.

Response: See Application at pp. 4-5 and Exhibits 6 and 7.

b. Applicant should provide information concerning the network it proposes to provision in Tennessee such as:

(1) Geographic area proposed-i.e. Nashville, Memphis, Knoxville, entire state, etc.

Response: Statewide.

(2) Location of switches-i.e. cities.

Response: See Application at pp. 4-6. Williams currently plans to locate switches in Nashville and Chattanooga and may add additional switches in Knoxville and Memphis.

(3) How its network will be deployed.

Response: See Application at pp. 4-7. Williams plans to construct its fiber-optic facilities along existing right-of-way corridors in Tennessee. The POPs planned in Tennessee will provide convenient access to the fiber-optic network for Williams' customers. POPs not initially connected directly to Williams' fiber-optic network would be interconnected with off-net capacity or facilities leased from other telecommunications carriers. Williams' network will primarily rely upon an Asynchronous Transfer Mode ("ATM") over SONET transmission structure, and a network control center in Tulsa, Oklahoma will monitor the network 24 hours per day, seven days per week.

(4) Type of equipment proposed-i.e. DMS-100 or 5ESS, etc. Fiber rings, etc.

Response: See Application at pp. 4-6. To support long distance voice, video, Internet, and data transmission services, Williams plans to install a variety of equipment in its POPs throughout the nation, including, without limitation, Nortel DMS-250 voice switches, Ascend GX-500, CBX-500, and GX-250 ATM switching equipment, frame relay switching equipment, Lightera Sonet Switches, and Tekelec Eagles for signaling system 7 network (SS7) functionality at signal transfer points. For its POPs in Tennessee, Williams plans to deploy Ascend ATM switches. In Nashville, Williams additionally plans to install Lightera Sonet switching equipment.

c. Address whether a telecom engineering firm is on retainer, if no electrical engineers are on staff.

Response: Not applicable.

d. Address whether Tennessee customers will be required to purchase CPE which could not be used with ILEC systems, should the customer decide to go back to the ILEC, for whatever reason.

Response: As noted in its Application (pp. 4-6), Williams initially plans to offer interexchange services to other telecommunications carriers, Internet service providers, and other sophisticated entities that demand large amounts of bandwidth. Depending on the service ordered, customers may need to obtain specialized equipment. Williams believes that this equipment will be compatible with the facilities of ILECs and ILEC facilities will often be necessary to reach Williams' POPs.

III. Financial Requirements.

a. Address cost of proposed network, switches, or unbundled network elements (UNEs), etc.

Response: A construction budget for the planned fiber-optic construction project is attached as Exhibit 10. This budget includes costs associated with fiber-optic construction, such as regeneration and optical amplifier site costs. Attached as Exhibit 11 is a budget for equipment purchases. Williams does not have plans to purchase unbundled network elements at this time. Williams is filing Exhibits 10 and 11 under seal as confidential information pursuant to TRA Rule 1220-1-1-.03(8).

b. Applicant should file the most current audited financial statements including an income statement, balance sheet, and statement of cash flows for the most recent fiscal or calendar year.

Response: See attached corrected Exhibit 3, which contains the current financial statements for Williams Communications Group, Inc., Williams' parent company. (In its Application, Williams erroneously provided the financial statements of its ultimate parent, The Williams Companies, rather than its direct parent, Williams Communications Group, Inc. The Exhibit 3 attached hereto replaces the Exhibit 3 attached to the Application.).

c. Applicant should provide projected financial statements, including income statement, balance sheet, and cash flow statements for the next three (3) years.

Response: Estimated financial statements for Williams for the years 1999, 2000, and 2001 are attached as Exhibit 12. Williams is filing Exhibit 12 under seal as confidential information pursuant to TRA Rule 1220-1-1.03(8). The Williams Communications Group, Inc. financial statements (corrected Exhibit 3) and the estimated financial statements for Williams for the years 1999, 2000, and 2001 (Exhibit 12) are based on accounting policies described in the notes accompanying the Williams Communications Group, Inc. financial statements.

d. Applicant should provide details of the funding for its proposed network, equipment purchases, or payment for UNEs such as:

(1) Internally generated funds (cash, marketable securities).
(2) Letters of credit.
(3) Loan commitments.
(4) Vendor credit.

Response: See Application at p. 3 and attached Exhibit 3.

e. Applicant should file a three (3) year capital budget outlining what specific equipment will be deployed, where it will be deployed, and its cost. This should be for Tennessee operations, as well as for the parent company (or whoever is responsible for financing the Tennessee operation). Also, provide the sources of capital.

Response: See response to question III(a).

f. Indicate whether the financial statements reflect any amounts related to reciprocal compensation for terminating ISP traffic. If so, quantify.

Response: Williams' financial statements do not reflect any amounts related to reciprocal compensation for terminating dial-up ISP traffic.

IV. Small and Minority-Owned Telecommunications Business Participation Plan.

a. T.C.A. §65-5-212 provides that the applicant shall file such plan with the Authority with their application for a certificate. Such plan shall contain such entity's plan for purchasing goods and services from Small and Minority telecommunications business and information on programs, if any, to provide technical assistance to such businesses.

b. The typical Plan contains a policy statement, definitions from the statute, how the applicant will or has implemented the Plan, and what measures it will employ to contact such businesses to advise them of opportunities to bid on services or goods needed by the applicant, and any programs it has to provide technical assistance.

c. The Plan should also set forth how it will be administered, the administrator's name, title, address and duties.

<u>Response</u>: <u>See</u> Application at p. 8 and Exhibit 7.

V. TRA Rules for Local Telecommunications Providers.

a. All applicants for certificates to provide local telecommunications services shall abide by all statutes and rules applicable to them including the attached list for rule 1220-4-8-.04.
The company's application should address each subpart of this rule.

<u>Response</u>: <u>See</u> Application at pp. 6-7.

b. Applicant should provide a statement that notice of its application has been served on incumbent local exchange telephone companies and other interested parties (e.g. other competing local exchange carriers and telephone cooperatives). The TRA needs a written certificate of service from the applicant.

<u>Response</u>: <u>See</u> Certificate of Service attached to Application and attached Exhibit 13.

VI. Toll Dialing Parity Plan for Applicants Providing Voice Grade Service.

If the applicant does not intend to provide voice grade service, this does not apply. However, if the applicant chooses at some point in the future to provide voice grade service, they must file an appropriate toll dialing parity plan for TRA consideration at least 60 days prior to offering voice grade service. If applicant offers Voice Grade Service, then a Toll Dialing Parity plan shall be filed with the application.

<u>Response</u>: Williams does not initially plan to offer voice-grade local exchange services, although it may offer such services in the future. If Williams offers voice-grade local exchange service in the future, it will file a toll dialing parity plan sixty (60) days before commencing service.

VII. Miscellaneous.

a. Notarized pre-filed testimony is needed for CLEC applications. The testimony should affirm that all information submitted is true and correct.

Response: See attached Exhibit 14.

b. State the procedures the applicant has taken to insure Y2K compliance, or the status of the applicant's Y2K plan.

Response: See Application at p. 8 and Exhibit 8.

c. Applicant should file their tariff subsequent to the application's approval (tariffs filed with the application are informational only, not official filings).

d. Applicant shall file the status of applications in all other states.

Response: As of July 13, 1999, Williams was authorized to offer telecommunications services in 46 states. An affiliate of Williams, Williams Communications of Virginia, Inc., is authorized to offer telecommunications service in Virginia. Thus, Williams and its affiliate are currently authorized to offer telecommunications services in 47 states. Williams has initial applications or applications for additional authority pending in Colorado, Utah, New Mexico, Alaska, and Hawaii.

e. Has the applicant been involved in any pertinent mergers, acquisitions, etc.? Provide a chart showing the applicant's corporate structure.

Response: See Application at pp. 2-3. A diagram of Williams' corporate structure is attached as Exhibit 15. Neither Williams nor Williams Communications Group, Inc. has recently been involved in any material mergers or acquisitions.

f. The Wireline Activity Report should be submitted to the TRA on a monthly basis for applicants providing voice grade service.

g. Does the applicant require customer deposits? If so, what is the amount required? Is the applicant bonded for the amount of the deposits?

Response: Williams' carrier customers may be required to supply a deposit. Applicant is not currently bonded for the amount of such deposits.

h. Will Tennessee customers be required to incur any non-recurring charges to initiate service with the applicant? If so, list these changes.

Response: Tennessee customers will not be required to incur any non-recurring charges to initiate service for the services Williams initially plans to offer. If Williams seeks to implement non-recurring charges in the future, it will comply with all applicable Tennessee laws and TRA rules and orders with respect to such requirements.

i. Provide the name, address, and telephone number of a responsible regulatory officer for the TRA to contact regarding the applicant's Tennessee operations and filing requirements subsequent to their application's approval.

Response:
Mickey S. Moon
Director of Regulatory Affairs
Williams Communications, Inc.
2800 One Williams Center, MD 28-6
Tulsa, Oklahoma 74172
Tel: (918) 573-8771
Fax: (918) 573-0669
E-mail: mickey.moon@wilcom.com

If you have any questions concerning this information or information in the Application, please call me.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:
Michael B. Bressman

Attachments

cc: Scott Trout

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Williams Communications Group, Inc.

We have audited the accompanying consolidated balance sheets of Williams Communications Group, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of ATL — Algar Telecom Leste S.A. (an entity in which the Company has a 30% interest at December 31, 1998) have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to data included for ATL — Algar Telecom Leste S.A., it is based solely on their report. In the consolidated statement of operations for the year ended December 31, 1998, the Company's equity in the net loss of ATL — Algar Telecom Leste S.A. is $4,228,000.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Williams Communications Group, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Tulsa, Oklahoma
April 7, 1999,
except for the matters described in the third paragraph of Note 10 and Note 17, as to which the date is July 7, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Management and Shareholders of
ATL — Algar Telecom Leste S.A.:

We have audited the balance sheet of ATL — ALGAR TELECOM LESTE S.A. (a Brazilian corporation in the pre-operating stage) as of December 31, 1998, and the related statements of income, changes in shareholders' investment and cash flows for the period from inception (March 26, 1998) to December 31, 1998 (not presented separately herein), all expressed in US dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATL — ALGAR TELECOM LESTE S.A. (a pre-operating Company) as of December 31, 1998, and the results of its operations and its cash flows for the period from inception (March 26, 1998) to December 31, 1998, in conformity with generally accepted accounting principles in the United States of America.

ARTHUR ANDERSEN S/C

Belo Horizonte, Brazil, January 29, 1999.
(except with respect to the matter discussed in Note 8, as to which the date is February 5, 1999)

WILLIAMS COMMUNICATIONS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, (Unaudited)		Year Ended December 31,		
	1999	1998	1998	1997	1996
	(Dollars in thousands, except per-share amounts)				
Revenues (Note 3)	$ 502,161	$ 387,772	$ 1,733,469	$ 1,428,513	$ 705,187
Operating expenses:					
Cost of sales	389,747	288,553	1,294,583	1,043,932	517,222
Selling, general and administrative	122,919	103,673	487,073	323,513	152,484
Provision for doubtful accounts	8,437	1,483	21,591	7,837	2,694
Depreciation and amortization	27,578	18,995	84,381	70,663	32,378
Other (Note 4)	300	(342)	34,245	45,269	500
Total operating expenses	548,981	412,362	1,921,873	1,491,214	705,278
Loss from operations (Note 3)	(46,820)	(24,590)	(188,404)	(62,701)	(91)
Interest accrued	(10,536)	(1,739)	(18,650)	(8,714)	(17,367)
Interest capitalized	4,135	1,739	11,182	7,781	—
Equity losses (Note 3)	(10,159)	(1,479)	(7,908)	(2,383)	(1,601)
Investing income	1,025	369	1,931	670	296
Minority interest in (income) loss of subsidiaries	5,836	(1,460)	15,645	(13,506)	—
Gain on sale of interest in subsidiary (Note 2)	—	—	—	44,540	—
Gain on sale of assets (Note 4)	—	—	—	—	15,725
Other income (loss), net	(174)	(104)	178	508	(108)
Loss before income taxes	(56,693)	(27,264)	(186,026)	(33,805)	(3,146)
(Provision) benefit for income taxes (Note 5)	(17,448)	766	5,097	(2,038)	(368)
Net loss	$ (74,141)	$ (26,498)	$ (180,929)	$ (35,843)	$ (3,514)
Basic loss per share:					
Net loss	$ (74,141)	$ (26,498)	$ (180,929)	$ (35,843)	$ (3,514)
Weighted average shares outstanding	1,000	1,000	1,000	1,000	1,000
Pro-forma loss per share (unaudited):					
Net loss	$ (.16)	$ (.06)	$ (.40)	$ (.08)	$ (.01)
Weighted average shares outstanding	450,000,000	450,000,000	450,000,000	450,000,000	450,000,000

See accompanying notes.

WILLIAMS COMMUNICATIONS GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	As of March 31, 1999 (Unaudited)	As of December 31, 1998	As of December 31, 1997
		(In thousands)	
Assets			
Current assets:			
Cash and cash equivalents	$ 96,847	$ 42,004	$ 11,290
Receivables less allowance of $33,241,000 (unaudited) ($23,576,000 in 1998 and $12,787,000 in 1997)	512,985	491,871	291,100
Due from affiliates (Note 14)	—	3,881	—
Costs and estimated earnings in excess of billings	176,728	185,922	144,575
Inventories	73,609	67,699	63,484
Dark fiber held for sale	41,079	46,175	—
Deferred income taxes (Note 5)	40,132	23,829	20,090
Other	18,119	26,198	29,640
Total current assets	959,499	887,579	560,179
Investments (Note 7)	639,066	265,217	28,170
Property, plant and equipment — net (Note 8)	781,324	695,725	407,652
Goodwill and other intangibles, net of accumulated amortization of $90,668,000 (unaudited) ($81,882,000 in 1998 and $55,136,000 in 1997)	419,871	430,557	403,319
Due from affiliate (Note 14)	—	—	97,097
Other assets and deferred charges	73,161	58,468	9,617
Total assets	$2,872,921	$2,337,546	$1,506,034
Liabilities and stockholder's equity			
Current liabilities:			
Accounts payable (Note 9)	$ 140,723	$ 269,736	$ 59,402
Due to affiliates (Note 14)	64,150	38,510	123,584
Accrued liabilities (Note 9)	207,507	198,676	176,979
Billings in excess of costs and estimated earnings	45,050	49,434	48,054
Long-term debt due within one year (Note 10)	622	690	1,195
Total current liabilities	458,052	557,046	409,214
Long-term debt:			
Affiliates (Note 14)	825,044	620,710	—
Other (Note 10)	318,390	3,020	125,746
Deferred income taxes (Note 5)	108,176	29,417	20,090
Other liabilities	11,995	10,595	5,126
Minority interest in subsidiaries	117,190	110,076	83,156
Stockholder's equity:			
Common stock, $1 per share par value, 1,000 shares issued and authorized	1	1	1
Capital in excess of par value	1,356,891	1,299,871	1,000,348
Accumulated deficit	(392,091)	(317,896)	(134,168)
Accumulated other comprehensive income (loss) (Note 11)	69,273	24,706	(3,479)
Total stockholder's equity	1,034,074	1,006,682	862,702
Total liabilities and stockholder's equity	$2,872,921	$2,337,546	$1,506,034

See accompanying notes.

WILLIAMS COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)		
Balance, December 31, 1995	$1	$ 179,712	$ (85,492)	$ —	$ 94,221
Net loss	—	—	(3,514)	—	(3,514)
Capital contributions from parent	—	439,000	—	—	439,000
Dividends to parent	—	—	(2,760)	—	(2,760)
Other	—	306	—	—	306
Balance, December 31, 1996	1	619,018	(91,766)	—	527,253
Net loss	—	—	(35,843)	—	(35,843)
Other comprehensive loss (Note 11):					
Unrealized depreciation on marketable equity securities	—	—	—	(2,348)	(2,348)
Foreign currency translation adjustments	—	—	—	(1,131)	(1,131)
Comprehensive loss					(39,322)
Capital contributions from parent	—	366,130	—	—	366,130
Acquisition of subsidiary with parent stock	—	15,200	—	—	15,200
Dividends to parent	—	—	(6,559)	—	(6,559)
Balance, December 31, 1997	1	1,000,348	(134,168)	(3,479)	862,702
Net loss	—	—	(180,929)	—	(180,929)
Other comprehensive income (loss) (Note 11):					
Unrealized appreciation on marketable equity securities	—	—	—	29,977	29,977
Foreign currency translation adjustments	—	—	—	(1,792)	(1,792)
Comprehensive loss					(152,744)
Capital contributions from parent	—	299,493	—	—	299,493
Noncash dividends to parent	—	—	(2,799)	—	(2,799)
Other	—	30	—	—	30
Balance, December 31, 1998	1	1,299,871	(317,896)	24,706	1,006,682
Net loss*	—	—	(74,141)	—	(74,141)
Other comprehensive income (loss) (Note 11):					
Unrealized appreciation on marketable equity securities*	—	—	—	67,761	67,761
Foreign currency translation adjustments*	—	—	—	(23,194)	(23,194)
Comprehensive loss*					(29,574)
Capital contributions from parent*	—	57,020	—	—	57,020
Other*	—	—	(54)	—	(54)
Balance, March 31, 1999*	$1	$1,356,891	$(392,091)	$ 69,273	$1,034,074

* Amounts for the three months ended March 31, 1999 are unaudited.

See accompanying notes.

WILLIAMS COMMUNICATIONS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, (Unaudited)		Year Ended December 31,		
	1999	1998	1998	1997	1996
			(In thousands)		
Operating activities					
Net loss	$ (74,141)	$ (26,498)	$(180,929)	$ (35,843)	$ (3,514)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Change in accounting principle	301	—	—	—	—
Depreciation	19,146	12,251	56,224	47,066	22,453
Amortization of goodwill and other intangibles	8,432	6,744	28,157	23,597	9,925
Provision (benefit) for deferred income taxes	16,486	(1,151)	(7,781)	(1,777)	(1,600)
Provision for loss on property	—	—	—	44,043	—
Provision for loss on investment	—	—	23,150	2,500	—
Provision for doubtful accounts	8,437	1,483	21,591	7,837	2,694
Equity losses	10,159	1,479	7,908	2,383	1,601
Gain on disposition of interest in subsidiary	—	—	—	(44,540)	—
Gain on sale of assets	—	—	—	—	(15,725)
Minority interest in income (loss) of subsidiaries	(5,836)	1,460	(15,645)	13,506	—
Cash provided (used) by changes in:					
Receivables sold	(33,767)	—	8,103	25,664	—
Receivables	3,589	(18,316)	(213,148)	(34,127)	(15,420)
Costs and estimated earnings in excess of billings	9,194	1,048	(41,298)	(66,454)	(8,753)
Inventories	(5,910)	2,783	(2,347)	(6,613)	(1,896)
Dark fiber held for sale	5,096	—	(46,175)	—	—
Other current assets	7,897	(8,328)	(10,640)	(1,790)	(17,484)
Accounts payable	(79,844)	44,762	108,770	(24,349)	13,851
Accrued liabilities	5,831	(1,763)	18,226	42,480	11,715
Billings in excess of costs and estimated earnings	(4,384)	(14,675)	1,380	38,239	5,214
Due to/from affiliates	29,521	(103,245)	(89,870)	127,378	7,320
Other	(10,432)	(7,911)	(29,509)	(11,342)	(12,156)
Net cash provided by (used in) operating activities	(90,225)	(109,877)	(363,833)	147,858	(1,775)
Financing activities					
Proceeds from long-term debt	315,477	—	—	150,890	126
Payments on long-term debt	(175)	(125,653)	(126,677)	(187,534)	(1,353)
Capital contributions from parent	57,020	224,717	299,493	366,130	439,000
Contribution to subsidiary from minority interest shareholders	11,000	—	—	—	—
Changes due to/from affiliates	204,334	123,627	717,807	(96,974)	(209,004)
Dividends to parent	—	—	—	(6,559)	(2,760)
Net cash provided by financing activities	587,656	222,691	890,623	225,953	226,009
Investing activities					
Property, plant and equipment:					
Capital expenditures	(151,238)	(110,117)	(299,481)	(276,249)	(66,900)
Proceeds from sales	—	506	1,512	15,292	23,010
Purchase of investments	(291,350)	(11,800)	(226,489)	(25,345)	(15,415)
Acquisition of businesses, net of cash acquired	—	—	9,067	(81,192)	(164,881)
Proceeds from sale of business	—	—	10,000	—	—
Other	—	8,920	9,315	4,000	—
Net cash used in investing activities	(442,588)	(112,491)	(496,076)	(363,494)	(224,186)
Increase in cash and cash equivalents	54,843	323	30,714	10,317	48
Cash and cash equivalents at beginning of year	42,004	11,290	11,290	973	925
Cash and cash equivalents at end of year	$ 96,847	$ 11,613	$ 42,004	$ 11,290	$ 973

See accompanying notes.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998, 1997 and 1996 (Information as of March 31, 1999 and for the three months ended March 31, 1999 and 1998 is unaudited.)

1. Nature of the Business — History and Formation of the Company — Basis of Presentation — Summary of Significant Accounting Policies

Nature of the Business

Williams Communications Group, Inc. ("WCG" as described below) owns, operates and is extending a nationwide fiber optic network focused on providing voice, data, Internet and video services to communications service providers. WCG also sells, installs and maintains equipment and network services that address the comprehensive voice and data needs of organizations of all sizes. WCG's primary business units are Williams network ("Network") and Williams Communications Solutions ("Solutions"). WCG also owns and operates businesses that create demand for capacity on the Williams network, create demand for our solutions unit services or develop expertise in advanced transmission applications. In addition, WCG has a number of investments in domestic and foreign businesses that drive bandwidth usage on the Williams network, increase service capabilities, strengthen customer relationships or extend WCG's reach. These businesses and investments are referred to as "Strategic Investments."

History and Formation of the Company

WCG is owned by The Williams Companies, Inc. ("Williams"). In 1985, Williams entered the communications business by pioneering the placement of fiber optic cables in decommissioned pipelines. By 1989, through a combination of construction projects and acquisitions, Williams had completed the fourth nationwide digital fiber optic network. The network consisted of approximately 9,700 route miles. By 1994, Williams, through its WilTel subsidiary, was one of the top providers of broadband data services and long distance voice services as well as the first provider to offer nationwide frame relay transmission capacity.

In January 1995, Williams completed the sale of the WilTel network business to LDDS Communications, Inc. (now MCI WorldCom, Inc.) for approximately $2.5 billion. The sale included the nationwide fiber optic network and the associated consumer, business and carrier customers. Williams excluded from the sale an approximate 9,700 route mile single fiber strand on the nationwide network (the "Retained WilTel Network"), WilTel's communications equipment distribution business, and Vyvx, Inc. ("Vyvx"), a leading provider of integrated fiber optic, satellite and teleport video transmission services. The Retained WilTel Network, along with Vyvx, our solutions unit and a number of acquired companies formed the initial basis for what is today WCG. See Note 2 for a description of acquisitions in 1996 through 1998.

Under agreements with MCI WorldCom, Inc., the Retained WilTel Network can only be used to transmit video and multimedia services, including Internet services, until July 1, 2001. After July 1, 2001, the Retained WilTel Network can be used for any purpose, including voice and data tariffed services. In addition, as part of the sale to MCI WorldCom, Inc., Williams agreed not to reenter the communications network business until January 1998.

In October 1997, management and ownership of the Retained WilTel Network was transferred from Strategic Investments to Network and intercompany transfer pricing was established prospectively. In addition, consulting, outsourcing and the management of Williams' internal telephone operations, activities previously performed within Strategic Investments, were transferred to Network. For comparative purposes, the 1996 and 1997 consulting, outsourcing and internal telephone management activities previously performed in Strategic Investments that were transferred to Network have been reflected in Network's segment results. See Note 3 for segment disclosures.

In January 1998, Williams reentered the communications network business, announcing its plans to develop a fiber optic network consisting of 32,000 route miles.

In November 1998, Williams announced its intention to sell a minority interest in WCG through an initial public offering. Prior to the initial public offering, Williams contributed certain international communications investments held in Williams International Company to WCG for inclusion in the initial public offering (see Note 17).

Basis of Presentation

The accompanying consolidated financial statements have been retroactively restated to reflect the historical consolidated financial position as of March 31, 1999 (unaudited) and December 31, 1998 and 1997 and the consolidated results of operations and cash flows for the three months ended March 31, 1999 and 1998 (unaudited) and each of the three years in the period ended December 31, 1998 as if the contribution of the international investments held in Williams International Company to WCG described above had occurred and operated as a stand alone business throughout the periods presented. The March 31, 1999 and 1998 financial statements have not been audited by independent auditors, but include all normal recurring adjustments which, in the opinion of WCG's management, are necessary to present fairly its financial position as of March 31, 1999 and results of operations and cash flows for the three months ended March 31, 1999 and 1998. Williams Communications Group, Inc. and Williams International Company are both wholly owned subsidiaries of Williams Holdings of Delaware, Inc. ("Holdings"), which is a wholly owned subsidiary of Williams. When the consolidated financial statements refer to WCG, references include both Williams Communications Group, Inc. together with its subsidiaries and the international assets contributed to the company from Williams. In addition, when the consolidated financial statements refer to Williams, Holdings or parent, the reference includes Williams, either alone or together with its consolidated subsidiaries as the context requires, except for WCG.

The consolidated financial statements include the accounts of WCG and its majority owned subsidiaries and a subsidiary that WCG controls but owns less than 50% of the voting common stock. Companies in which WCG owns 20% to 50% of the voting common stock, or otherwise has the ability to exercise significant influence over the operating and financial policies of the company, are accounted for under the equity method of accounting.

The specific international investments referred to above include the interests in ATL-Algar Telecom Leste S.A. ("ATL") located in Brazil, accounted for under the equity method (see Note 7), and a 36% interest at March 31, 1999 (22% at December 31, 1998) in PowerTel Limited ("PowerTel") located in Australia, accounted for under the principles of consolidation inasmuch as WCG has control over the operations despite its less than 50% ownership.

WCG is organized into three operating segments as follows: (1) Network, which includes fiber optic construction, transmission and management services, (2) Solutions, which includes distribution and integration of communications equipment for voice and data networks, and (3) Strategic Investments, which includes Vyvx services (video, advertising distribution and other multimedia transmission services via terrestrial and satellite links for the broadcast industry), closed circuit video broadcasting services for businesses and audio and video conferencing services, investments in domestic communications companies and investments in foreign communications companies located in Australia, Brazil and Chile.

WCG's operations do not currently provide positive cash flow. Accordingly, Williams has historically funded WCG's capital expenditures and acquisitions through a combination of advances and capital contributions. Williams will continue to provide cash to WCG or assist in the attainment of bridge financing up to the effective date of the public offering. Subsequent to that date, WCG intends to finance future cash outlays through internally generated and external funds without relying on cash advances or contributions from Williams.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Transmission and management services revenues are recognized monthly as the services are provided. Amounts billed in advance of the service month are recorded as deferred revenue.

Sales of constructed but unlit fiber, or dark fiber, are recognized at the time of acceptance of the fiber by the customer.

New systems sales and upgrades revenues are recognized under the percentage of completion method. The equipment portion of new systems sales and upgrades revenues, when separately stated in the sales contract, is recognized when the equipment is received by, and title passes to, the customer. The services portion of new systems sales and upgrades revenues, and equipment when not separately stated in the sales contract, is recognized based on the relationship of the accumulated service costs incurred to the estimated total service costs upon completion. Estimated losses on all contracts in progress are accrued when the loss becomes known. Costs incurred and estimated earnings on contracts in excess of billings are recorded and reflected as current assets in the balance sheet. The billings associated with these contracts occur incrementally over the term of the contract or upon completion of the contract, as provided in the applicable contract. Billings to customers in excess of costs incurred and estimated earnings are recorded and reflected as current liabilities.

Customer service order revenues are recognized under the completed contract method. Customer service orders represent moves, adds or changes to existing customer systems.

Revenues on contracts for maintenance of installed systems are deferred and amortized on a straight-line basis over the lives of the related contracts.

Cash and Cash Equivalents

Cash and cash equivalents include demand and time deposits, certificates of deposit and other marketable securities with maturities of three months or less when acquired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventories

Inventories consist primarily of purchased new and refurbished data, voice and video equipment, and are stated at the lower of average cost or market.

Dark Fiber Held For Sale

Dark fiber held for sale represents fibers constructed by WCG on the network for sale to third parties. Dark fiber held for sale is in excess of fiber to be retained, lit and utilized by WCG for the provisioning of services to its customers. The carrying amount of dark fiber held for sale reflects an allocation of the total costs of cable, cable installation and rights-of-way based on fiber-miles of each network segment. Dark fiber held for sale included in current assets represents amounts to be sold within one year. Amounts expected to be sold beyond one year of $24,822,000 and $18,948,000 as of March 31, 1999 (unaudited) and December 31, 1998, respectively, are included in other assets and deferred charges.

Property, Plant and Equipment

Property and equipment is recorded at cost. Depreciation is computed primarily on the straight-line method over estimated useful lives.

Goodwill and Other Intangibles

Goodwill is amortized on a straight-line basis over the estimated period of benefit ranging from ten to twenty-five years. Other intangibles are amortized on a straight-line basis over the estimated period of benefit ranging from five to twenty years.

Impairment of Long-Lived Assets

WCG evaluates its long-lived assets, including related intangibles, of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value for the assets and recording a provision for loss if the carrying value is greater than fair value.

For assets identified to be disposed of in the future, the carrying value of these assets is compared to the estimated fair value less the cost to sell to determine if an impairment is required. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

Income Taxes

WCG's operations are included in the Williams' consolidated federal income tax return. A tax sharing agreement exists between WCG and Williams to allocate and settle among themselves the consolidated federal income tax liability (see Note 5). Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and tax basis of WCG's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to an amount that will more likely than not be realized.

Earnings Per Share

Basic earnings per share are based on the 1,000 shares outstanding for all periods presented. Diluted earnings per share are not presented as there are no dilutive securities related to the WCG stock for the periods presented. The pro-forma earnings per share was based on an assumed average shares outstanding of 450,000,000. Stock options and awards have not been considered in calculating the pro-forma net loss per share as their effect would be anti-dilutive.

Foreign Currency Translation

The functional currency of WCG is the U.S. dollar. The functional currency of WCG's foreign operations is the applicable local currency for each foreign subsidiary and equity method investee, including the Australian dollar, Brazilian real and Canadian dollar. Assets and liabilities of foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations and WCG's share of the results of operations of its equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting cumulative translation adjustment is recorded as a separate component of other comprehensive income.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transactions gains and losses which are reflected in the statement of operations.

Recent Accounting Standards

WCG adopted the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," on January 1, 1999. The SOP requires that all start-up costs be expensed as incurred and the expense related to the initial application of this SOP was immaterial.

Reclassifications

Certain prior year amounts have been reclassified to conform with the 1999 presentation. Effective January 1, 1999, the segments previously known as Applications and Strategic Investments were combined as they are now collectively managed and reported under the name of Strategic Investments.

2. Acquisitions

Nortel

On April 30, 1997, WCG purchased Northern Telecom Limited's ("Nortel") North American customer-premise equipment distribution business which was then combined with WCG's equipment distribution business to create Williams Communications Solutions, LLC. ("Solutions LLC"). WCG owns 70% of Solutions LLC and Nortel owns the remaining 30%. WCG paid approximately $68 million to Nortel. WCG has accounted for its 70% interest in the operations as a purchase business combination, and beginning May 1, 1997, has included the results of operations of the acquired company in WCG's consolidated statement of operations. Accordingly, the acquired assets and liabilities, including $168 million in accounts receivable, $68 million in accounts payable and accrued liabilities and $161 million in debt obligations, were recorded based on an allocation of the purchase price, with the cost in excess of historical

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

carrying values, which approximated fair value, allocated to identifiable intangible assets and goodwill.

WCG recorded the 30% ownership reduction in its operations contributed to Solutions LLC as a sale to Nortel. WCG recognized a gain of $44.5 million based on the excess of the fair value over the net book value (approximately $71 million) of its operations conveyed to Nortel's minority interest. Income taxes were not provided on the gain, because the transaction did not affect the difference between the financial and tax bases of identifiable assets and liabilities.

Other

During the three years ended December 31, 1998, WCG acquired 11 companies in addition to the business combination involving Nortel. Each acquisition was accounted for as a purchase business combination. The acquired assets and liabilities have been recorded based on an allocation of the purchase price, including identifiable intangibles with any remaining cost in excess of fair value allocated to goodwill. WCG has included the results of operations of the acquired entities in WCG's consolidated results of operations generally from the date of acquisition. A summary of the acquisitions by segment is as follows:

Network

On March 7, 1997, WCG acquired Critical Technologies, Inc., a company which designs and manages outsourced communications networks, by utilizing a $15,200,000 contribution of Williams common stock.

Solutions

In January 1996, WCG acquired Comlink, Inc., a voice and network systems integration company, for approximately $13 million in cash.

On August 30, 1996, WCG acquired SoftIRON Systems, Inc., a network systems integration company, for approximately $9 million in cash.

On October 13, 1998, WCG acquired Computer Networking Group, Inc., a Canadian company which provides customers with comprehensive multimedia network consulting and remote network management services, for approximately $13 million to be paid over four years. Approximately $11 million of the acquisition price was recorded at the acquisition date as the remaining $2 million is contingent upon certain performance measures. Approximately $3 million of the acquisition price was paid at the acquisition date with the remaining $7,700,000 payable on the October 13 anniversary date as follows: 1999 — $1,323,000, 2000 — $1,667,000, 2001 — $2,296,000 and 2002 — $2,404,000.

Strategic Investments

On May 1, 1996, WCG acquired Global Access Telecommunications Services, Inc., a reseller of worldwide satellite video transmission services, for approximately $22 million in cash.

On August 1, 1996, WCG acquired ITC Media Conferencing, a provider of audio and video conferencing services, for approximately $48 million in cash.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On November 19, 1996, WCG acquired Cycle-Sat, Inc., a distributor of television and radio commercials using satellite, fiber-optic and digital technologies, for approximately $57 million in cash.

On December 31, 1996, WCG acquired Viacom MGS, an advertising distribution services company, for approximately $15 million in cash.

On March 3, 1997, WCG acquired Satellite Management International, Inc., a full service provider of closed-circuit video broadcasting services for businesses, for approximately $6 million in cash.

On August 14, 1998, Williams International Company acquired 22% (based on 25% of the common shares and no preferred shares) of PowerTel, a publicly owned telecommunications company in Australia, for approximately $25 million in cash and subscribed to purchase additional common and preferred shares for approximately $67 million to increase its combined ownership to approximately 45% by February 2000. WCG also received 44,680,851 options to purchase additional common shares of PowerTel at 0.47 Australian dollars per share. The options, which expire in 2003, are not publicly traded and do not have a readily determinable fair value. On February 9, 1999, in accordance with the subscription agreement, additional preferred and common shares were purchased at a total cost of $31,845,000, increasing WCG's ownership to 35% of the common shares. WCG consolidates its interest in PowerTel as WCG currently holds a majority of PowerTel's board seats and exercises control over PowerTel's operations. After WCG's initial investment, PowerTel had approximately $38 million in cash, which resulted in net cash acquired of approximately $13 million when consolidated by WCG.

On October 23, 1998, WCG acquired Intersys, a data systems integration, ATM frame relay and professional development company based in Mexico, for approximately $1 million in cash and conversion of the investment WCG had in Intersys' parent.

Costs of acquisitions, net of cash acquired, for all acquisitions discussed above are as follows for the years ended December 31:

	1998	1997	1996
		(In thousands)	
Working capital	$ (3,048)	$ 121,830	$ 16,862
Property and equipment	4,567	21,211	17,790
Goodwill and other intangibles	52,506	215,821	142,287
Long-term debt	(3,446)	(160,873)	(1,234)
Minority interest	(49,137)	(69,650)	—
Other	(10,509)	(31,947)	(10,824)
Cost of acquisitions, net of cash acquired	$ (9,067)	$ 96,392	$164,881

The following summarized unaudited pro forma financial information for the years ended December 31 assumes each acquisition had occurred on January 1 of the year immediately preceding the year of the acquisition:

	1998	1997	1996
		(In thousands)	
Revenues	$1,776,349	$1,756,253	$1,533,140
Net loss	$ (189,707)	$ (37,615)	$ (11,162)

The pro forma results include operating results prior to the acquisitions and adjustments to interest expense, goodwill amortization and income taxes. The pro forma consolidated results do not purport to be indicative of results that would have occurred had the acquisitions been in effect for the period presented, nor do they purport to be indicative of the results that will be obtained in the future.

3. Segment Disclosures

WCG adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," during the fourth quarter of 1998. SFAS No. 131 establishes standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers.

WCG evaluates performance based upon segment profit or loss from operations which includes revenues from external and internal customers, equity earnings or losses, operating costs and expenses, and depreciation and amortization and excludes allocated charges from parent. The accounting policies of the segments are the same as those described in Note 1. Intercompany sales are generally accounted for as if the sales were to unaffiliated third parties, that is, at current market prices.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents certain financial information concerning WCG's reportable segments.

	Network	Solutions	Strategic Investments	Eliminations	Total
			(In thousands)		
March 31, 1999 (unaudited)					
Revenues:					
External customers:					
Sales of dark fiber	$ 51,321	$ —	$ —	$ —	$ 51,321
Capacity and other	42,129	—	68,010	—	110,139
New systems sales and upgrades	—	193,610	—	—	193,610
Maintenance and customer service orders	—	137,721	—	—	137,721
Other	—	4,717	—	—	4,717
Total external customers	93,450	336,048	68,010	—	497,508
Affiliates	3,409	1,244	—	—	4,653
Intercompany	11,633	—	134	(11,767)	—
Total segment revenues	$108,492	$ 337,292	$ 68,144	$ (11,767)	$ 502,161
Costs of sales:					
Sales of dark fiber	$ 40,804	$ —	$ —	$ —	$ 40,804
Capacity and other	61,838	—	42,808	—	104,646
New systems sales and upgrades	—	141,491	—	—	141,491
Maintenance and customer service orders	—	73,566	—	—	73,566
Indirect operating and maintenance	—	29,240	—		29,240
Intercompany	—	2,472	9,295	(11,767)	—
Total cost of sales	$102,642	$ 246,769	$ 52,103	$ (11,767)	$ 389,747
Segment loss:					
Loss from operations	$(17,956)	$ (10,941)	$ (17,923)	$ —	$ (46,820)
Equity losses	—	—	(10,159)	—	(10,159)
Add back — allocated charges from parent	764	2,109	477	—	3,350
Total segment loss	$(17,192)	$ (8,832)	$ (27,605)	$ —	$ (53,629)
Total assets	$814,858	$ 951,883	$ 1,106,180	$ —	$2,872,921
Depreciation and amortization	$ 5,800	$ 10,571	$ 11,207	$ —	$ 27,578

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Network	Solutions	Strategic Investments (In thousands)	Eliminations	Total
March 31, 1998 (unaudited)					
Revenues:					
External customers:					
Capacity and other	$ 7,218	$ —	$ 50,177	$ —	$ 57,395
New systems sales and upgrades	—	179,587	—	—	179,587
Maintenance and customer service orders	—	145,254	—	—	145,254
Other	—	1,835	—	—	1,835
Total external customers	7,218	326,676	50,177	—	384,071
Affiliates	1,878	770	1,053	—	3,701
Intercompany	12,070	—	117	(12,187)	—
Total segment revenues	$ 21,166	$ 327,446	$ 51,347	$ (12,187)	$ 387,772
Costs of sales:					
Capacity and other	$ 16,414	$ —	$ 32,759	$ —	$ 49,173
New systems sales and upgrades	—	128,608	—	—	128,608
Maintenance and customer service orders	—	80,054	—	—	80,054
Indirect operating and maintenance	—	30,718	—	—	30,718
Intercompany	50	1,985	10,152	(12,187)	—
Total cost of sales	$ 16,464	$ 241,365	$ 42,911	$ (12,187)	$ 288,553
Segment loss:					
Loss from operations	$ (8,347)	$ (214)	$ (16,029)	$ —	$ (24,590)
Equity losses	—	—	(1,479)	—	(1,479)
Add back — allocated charges from parent	434	3,512	544	—	4,490
Total segment loss	$ (7,913)	$ 3,298	$ (16,964)	$ —	$ (21,579)
Depreciation and amortization	$ 2,235	$ 9,018	$ 7,742	$ —	$ 18,995

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Network	Solutions	Strategic Investments	Eliminations	Total
			(In thousands)		
December 31, 1998					
Revenues:					
External customers:					
Sales of dark fiber	$ 64,100	$ —	$ —	$ —	$ 64,100
Capacity and other	73,367	—	216,634	—	290,001
New systems sales and upgrades	—	791,518	—	—	791,518
Maintenance and customer service orders	—	556,392	—	—	556,392
Other	—	16,029	—	—	16,029
Total external customers	137,467	1,363,939	216,634	—	1,718,040
Affiliates	7,710	3,465	4,254	—	15,429
Intercompany	49,759	—	522	(50,281)	—
Total segment revenues	$194,936	$1,367,404	$ 221,410	$ (50,281)	$1,733,469
Costs of sales:					
Sales of dark fiber	$ 38,500	$ —	$ —	$ —	$ 38,500
Capacity and other	118,627	—	137,255	—	255,882
New systems sales and upgrades	—	554,726	—	—	554,726
Maintenance and customer service orders	—	311,258	—	—	311,258
Indirect operating and maintenance	—	134,217	—	—	134,217
Intercompany	252	9,274	40,755	(50,281)	—
Total cost of sales	$157,379	$1,009,475	$ 178,010	$ (50,281)	$1,294,583
Segment loss:					
Loss from operations	$(27,716)	$ (58,966)	$ (101,722)	$ —	$ (188,404)
Equity losses	—	—	(7,908)	—	(7,908)
Add back — allocated charges from parent	1,409	8,435	1,810	—	11,654
Total segment loss	$(26,307)	$ (50,531)	$ (107,820)	$ —	$ (184,658)
Total assets	$727,119	$ 967,948	$ 642,479	$ —	$2,337,546
Equity method investments	$ —	$ —	$ 52,722	$ —	$ 52,722
Additions to long-lived assets	$246,626	$ 57,504	$ 97,824	$ —	$ 401,954
Depreciation and amortization	$ 13,230	$ 36,637	$ 34,514	$ —	$ 84,381

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Network	Solutions	Strategic Investments	Eliminations	Total
			(In thousands)		
December 31, 1997					
Revenues:					
External customers:					
Capacity and other	$ 16,637	$ —	$ 213,098	$ —	$ 229,735
New systems sales and upgrades	—	674,604	—	—	674,604
Maintenance and customer service orders	—	508,319	—	—	508,319
Other	—	5,363	—	—	5,363
Total external customers	16,637	1,188,286	213,098	—	1,418,021
Affiliates	5,217	1,512	3,763	—	10,492
Intercompany	21,159	—	1,105	(22,264)	—
Total segment revenues	$ 43,013	$1,189,798	$ 217,966	$ (22,264)	$1,428,513
Cost of sales:					
Capacity and other	$ 28,657	$ —	$ 139,609	$ —	$ 168,266
New systems sales and upgrades	—	505,284	—	—	505,284
Maintenance and customer service orders	—	267,775	—	—	267,775
Indirect operating and maintenance	—	102,607	—	—	102,607
Intercompany	554	5,446	16,264	(22,264)	—
Total cost of sales	$ 29,211	$ 881,112	$ 155,873	$ (22,264)	$1,043,932
Segment profit (loss):					
Income (loss) from operations	$ 3,278	$ 37,052	$ (103,031)	$ —	$ (62,701)
Equity earnings (losses)	—	—	(2,383)	—	(2,383)
Add back — allocated charges from parent	—	6,690	2,540	—	9,230
Total segment profit (loss)	$ 3,278	$ 43,742	$ (102,874)	$ —	$ (55,854)
Total assets	$246,317	$ 922,823	$ 336,894	$ —	$1,506,034
Equity method investments	$ 2,317	$ —	$ 3,815	$ —	$ 6,132
Additions to long-lived assets	$175,861	$ 236,000	$ 101,487	$ —	$ 513,348
Depreciation and amortization	$ 4,012	$ 30,142	$ 36,509	$ —	$ 70,663

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Network	Solutions	Strategic Investments	Eliminations	Total
			(In thousands)		
December 31, 1996					
Revenues:					
External customers:					
Capacity and other	$ —	$ —	$ 130,816	$ —	$ 130,816
New systems sales and upgrades	—	306,110	—	—	306,110
Maintenance and customer service orders	—	251,221	—	—	251,221
Other	—	9,379	—	—	9,379
Total external customers	—	566,710	130,816	—	697,526
Affiliates	4,918	1,362	1,381	—	7,661
Intercompany	6,145	—	280	(6,425)	—
Total segment revenues	$11,063	$ 568,072	$ 132,477	$ (6,425)	$ 705,187
Cost of sales:					
Capacity and other	$ 4,681	$ —	$ 81,535	$ —	$ 86,216
New systems sales and upgrades	—	223,519	—	—	223,519
Maintenance and customer service orders	—	155,130	—	—	155,130
Indirect operating and maintenance	—	52,357	—	—	52,357
Intercompany	—	4,484	1,941	(6,425)	—
Total cost of sales	$ 4,681	$ 435,490	$ 83,476	$ (6,425)	$ 517,222
Segment profit (loss):					
Income (loss) from operations	$ 5,750	$ 8,887	$ (14,728)	$ —	$ (91)
Equity losses	—	—	(1,601)	—	(1,601)
Add back — allocated charges from parent	—	5,439	$ 1,204	—	6,643
Total segment profit (loss)	$ 5,750	$ 14,326	$ (15,125)	$ —	$ 4,951
Total assets	$ —	$ 344,606	$ 377,081	$ —	$ 721,687
Equity method investments	$ —	$ —	$ 6,550	$ —	$ 6,550
Additions to long-lived assets	$ —	$ 34,906	$ 192,071	$ —	$ 226,977
Depreciation and amortization	$ —	$ 16,023	$ 16,355	$ —	$ 32,378

The following geographic area data includes revenues from external customers based on product shipment origin for the years ended December 31 and long-lived assets based upon physical location as of December 31.

	1998	1997	1996
		(In thousands)	
Revenues from external customers:			
United States	$1,591,779	$1,336,743	$693,943
Other	126,261	81,278	3,583
Total	$1,718,040	$1,418,021	$697,526
Long-lived assets:			
United States	$1,070,772	$ 805,830	$374,439
Other	55,510	5,141	1,244
Total	$1,126,282	$ 810,971	$375,683

Long-lived assets are comprised of property, plant and equipment and goodwill and other intangible assets.

4. Asset Sales and Write-Offs

Included in 1998 other operating expenses and Strategic Investments' segment loss is a $23,150,000 loss related to abandoning an investment in a venture involved in the technology and transmission of business information for news and educational purposes. The loss occurred as a result of WCG's re-evaluation and decision to exit the venture as WCG decided against making further investments in the venture. WCG abandoned its entire ownership interest in the venture in 1998. The loss primarily consists of $17 million from writing off the entire carrying amount of the investment and $5 million from recognition of contractual obligations that will continue after the abandonment. During 1998, $2 million of the contractual obligations were paid. WCG's share of losses from the venture accounted for under the equity method were $3,670,000, $2,269,000 and none in 1998, 1997 and 1996, respectively.

Included in 1997 other operating expenses and Strategic Investments' segment loss are impairments and other charges totaling $42,043,000. In the fourth quarter of 1997, WCG made the decision and committed to a plan to sell the learning content business, which resulted in a loss of $22.7 million in 1997. The loss consisted of a $21 million impairment of the assets to fair value less cost to sell and recognition of $1.7 million in costs associated with the decision to sell the business. Fair value was based on management's estimate of the expected net proceeds to be received. During 1998, a significant portion of the learning content business was sold with a resulting $2 million reduction in 1998 expenses. The carrying amount of the learning content business at December 31, 1998 and 1997 is not significant to WCG's consolidated balance sheet. The results of operations and effect of suspending amortization for the learning content business included in the consolidated net loss are not significant for any of the periods presented. Costs of $1.7 million recorded in 1997 primarily consist of contractual obligations and employee termination costs. Additional employee termination costs of $1 million were incurred in 1998. In 1997, WCG also impaired a continuing Strategic Investments project resulting in a loss of $13 million. Fair value for this project was based upon management's estimate as to the ultimate recovery of the project. Additionally, WCG made the decision and committed to a plan to sell the enhanced fax business, resulting in an impairment loss of $4 million in 1997. Fair value was based on management's estimate of the expected proceeds to be received. The fax business was sold in 1998 resulting in a $.5 million reduction in 1998 expenses. In 1997, WCG also recorded $2 million of expenses from cancellation payments for leases that are no longer being utilized in our operations.

In 1996, WCG recognized a pre-tax gain of $15,725,000 from the sale of certain communication rights (obtained from affiliates in 1995) for approximately $38 million.

5. Provision (Benefit) for Income Taxes

WCG's operations are included in Williams' consolidated federal income tax return. WCG has a tax sharing agreement with Williams under which the amount of federal income taxes allocated to WCG is generally determined as though WCG were filing a separate federal consolidated income tax return. Under the terms of the tax sharing agreement, any loss or other similar tax attribute realized for periods prior to the initial public offering will be allocated solely to Williams. WCG will be responsible for any taxes resulting to Williams if the loss or similar tax attribute is reduced by audit or otherwise. For any loss or other similar tax attribute realized after the initial public offering, WCG will receive the benefit of the loss or other similar tax attribute only if WCG is able to carry forward the loss or other similar tax attribute against its hypothetical separate return tax calculation for a period in which WCG remains a member of Williams' consolidated federal income tax group. If WCG ceases to be a member of Williams' consolidated federal income tax return, WCG will retain only its allocable share under applicable law of any consolidated loss or other similar tax attribute realized after the initial public offering to the extent that it has not been treated as utilizing such loss or attribute on a hypothetical separate tax return basis under the tax sharing agreement. Similar concepts apply to allocate the state unitary, combined or consolidated, income tax liability.

The provision (benefit) for income taxes for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996 includes:

	Three Months Ended March 31, (Unaudited)		Years Ended December 31,		
	1999	1998	1998	1997	1996
			(In thousands)		
Current:					
Federal	$ —	$ —	$ —	$ —	$ 1,810
State	—	23	162	2,081	158
Foreign	962	362	2,522	1,734	—
	962	385	2,684	3,815	1,968
Deferred:					
Federal	11,202	(846)	(5,652)	(2,761)	(1,761)
State	5,284	(305)	(2,129)	984	161
	16,486	(1,151)	(7,781)	(1,777)	(1,600)
Total provision (benefit)	$17,448	$ (766)	$(5,097)	$ 2,038	$ 368

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the U.S. and foreign components of loss before income taxes for the years ended December 31, 1998, 1997 and 1996:

	Years Ended December 31, 1998	1997	1996
		(In thousands)	
United States	$(183,074)	$(33,930)	$(2,184)
Foreign	(2,952)	125	(962)
Total loss before taxes	$(186,026)	$(33,805)	$(3,146)

Reconciliations from the benefit for income taxes at the federal statutory rate to the provision (benefit) for income taxes for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996 are as follows:

	Three Months Ended March 31, (unaudited)		Years Ended December 31,		
	1999	1998	1998	1997	1996
			(In thousands)		
Benefit at statutory rate	$(19,737)	$(9,541)	$(65,109)	$(11,832)	$(1,101)
Increases (reductions) in taxes resulting from:					
State income taxes	3,435	(184)	(1,279)	1,992	207
Goodwill amortization	812	762	5,286	2,675	1,469
Non-taxable gain from the sale of interest in subsidiary	—	—	—	(15,605)	—
Change in valuation allowance	—	(1,256)	(7,639)	10,827	—
Tax benefits allocated to Williams	29,566	8,633	60,261	12,761	—
Other — net	3,372	820	3,383	1,220	(207)
Provision (benefit) for income taxes	$ 17,448	$ (766)	$ (5,097)	$ 2,038	$ 368

Significant components of deferred tax assets and liabilities as of December 31 are as follows:

	1998	1997
	(In thousands)	
Deferred tax assets:		
Deferred revenues	$14,321	$ 15,424
Impairment and other charges	3,880	17,441
Other	12,789	3,392
	30,990	36,257
Valuation allowance	(3,188)	(10,827)
Total deferred tax assets	27,802	25,430
Deferred tax liabilities:		
Property, plant and equipment	14,783	21,759
Securities available for sale	13,763	(1,565)
Other	4,844	5,236
Total deferred tax liabilities	33,390	25,430
Net deferred tax liability	$ 5,588	$ —

Valuation allowances have been established that reduce deferred tax assets to an amount that will more likely than not be realized. Uncertainties that may affect the realization of these assets include application of the tax sharing agreement with Williams, tax law changes and expiration of carryforward periods. The valuation allowance decreased during 1998 and increased during 1997, primarily due to application of the tax sharing agreement with Williams.

If WCG had filed a separate federal income tax return for all periods presented, the provision (benefit) for income taxes for 1998 and 1997 would reflect additional benefit from the carryback or carryforward of federal net operating losses that would have been recognized by WCG on a separate return basis. The deferred federal income tax benefit for 1998 would have increased by $5,588,000, to reflect the benefit of a deferred tax asset for the federal net operating loss carryforward generated in 1998, to the extent of the existing net deferred tax liability. A current federal income tax benefit for 1997 of $12,761,000 would have been recognized to reflect the refund of tax from carryback of the federal net operating loss generated in 1997. The provision (benefit) for income taxes for 1996 would not change since a federal net operating loss was not generated in 1996.

Cash payments for income taxes (net of refunds) were $2,067,000, $1,148,000 and $2,444,000 in 1998, 1997 and 1996, respectively.

6. Employee Benefit Plans

Substantially all of WCG's employees are covered by noncontributory defined benefit pension plans. Effective August 1, 1997, separate plans were established for the Solutions LLC union employees and Solutions LLC salaried employees. Substantially all of the remaining WCG employees are covered by Williams' noncontributory defined benefit pension plans in which WCG is included. WCG is also included in Williams' health care plan that provides postretirement medical benefits to certain retired employees.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contributions for pension and postretirement medical benefits related to WCG's participation in the Williams plans were $1,742,000, $357,000 and $12,463,000 in 1998, 1997 and 1996, respectively. The change in contributions from year to year is due to a change in the rate of pension contributions during the periods. Contributions in excess of the minimum funding requirements were made in 1996 and the resulting credit balances from 1996 were used to reduce the required pension contributions in 1997.

The following table presents the changes in benefit obligations and plan assets for pension benefits for the Solutions LLC plans for the years indicated. It also presents a reconciliation of the funded status of these benefits to the amount recognized in the accompanying consolidated balance sheet as of December 31 of each year indicated.

	Pension Benefits	
	1998	1997
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$41,987	$ —
Service cost	4,604	1,770
Interest cost	2,972	1,130
Actuarial loss	2,566	497

	Pension Benefits	
	1998	1997
	(In thousands)	
Net pension expense for the Solutions LLC plans consisted of the following for the years ended December 31:		
Components of net periodic pension expense:		
Service cost	$ 4,604	$ 1,770
Interest cost	2,972	1,130
Expected return on plan assets	(4,293)	(1,551)
Amortization of prior service credit	(280)	(117)
Recognized net actuarial gain	(83)	(18)
Net periodic pension expense	$ 2,920	$ 1,214
The following are the weighted-average assumptions utilized as of December 31 of the year indicated:		
Discount rate	7.0%	7.1%
Expected return on plan assets	10.0	10.0
Rate of compensation increase	5.0	5.0

Williams maintains various defined contribution plans in which WCG is included. WCG's costs related to these plans were $16,415,000, $9,564,000 and $5,934,000 in 1998, 1997 and 1996, respectively. These costs increased over the period from 1996 to 1998 primarily due to acquisitions (see Note 2).

Included in selling, general and administrative expenses for 1998 is an accrual of $11,500,000 related to the modification of WCG's employee benefit program associated with vesting of paid time off. In December 1998, WCG increased the number of days in the new paid time off policy and changed the benefits with regard to sick pay.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investments

Investments as of March 31, 1999 (unaudited) and December 31, 1998 and 1997 are as follows:

	March 31, 1999 (Unaudited)	December 31, 1998	December 31, 1997
	(In thousands)		
Equity method:			
ATL — common stock	$ 64,892	$ 48,256	$ —
Others	463	454	6,132
	65,355	48,710	6,132
Cost method:			
ATL — preferred stock	317,621	100,573	—
Others	53,501	28,001	3,332
	371,122	128,574	3,332
Advances to investees	4,997	4,997	7,619
Marketable equity securities — Concentric Network Corporation	197,592	82,936	11,087
	$639,066	$265,217	$28,170

No dividends were received from investments in companies carried on the equity basis for 1998, 1997 or 1996.

Included in the investments table above are noncurrent marketable equity securities which are classified as available for sale under the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The carrying amount of this investment is reported at fair value with net unrealized appreciation or depreciation reported as a component of stockholder's equity. A comparison of the carrying amount of this investment to cost as of March 31, 1999 (unaudited) and December 31, 1998 and 1997 is as follows:

	March 31, 1999 (unaudited)		December 31			
			1998		1997	
	Cost	Fair value (Carrying Amount)	Cost	Fair value (Carrying Amount)	Cost	Fair value (Carrying Amount)
			(In thousands)			
Concentric Network Corporation	$41,543	$197,592	$41,543	$82,936	$15,000	$11,087

WCG acquired 710,036 warrants to purchase common stock of Concentric Network Corporation in connection with WCG's acquisition of Concentric Network Corporation common stock in 1997. No basis was allocated to the warrants as the fair value of the warrants was considered to be nominal at the date the warrants were acquired. Each warrant entitles the holder thereof to purchase one share of Concentric Network Corporation common stock for $3. The warrants expire in 2002.

As of May 26, 1999, the Concentric Network Corporation investment has depreciated since March 31, 1999, to a fair value of $168,870,000 based upon the May 26, 1999 stock price of $32.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On January 13, 1999, the Brazilian Central Bank removed the limits of variations of the Brazilian Real compared to the U.S. dollar, allowing free market fluctuation of the exchange rate. As a result, the value of the Real in U.S. dollars has declined 30% from December 31, 1998 to March 31, 1999.

Williams has granted WCG an option to acquire Williams' entire equity and debt interest in Algar Telecom S/A, a Brazilian telecommunications company, at net book value. The option is exercisable at any time from January 1, 2000 to January 1, 2001 and is payable entirely in WCG's Class B common stock. The net book value of Williams investment in Algar as of December 31, 1998 was approximately $170 million including advances of $100 million. WCG has not assigned any value to the option as of December 31, 1998.

At December 31, 1998, WCG owned 30% of the preferred shares in ATL and 30% of the common stock through participation in a limited liability company. On March 25, 1999, WCG invested $265 million in ATL to acquire a 19% ownership in ATL's outstanding common stock and to increase WCG's ownership in ATL's outstanding preferred stock to 73%.

On March 25, 1999, WCG pledged 49% and 100% of its investment in ATL's common and preferred stock, respectively, as collateral for a U.S. dollar denominated $521 million loan from Ericsson Project Finance AB to ATL. In addition, Algar pledged 49% of its 51% investment in ATL common stock and 100% of its 27% investment in ATL preferred stock as collateral for the loan. The loan principal is due on March 25, 2002.

Summarized financial position as of December 31, 1998 and results of operations for the period from inception (March 26, 1998) to December 31, 1998 for ATL are as follows (in thousands):

Current assets	$ 55,641
Noncurrent assets	1,572,276
Current liabilities	(522,385)
Long-term debt	(26,427)
Other noncurrent liabilities	(649,743)
Stockholders' equity	$ 429,362
Revenues	$ 29,953
Gross profit	$ 281
Net loss	$ (42,277)

On March 30, 1999, WCG acquired 19.9% of the common stock of Metrocom S.A., a start-up telecommunications company in Chile, for $15 million. WCG also paid $9.5 million for warrants to purchase up to an additional 30.1% of Metrocom S.A. If exercised, the warrants must be exercised in total and have an aggregate exercise price of approximately $10 million. The warrants effectively expire March 30, 2003. The investment in Metrocom S.A. is accounted for under the cost method.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Property, Plant and Equipment

Property, plant and equipment as of March 31, 1999 (unaudited) and December 31 is summarized as follows:

	Depreciable Lives	March 31, 1999	December 31, 1998	December 31, 1997
	(In years)	(Unaudited)		
		(In thousands)		
Fiber	25-30	$ 116,511	$ 116,439	$ 23,712
Optronics	7-10	196,550	167,997	144,191
Right-of-way	20-40	135,113	135,113	5,291
Computer equipment	3	73,979	65,126	29,835
Customer premise equipment	3	32,059	30,616	30,736
General office furniture and fixtures	3-5	57,428	61,300	32,935
Buildings and leasehold improvements	30 or life of lease	46,985	41,154	10,961
Construction in progress	Not applicable	199,252	130,063	218,752
Other	Various	133,875	127,886	37,642
		991,752	875,694	534,055
Less accumulated depreciation and amortization		(210,428)	(179,969)	(126,403)
		$ 781,324	$ 695,725	$ 407,652

In 1996, WCG agreed to exchange dark fiber along one of its fiber routes for dark fiber from another party's route. The agreement was subsequently amended to include exchanges of both dark fiber and fiber capacity leases. In the nonmonetary exchange of dark fiber, WCG assigned a basis of approximately $50.6 million to the dark fiber received, representing the book value of the dark fiber relinquished. The exchange of leases results in revenue of $100,000 per month and costs of sales in the same amount. The lease is a ten year lease with a ten year renewal option. The amount to be paid under the renewal option is to be determined at the time the renewal option is exercised based on fair market value to be determined at that time. The economic life of the property is 25 years. Transfer of title does not occur at the end of the lease term and there is not a bargain purchase option.

In connection with its fiber build projects, WCG periodically enters into various agreements to obtain the use of property rights from Williams' pipeline companies in exchange for telecommunications services. Under these agreements, WCG commits to provide various levels and types of services as consideration for the right-of-way obtained. As of December 31, 1998, such commitments were not material.

Commitments for construction and acquisition of property, plant and equipment are approximately $808,183,000 as of December 31, 1998. Included in this amount is $470,440,000 for the purchase of optronics equipment from Nortel to be used in building the network pursuant to an agreement with Nortel to purchase $600 million of optronics equipment. In addition, included in the commitments is $315,556,000 for the purchase of wireless capacity.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On December 17, 1998, WCG entered into two agreements with WinStar Communications, Inc. ("WinStar"). WCG has a 25 year indefeasible right to use approximately 2% of WinStar's wireless local capacity in exchange for payments equal to $400 million. WinStar has a 25 year indefeasible right to use four strands of WCG's fiber over 15,000 route miles on the network, a transmission capacity agreement with a minimum commitment for approximately $120 million in specified circuits over a twenty-year term and colocation space rental and maintenance services in exchange for monthly payments equal to an aggregate of approximately $644 million over the next seven years. As of March 31, 1999, WinStar has paid WCG approximately $15.3 million. WinStar has constructed approximately 60 hubs, or antenna sites, which are currently available to WCG. WinStar intends to construct 270 hubs by the end of 2001, and WCG will have the ability to use all of these hubs. WCG will pay WinStar the $400 million over the next four years as WinStar completes construction of the hubs. As of March 31, 1999, WCG has paid WinStar approximately $84 million.

As a result of certain valuation matters and various timing differences associated with the payment and receipt of cash, Williams cash payments to WinStar represent cash advances. Accordingly, as WCG pays WinStar, a portion of the payments will be recorded as an advance that will be returned based upon WinStar's payment schedule.

9. Accounts Payable and Accrued Liabilities

Under Williams' centralized cash management system, WCG's cash accounts reflect credit balances to the extent checks written have not been presented for payment. The amount of these credit balances included in accounts payable is $51,831,000 and $23,255,000 as of December 31, 1998 and 1997, respectively.

Accrued liabilities as of December 31 consist of the following:

	December 31, 1998	December 31, 1997
	(In thousands)	
Employee costs	$ 68,025	$ 49,276
Deferred revenue	67,228	45,601
Job costs and customer deposits	19,161	19,258
Warranty	10,967	13,232
Other	33,295	49,612
	$198,676	$176,979

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Long-Term Debt

Long-term debt (excluding amounts due affiliates as disclosed in Note 14) as of March 31, 1999 (unaudited) and December 31 consists of the following:

	March 31, 1999 (Unaudited)	December 31, 1998	December 31, 1997
	(In thousands)		
Credit agreement	$315,000	$ —	$125,000
Other	4,012	3,710	1,941
	319,012	3,710	126,941
Current maturities	622	690	1,195
Long-term debt	$318,390	$3,020	$125,746

In July 1997, Solutions LLC and Williams entered into an unsecured credit agreement with a bank. Under the terms of the credit agreement, Solutions LLC has access to $300,000,000. Interest is payable monthly and accrues at rates which vary with current market conditions. At December 31, 1997, the interest rate was 6.2%. On January 26, 1999, WCG was added to the unsecured credit agreement and agreed that the aggregate borrowings would not exceed $400,000,000, including Solutions LLC's availability. Williams is the guarantor for WCG under the credit agreement. WCG and Solutions LLC's availability under the credit agreement is subject to borrowings by other Williams affiliates. On March 25, 1999, WCG borrowed $265 million under the credit agreement for the additional investment in ATL described in Note 7. At March 31, 1999, the interest rate was 7.75%.

On April 16, 1999, WCG entered into a $1.4 billion unsecured revolving credit facility which is guaranteed by Williams. The facility will expire on September 30, 1999. As of April 30, 1999, WCG has borrowed $300 million on this facility, of which the proceeds were used to reduce the outstanding amount under the July 1997 unsecured credit agreement.

Cash payments for interest were $2,427,000, $5,467,000 and $205,000 in 1998, 1997 and 1996, respectively.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. Accumulated Other Comprehensive Income (Loss)

The table below presents changes in the components of accumulated other comprehensive income (loss).

	Unrealized Appreciation (Depreciation) On Securities	Foreign Currency Translation Adjustments	Total
		(In thousands)	
Balance as of December 31, 1996	$ —	$ —	$ —
Current period change:			
Pre-income tax amount	(3,913)	(1,131)	(5,044)
Income tax benefit	1,565	—	1,565
Balance as of December 31, 1997	(2,348)	(1,131)	(3,479)
Current period change:			
Pre-income tax amount	45,305	(1,792)	43,513
Income tax expense	(15,328)	—	(15,328)
	29,977	(1,792)	28,185
Balance as of December 31, 1998	27,629	(2,923)	24,706
Current period change:			
Pre-income tax amount (unaudited)	114,657	(23,194)	91,463
Income tax expense (unaudited)	(46,896)	—	(46,896)
	67,761	(23,194)	44,567
Balance as of March 31, 1999 (unaudited)	$ 95,390	$(26,177)	$ 69,273

12. Stock-Based Compensation

Williams and WCG have several plans providing for Williams common-stock-based awards to its employees and employees of its subsidiaries. The plans permit the granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. Awards may be granted for no consideration other than prior and future services or based on certain financial performance targets being achieved. The purchase price per share for stock options and the grant price for stock-appreciation rights may not be less than the market price of the underlying stock on the date of grant. Depending upon terms of the respective plans, stock options become exercisable after three or five years, subject to accelerated vesting if certain future stock prices or specific financial performance targets are achieved. Stock options expire ten years after grant.

Williams' employee stock-based awards are accounted for under provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Williams' fixed plan common stock options do not result in compensation expense, because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

Pro forma net income and earnings per share, assuming WCG had applied the fair-value method of SFAS No. 123, "Accounting for Stock-Based Compensation," in measuring compensation cost beginning with 1996 employee stock-based awards, are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	1998		1997		1996	
	Pro Forma	Reported	Pro Forma	Reported	Pro Forma	Reported
Net loss (thousands)	(190,329)	(180,929)	(40,543)	(35,843)	(4,014)	(3,514)
Loss per share	(.42)	(.40)	(.09)	(.08)	(.01)	(.01)

Pro forma amounts for 1998 include the remaining total compensation expense from the awards made in 1997, as these awards fully vested in 1998 as a result of the accelerated vesting provision. Pro forma amounts for 1997 include the remaining total expense from the awards made in 1996, as these awards fully vested in 1997 as a result of the accelerated vesting provisions. Since compensation expense from stock options is recognized over the future years' vesting period for pro forma disclosure purposes, and additional awards generally are made each year, pro forma amounts may not be representative of future years' amounts.

The fair value of the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: expected life of the stock options of approximately 5 years; volatility of the expected market price of Williams common stock of 25 percent (26 percent in 1997 and 22 percent in 1996); risk-free interest rate of 5.3 percent (6.1 percent in 1997 and 6.0 percent in 1996); and a dividend yield of 2.0 percent (1.7 percent in 1997 and 2.0 percent in 1996).

The following summary represents stock option information for WCG employees:

	1998	1997	1996
	(Options in thousands)		
Options granted:			
Williams plan	1,743	2,193	2,078
WCG plan	483	—	—
Weighted-average grant date fair value	$ 8.19	$ 5.98	$ 3.92
Options outstanding — December 31:			
Williams plan	5,432	4,954	3,015
WCG plan	465	—	—
Options exercisable — December 31:			
Williams plan	3,800	2,726	962
WCG plan	—	—	—

The following summary represents deferred share information for WCG employees:

	1998	1997	1996
Deferred shares granted:			
Williams plan	109,565	14,232	209,410
WCG plan	165,000	—	—
Weighted-average grant date fair value of shares granted	$ 31.59	$ 19.94	$ 16.24
Percent of grant expensed in year of grant	11%	100%	12%
Shares issued	30,404	22,218	11,544

Deferred shares are valued at the date of the award. The remaining value of the deferred shares not expensed in the year granted is amortized over the vesting period.

13. Leases

Future minimum annual rentals under noncancellable operating leases as of December 31, 1998 are payable as follows:

	Office Rental	Off-Network Capacity and Equipment	Other	Total
		(In thousands)		
1999	$ 24,756	$ 79,730	$ 5,019	$109,505
2000	21,173	134,851	5,030	161,054
2001	17,935	104,117	1,689	123,741
2002	13,118	91,622	691	105,431
2003	11,169	69,396	691	81,256
Thereafter	38,825	6,650	9,788	55,263
Total minimum annual rentals	$126,976	$486,366	$22,908	$636,250

During 1998, WCG entered into an operating lease agreement covering a portion of its fiber optic network. The total estimated cost of the network assets to be covered by the lease agreement is $750 million. The lease term will include an interim term, during which the covered network assets will be constructed, that is anticipated to end no later than December 31, 1999, and a base term. The interim and base terms are expected to total five years, and if renewed, could total seven years.

WCG has an option to purchase the covered network assets during the lease term at an amount approximating the lessor's cost. Williams provides a residual value guarantee equal to a maximum of 89.9% of the transaction. The residual value guarantee is reduced by the present value of the actual lease payments. In the event that WCG does not exercise its purchase option, WCG expects the fair market value of the covered network assets to substantially reduce Williams payment under the residual value guarantee. WCG's disclosures for future minimum annual rentals under noncancellable operating leases do not include amounts for the residual value guarantee. As of March 31, 1999 (unaudited) and December 31, 1998, $368 million and $287 million, respectively, of costs have been incurred by the lessor.

Total capacity expense incurred from leasing from a third party's network (off-network capacity expense) was $110,804,000, $68,824,000 and $45,033,000 in 1998, 1997 and 1996, respectively. All other rent expense was $37,826,000, $24,912,000 and $17,588,000 in 1998, 1997 and 1996, respectively. Included in other rent expense is office space charged from affiliates of $3,664,000, $2,475,000 and $2,247,000 in 1998, 1997 and 1996, respectively.

14. Related Party Transactions

Williams charges its subsidiaries, including WCG, for certain corporate administrative expenses, which are directly identifiable or allocable to the subsidiaries. Nortel also charges Solutions LLC for certain corporate administrative expenses which are directly identifiable or

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

allocable to Solutions LLC. Details of such charges for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31 are as follows:

	Three Months Ended March 31, (unaudited)		Year Ended December 31,		
	1999	1998	1998	1997	1996
			(In thousands)		
Direct costs, charged from:					
Williams	$ 4,573	$ 2,783	$13,364	$ 8,418	$ 6,370
Nortel	182	3,855	10,727	15,260	—
Allocated charges from Williams	3,350	4,492	11,654	9,230	6,643
	$ 8,105	$11,130	$35,745	$32,908	$13,013

The above costs are reflected in selling, general and administrative expenses in the accompanying consolidated statements of operations. Direct costs charged from Williams or Nortel represent the direct costs of goods or services provided by Williams or Nortel at our request as well as the cost of centralized administrative services. Williams allocates its cost of centralized administrative services based on a logical representation of the benefits received, such as allocating Williams' human resources department based on employee headcount. Allocated charges from Williams represent an allocation of general corporate charges based on a three factor formula which considers operating results, property, plant and equipment and payroll. In management's estimation, the allocation methodologies used are reasonable and the direct and allocated charges approximate amounts that would have been incurred on a stand-alone basis.

Included in WCG's revenues are charges to Williams and its subsidiaries and affiliates for managing their internal telephone operations of $2,342,000, $1,878,000, $7,710,000, $5,217,000 and $4,918,000 for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996, respectively. In addition, WCG's revenues include charges to Williams' gas pipelines for managing microwave frequencies of $1,067,000, $1,053,000, $4,254,000, $3,754,000 and $1,381,000 for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996, respectively.

As of March 31, 1999 (unaudited) and December 31, 1998 and 1997, WCG's net amount due to or due from affiliates consists of an unsecured promissory note agreement with Williams for both advances to and from Williams depending on the respective cash positions of the companies. The agreement does not require periodic principal payments or commitment fees and accordingly is normally classified as noncurrent as periodic principal payments are not required. Interest on noncurrent receivables and payables is accrued monthly and rates vary with market conditions. The interest rate for noncurrent receivables and payables with Williams at the end of the period was 5.6%, 5.8% and 6.2% for March 31, 1999 (unaudited) and December 31, 1998 and 1997, respectively. In addition, the net amount due to or from affiliates consists of normal

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

course receivables and payables resulting from the use of each others services. A summary of these payables and receivables as of March 31, 1999 (unaudited) and December 31 follows:

	March 31, 1999 (Unaudited)	December 31, 1998	December 31, 1997
		(In thousands)	
Current:			
Due from Williams	$ —	$ 3,881	$ —
Due to affiliates:			
Williams	$ 32,222	$ —	$ 24,636
Nortel	30,685	37,187	98,948
Other	1,243	1,323	—
Total due to affiliates	$ 64,150	$ 38,510	$123,584
Noncurrent:			
Due from Williams	$ —	$ —	$ 97,097
Due to affiliates:			
Williams	$818,114	$614,343	$ —
Other	6,930	6,367	—
Total due to affiliates	$825,044	$620,710	$ —

Interest expense to Williams was $9,307,000, $467,000, $16,933,000, $2,657,000 and $16,776,000 for the three months ended March 31, 1999 and 1998 (unaudited) and the years ended December 31, 1998, 1997 and 1996, respectively. No amounts were paid to Williams for interest in the three months ended March 31, 1999 (unaudited) or the years ended December 31, 1998, 1997 and 1996.

Interest income from Williams was $2,932,000 in 1997. There was no interest income from Williams for the three months ended March 31, 1999 (unaudited) or the years ended December 31, 1998 and 1996.

In connection with the formation of Solutions LLC, a $160,873,000 note payable to Nortel was established which was paid by Solutions LLC in August 1997. Total interest expensed and paid on the note during 1997 was $2,491,000.

Solutions LLC purchased inventory from Nortel for use in equipment installations for $467,476,000 in 1998 and $310,599,000 for the period from April 30, 1997 (date on which Nortel became a related party) to December 31, 1997. Solutions LLC has a distribution agreement with Nortel that extends through December 2002. If for two consecutive years the percentage of Nortel products purchased by Solutions LLC falls below approximately 78% and the rate of growth of the purchase of Nortel products by Solutions LLC during the two-year period is below that of other Nortel distributors, Nortel may require WCG to buy, or WCG may require Nortel to sell, Nortel's entire interest in Solutions LLC at market value.

In addition, Network purchased from Nortel optronics for use on its network for $99,311,000 in 1998 and $30,241,000 for the period from April 30, 1997 to December 31, 1997.

WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Commitments and Contingencies

During 1998, Solutions LLC and one of its equipment suppliers amended an existing take-or-pay contract for equipment purchases. The amended purchase commitment terms require Solutions LLC equipment purchases from the supplier totaling $10,000,000, $19,000,000 and $25,000,000 during the twelve-month periods ended March 31, 1999, 2000 and 2001, respectively. Solutions LLC met its March 31, 1999 commitment.

WCG is a party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the ultimate resolution of all claims, legal actions and complaints after consideration of amounts accrued, insurance coverage, or other indemnification arrangements will not have a materially adverse effect upon WCG's future financial position, results of operations or cash flows.

16. Financial Instruments

Fair Value Methods

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

Cash and cash equivalents: The carrying amounts reported in the balance sheet

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*******************************************************************************
* User name:   faxsys (182)                    Queue:  BCCB1/14HP4CC
* File name:                                   Server: 14HP4CC-PS
* Directory:
* Description: FACSys Print (96239.tif)
*              July 16, 1999                           2:46pm
*******************************************************************************
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*                        ff
*                       f
*                      ffff   aaa  x   x  ssss y   y  ssss
*                       f        a  x x  s     y   y s
*                       f      aaaa  x    sss  y   y  sss
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*                       f      aaaa x   x ssss  yyyy ssss
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*                     1     4  H   H PPPP    4   CCC   CCC
*                    11    44  H   H P   P  44  C   C C   C
*                     1   4 4  H   H P   P 4 4  C     C
*                     1  4  4  HHHHH PPPP 4  4  C     C
*                     1  44444 H   H P    44444 C     C
*                     1     4  H   H P       4  C   C C   C
*                   11111   4  H   H P       4   CCC   CCC
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WILLIAMS COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

limited to $500 million, which will be reinvested by WCG in its business. If SBC's investment equals less than 10% of the common stock, SBC has the ability to purchase the remainder of the 10% in subsequent public offerings, if they occur. SBC's purchase of WCG stock is contingent upon due diligence, WCG completing its initial public offering and the continuing existence of the agreement under which WCG provides network transport services. The initial public offering price, less the underwriters' discount will determine the price of the SBC shares.

Once SBC receives regulatory approval to enter the long-distance business within one state in its local service territory, it will have one seat on the WCG board of directors. WCG will serve as SBC's preferred provider for all domestic U.S. transport services. SBC will be WCG's preferred provider for platform products and certain international transport services, so long as such preferred services are provided at mutually acceptable prices and regulations do not prohibit such an arrangement. WCG will work with SBC to connect SBC's international cables to WCG's domestic network. The agreement also will allow both parties to cross-market certain of each others services, and specifically enable Solutions to offer SBC-branded products and services as an addition to its array of voice and data communication equipment products and network services.

Williams has a call option to purchase not less than all of the shares of stock acquired by SBC, in the event of the termination, other than due to a breach by WCG, of certain agreements with SBC, provided that Williams has at least a 50% interest in WCG. The purchase price is equal to the market price at the time of exercise less the underwriting discounts and commissions applicable to the shares at the time of the initial offering.

On May 21, 1999, WCG entered into two memoranda of understanding with Metromedia Fiber Network, Inc. under which both parties agree to enter into 20-year agreements with the other, providing for the following:

- Metromedia will lease to WCG dark fiber on up to 3,200 route miles on its local networks, 6 to 96 fibers per segment and will provide WCG with maintenance services and dark fiber connectivity to approximately 250 points of presence and data centers, in exchange for approximately $317 million payable by WCG over the duration of the agreement
- Metromedia will lease from WCG six dark fibers over substantially all of the Williams network and WCG will provide colocation and maintenance services in exchange for approximately $317 million payable by Metromedia over the duration of the agreement

On May 24, 1999, WCG and Intel Corporation, on behalf of Intel Internet Data Services, entered into a long-term master alliance agreement. The alliance agreement provides that WCG and Intel Internet Data Services will purchase services from one another pursuant to a service agreement and create a co-marketing arrangement, each of which will have shorter terms than that of the master alliance agreement. The services WCG will provide include domestic transport services and may also include Internet connectivity. Intel will provide web hosting services pursuant to the co-marketing arrangement.

Intel also entered into a securities purchase agreement with WCG and Williams to purchase at the closing of this offering the number of shares of common stock equal to $200 million divided by the initial public offering price less the underwriting discount. The parties' obligations under the securities purchase agreement are subject to closing conditions, including that the alliance agreement is in full effect and that at least $500 million is raised in this offering and that necessary governmental approvals have been obtained.

In connection with its purchase of common stock, Intel has agreed not to transfer any of its shares of common stock to anyone except affiliates for a period of eighteen months, but this transfer restriction provision will be terminated if we have a change of control. In addition, the transfer restriction does not prohibit Intel from participating in future registered offerings initiated by us or from engaging in hedging transactions commencing six months from the date of the equity offering. Intel also has registration rights in connection with its holdings.

On May 25, 1999, WCG entered into a non-exclusive alliance agreement with Teléfonos de México. Under the terms of the agreement, both WCG and Teléfonos de México must first seek to obtain select international wholesale services between Mexico and the United States and various other services from each other. WCG and Teléfonos de México will also sell each other's products to their respective customers and negotiate the terms under which both parties will provide installation and maintenance of communications equipment and other services for the other. In addition, WCG and Teléfonos de México will interconnect their long distance fiber-optic networks to jointly develop seamless voice, data and video transport services to serve their respective markets.

In addition, on May 25, 1999, Teléfonos de México entered into a securities purchase agreement with WCG and Williams to purchase at the closing of the equity offering up to the number of shares of common stock equal to $100 million divided by the initial public offering price less the underwriting discount.

Teléfonos de México's obligation and ability to make the investment is subject to conditions at closing, including that the alliance agreement with Teléfonos de México be in full effect and that SBC approves the portion of Teléfonos de México's investment that exceeds $25 million, which would require SBC's investment to be limited to $425 million.

In connection with its purchase of WCG common stock Teléfonos de México has agreed to certain restrictions and will receive certain privileges, including the following:

- Teléfonos de México has agreed not to acquire more than 10% of WCG's common stock for a period of 10 years
- Teléfonos de México has agreed not to transfer to anyone, except affiliates, any of its shares of WCG's common stock for a period of 3½ years, but this transfer restriction provision will be terminated if WCG has a change of control
- Teléfonos de México has agreed that WCG has the right, for a period of 3½ years, to repurchase WCG stock at market value less the underwriter's discount if the alliance agreement is terminated for any reason other than a breach by WCG

Teléfonos de México also has registration rights in connection with its holdings.

On May 27, 1999, Williams contributed its investments in the holding companies, which owned the investments in ATL, PowerTel and MetroCom, to WCG at their historical book values. The assets were transferred at their historical book values, similar to a pooling of interests, as Williams had common control over WCG and the holding companies contributed.

During the second quarter, management determined that the businesses that provide audio and video conferencing services and closed-circuit video broadcasting services for businesses were held for sale. On June 30, 1999, WCG signed an agreement with Genesys, S.A. to sell its business which provides audio and video conferencing services for approximately $39.0 million. WCG anticipates that this transaction will close prior to August 31, 1999. The expected selling price of both the sale to Genesys and of the other business less costs to sell the assets is expected to result in a loss of approximately $26.0 million in the second quarter of 1999. Costs associated with exit activities could result in additional charges of up to $4.0 million.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Williams Communications Group, Inc.

We have audited the accompanying combined statements of income and changes in net assets and combined statements of cash flows of the Direct Sales Subsidiary, Nortel Communications Systems ("NCS") and TTS Meridian Systems, Inc. ("TTS") (collectively, the "Business") of Enterprise Networks of Northern Telecom Limited ("Nortel") for the four months ended April 30, 1997 and the year ended December 31, 1996. These financial statements are the responsibility of the Business' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined results of the Business' operations and changes in net assets and its cash flows for the four months ended April 30, 1997 and the year ended December 31, 1996, in conformity with generally accepted accounting principles in the United States.

DELOITTE & TOUCHE LLP

Toronto, Ontario
March 26, 1999

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

COMBINED STATEMENTS OF INCOME AND CHANGES IN NET ASSETS

	Four Months Ended April 30, 1997	Year Ended December 31, 1996
	(In thousands)	
Sales	$250,205	$733,111
Cost of Sales	182,539	527,980
Gross Profit	67,666	205,131
Selling, general and administrative	55,242	167,234
Other	—	1,023
Operating income	12,424	36,874
Interest income	592	1,405
Income before provision for income taxes	13,016	38,279
Provision for income taxes (Note 5)	5,330	16,018
Net income	$ 7,686	$ 22,261
Net Assets:		
Beginning of period	$131,505	$140,201
Net Income	7,686	22,261
Distribution from/(to) Nortel	8,339	(30,957)
End of period	$147,530	$131,505

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

COMBINED STATEMENTS OF CASH FLOWS

	Four Months Ended April 30, 1997	Year Ended December 31, 1996
	(In thousands)	
Operating activities		
Net Income	$ 7,686	$ 22,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,121	6,993
Deferred taxes	705	(2,508)
Loss on write-down of property and equipment	—	1,108
Cash provided (used) by changes in:		
Receivables	(12,859)	3,928
Inventories	(1,873)	(3,721)
Prepaid expenses	69	428
Accounts payable and accrued liabilities	(2,832)	4,236
Distribution from/(to) Nortel	8,339	(30,957)
Other	396	4,308
Net cash provided by operating activities	1,752	6,076
Investing activities		
Payments for purchases of property and equipment	(1,752)	(6,076)
Net cash used by investing activities	(1,752)	(6,076)
Increase in cash	—	—
Cash at beginning of periods	—	—
Cash at end of periods	$ —	$ —

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Four Months ended April 30, 1997 and Year ended December 31, 1996
(thousands of dollars)

1. Basis of Presentation of the Combined Financial Statements

On April 30, 1997 the combined net assets of the Direct Sales Subsidiary, Nortel Communications Systems, Inc. ("NCS"), and TTS Meridian Systems, Inc. ("TTS"), (collectively the "Business") of Enterprise Networks of Northern Telecom Limited ("Nortel") were sold to a newly formed entity. Under the terms of the purchase and sale agreement, Williams Communications Group, Inc. ("WCG") and Nortel formed a new entity, Wiltel Communications, LLC (today known as Williams Communications Solutions, LLC or "WCS").

The accompanying combined statements of income and changes in net assets, and combined statements of cash flows ("the statements") have been prepared to reflect the income, changes in net assets and cash flows associated with the Business as if it had operated on a stand alone basis rather than as part of Nortel.

The Business is comprised of the following:

— NCS, which includes the following divisions: NCS East and NCS West; and the consolidated subsidiaries Nortel Federal Systems, Inc., and Bell Atlantic Meridian Systems ("BA Meridian"). BA Meridian was a joint venture general partnership previously owned 80% by NCS and 20% by Bell Atlanticom Systems Inc. Immediately prior to transferring the combined net assets of the Business to WCS, Nortel purchased the 20% interest in BA Meridian held by Bell Atlanticom Systems Inc. On April 30, 1997, 100% of BA Meridian's net assets were sold to WCS, as part of the combined net assets contributed, and;

— TTS

All transactions and balances between combined entities have been eliminated.

The combined statements include 100% of the results of BA Meridian. The 20% portion owned by Bell Atlanticom Systems Inc. and included in these combined statements amounted to $386 and $2,089 of net income, for the four months ended April 30, 1997 and the year ended December 31, 1996, respectively.

The transfer of the net assets of the Business was governed by the following agreements: the Limited Liability Agreement of Wiltel Communications, LLC, dated as of April 1, 1997; the Formation Agreement between Northern Telecom Inc., and Williams Communications Group, Inc. dated as of April 1, 1997, and the Share Purchase Agreements for TTS Meridian Systems, Inc., by and between Northern Telecom Limited and Williams Telecommunications Systems, Inc. ("WTI"), dated April 30, 1997, collectively referred to as the "Agreement."

2. The Business

The Business' principal activity is the marketing, sales and distribution of telecommunications equipment. The Business is highly dependent on Nortel, as substantially all of the products distributed are purchased from Nortel.

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

3. Significant Accounting Policies

Revenues and Related Cost of Sales

Revenues and related costs for contracts and customer service orders are recognized on a percentage-of-completion basis for individual contracts or elements thereof, based on work performed, date of delivery to customer site, and the ratio of costs incurred, to total estimated costs. The equipment portion of contracts is recognized upon shipment.

Maintenance contract revenue is deferred and recognized over the life of the contract on a straight-line basis.

Translation of foreign currencies

Except for TTS, the functional currency of each of the combined entities is the U.S. dollar. The functional currency of TTS is the Canadian dollar. TTS' operations are translated as follows:

i. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date.

ii. Revenues and expenses, including gains and losses on foreign exchange transactions, are translated at average rates for the period.

iii. The unrealized translation gains and losses on the Business' net investment, including long-term intercompany advances, in these operations are normally accumulated in a separate component of stockholders' equity, which would be described as currency translation adjustment ("CTA").

For the purposes of these financial statements CTA was not material, and has been included as part of the combined net assets.

Depreciation

Depreciation is generally calculated under the straight-line method using rates based on the expected useful lives of the assets of 5 to 10 years. The underlying assets being depreciated consist principally of computers and telecommunications equipment, furniture and fixtures, vehicles and leasehold improvements.

The cost of maintenance and repairs, which do not significantly improve or extend the life of the respective assets, is charged to expense as incurred.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the costs over the fair values of the net assets of certain companies acquired by the Business, and is amortized on a straight-line basis over an estimated life of 3 years. The carrying value of goodwill is evaluated to determine whether a potential permanent impairment exists, management considers the financial condition and expected future earnings before tax using projected financial performance. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is identified.

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Income Taxes

The Business, except for the TTS portion, was not a taxable entity when operated by Nortel; rather, its tax position was considered as part of the consolidated tax calculation performed for Nortel. For the purposes of presenting the Business as a stand alone entity an estimate of the tax position has been calculated. The Business used the asset and liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, computed based on the rates and provisions as measured by tax laws.

Use of Estimates

The statements reflect the operations and cash flows of the Business. The statements have been prepared from the books, records and accounts of the Business (including combining workpapers and supporting entries) on the basis of established accounting methods, policies, practices and procedures and the judgements and estimation methodologies used by Nortel and the Business, in accordance with the generally accepted accounting principles of the United States. All of the allocations and estimates reflected in the statements are based on assumptions and estimates that management believes to be reasonable. Actual results could differ significantly from those estimates.

Warranties

Warranty and product allowances on sales are estimated and charged to cost of sales at the time the products are sold to customers.

Recent Accounting Standards

Due to the sale of the Business on April 30, 1997, the results of operations, cash flows and financial position for the Business subsequent to that date would be included in the financial statements of WCS. New accounting standards would be taken into consideration by WCS in the preparation of their financial statements.

4. Goodwill

Total goodwill amortization charged to operations for the four months ended April 30, 1997 and the year ended December 31, 1996 was $333 and $1,283, respectively.

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

5. Income Taxes

The provision for income taxes is comprised of the following:

	Four Months Ended April 30, 1997	Year Ended December 31, 1996
Current		
Federal	$1,851	$13,868
State/Provincial	601	2,150
	2,452	16,018
Deferred		
Federal	2,528	—
State/Provincial	350	—
	2,878	—
Total provision	$5,330	$16,018

Reconciliations of the benefit for income taxes from the statutory rate to the provision for income taxes are as follows:

	Four Months Ended April 30, 1997	Year Ended December 31, 1996
Statutory rate	35.00%	35.00%
Increases (reductions) in taxes from:		
State/Provincial rate	7.78	5.43
Goodwill	0.13	0.66
Other	0.58	0.83
Total provision	43.49%	41.92%

The tax provision above is an estimate to reflect what the Business would have paid had it been a stand alone company. Therefore, cash taxes paid are not disclosed in these statements. Actual income taxes payable, if any, were paid by Nortel, on behalf of the Business, on a consolidated basis.

6. Plans for Employees' Pensions

As the Business was part of Nortel as of April 30, 1997 and December 31, 1996, the eligible employees of the Business were members of the Nortel pension plans. Nortel has non-contributory defined benefit pension plans covering substantially all of its employees. The benefits are based on length of service and rates of compensation.

Nortel's policy is to fund pensions based on widely used actuarial methods as permitted by pension regulatory authorities. The funded amounts reflect actuarial assumptions regarding compensation, interest, and other projections. Plan assets are represented primarily by common stocks, bonds, debentures, secured mortgages, and property.

Pension costs reflected in the combined statements of income are based on the unit credit method of valuation of pension plan benefits.

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The following disclosure presents the estimated expense and funded status reconciliations for the portions of the Nortel plan allocated to WCS employees as if the Business had operated on a stand alone basis. Subsequent to April 30, 1997, WCS curtailed the plan relating to the transferred employees and later settled the plan. As a result the plan as described below no longer exists.

	April 30, 1997	December 31, 1996
Plan Assets and Liabilities:		
Plan assets at fair value	$45,464	$43,069
Actuarial present value of benefit obligation		
Accumulated benefit obligation		
Vested	21,507	20,228
Non-vested	4,534	4,266
Effect of salary projection	17,322	16,299
Projected benefit obligation	43,363	40,793
Excess of plan assets at fair value over projected benefit obligations	2,101	2,276
Less:		
Unrecognized net transition assets	1,000	1,030
Unrecognized prior service costs	(1,225)	(1,251)
Unrecognized net gains	557	557
Pension asset	$ 1,769	$ 1,940

	April 30, 1997	December 31, 1996
Pension Expense:		
Service cost — benefits earned	$ 1,424	$ 3,702
Interest cost on projected plan benefits	1,163	2,926
Estimated return on plan assets	(1,301)	(3,254)
Other		
Amortization of net asset	(29)	(88)
Amortization of unrecognized prior service cost	26	59
Amortization of net loss	—	2
Total expense for the period	$ 1,283	$ 3,347
Assumptions:		
Discount rates	7.75%	7.75%
Rate of return on assets	9.00%	9.00%
Rate of compensation increase	4.5%	4.5%

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

7. Post Retirement Benefits

The eligible employees of the Business were included in the Nortel post retirement plans. The plans provided certain benefits other than pension to the employees. The net post retirement costs include the following components:

	April 30, 1997	December 31, 1996
Plan Assets and Liabilities:		
Plan assets at fair value	$ —	$ —
Accumulated post retirement benefit obligation	14,435	13,621
Deficiency of plan assets at fair value over projected benefit obligation	(14,435)	(13,621)
Unrecognized prior service costs	4,447	4,548
Unrecognized net gains	(183)	(183)
Post retirement liability	$(10,171)	$ (9,256)

	April 30, 1997	December 31, 1996
Post Retirement Expense:		
Service cost	$429	$1,095
Interest cost	385	966
Other		
Amortization of unrecognized prior service costs	100	300
Total expense for the period	$914	$2,361
Assumptions:		
Weighted average discount rate	7.75%	7.75%
Rate of compensation increase	4.50%	4.50%

The effect of a 1% increase in the assumed health care cost trend is not material. The plan was unfunded at April 30, 1997 and December 31, 1996.

8. Related Party Transactions

Transactions with Nortel and affiliated companies are significant. These transactions occur at prices established between the Business and Nortel.

The Business purchased equipment based on Distribution Agreements with other Nortel operating units, in the amount of $91,500 for the four months ended April 30, 1997 and $287,100 for the year ended December 31, 1996. These amounts reflect transfer prices equivalent to amounts which would have been charged to any other third party distributor.

Pursuant to service arrangements with Nortel the Business paid approximately $15,309 to Nortel during the four months ended April 30, 1997 and $50,867 during the year ended December 31, 1996 for fringe benefits, accounting, computer and other administrative services provided by Nortel. The charges were based on actual costs incurred or allocated costs based on relative factors such as square foot occupancy or head count. In management's estimates, the allocated methodologies used are reasonable. In addition these amounts reflect fair value, and

DIRECT SALES SUBSIDIARY, NORTEL COMMUNICATIONS SYSTEMS, INC. AND TTS MERIDIAN SYSTEMS, INC. OF ENTERPRISE NETWORKS OF NORTHERN TELECOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

approximate amounts that would have been incurred by the Business had it purchased these services from third parties.

9. Information on Business Segment by Geographic Area

The Business operates in one business segment, telecommunications equipment, and its activity consists of the sales and distribution of Nortel products in North America.

Geographic Area

The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic areas. The following table sets forth information by geographic area:

	Four Months Ended April 30, 1997	Year Ended December 31, 1996
Total revenues:		
United States	$223,860	$651,429
Canada	26,345	81,682
Total customer revenues	250,205	733,111
Contribution to operating earnings:		
United States	56,599	172,558
Canada	11,067	32,573
	67,666	205,131
General corporate expenses	54,650	166,852
Income before income taxes	$ 13,016	$ 38,279

10. Stock-Based Compensation

Certain employees of the Business were participants of the Northern Telecom Limited 1986 Stock Option Plan As Amended and Restated ("the Plan"). Under the Plan, options to purchase common shares of Nortel were granted at the market value on the effective date of the grant. Generally, options become exercisable over two or three years, depending on the year of the grant, and expire after ten years.

The Business' employee stock-based awards were accounted for under provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Common stock options do not result in compensation expense, because the exercise price of the stock options equals the market price of the underlying stock on the effective date of grant.

SFAS No. 123, "Accounting For Stock-Based Compensation," requires that companies who continue to apply APB Opinion No. 25 disclose pro forma net income assuming that the fair-value method in SFAS No. 123 had been applied in measuring compensation cost. Pro forma net income for the Business was $6,376 and $20,987 for the four months ended April 30, 1997 and the year ended December 31, 1996, respectively. Reported net income was $7,686 and $22,261, for the four months ended April 30, 1997, and the year ended December 31, 1996, respectively. Since compensation expense from stock options is recognized over the future years' vesting period for pro forma disclosure purposes, and additional awards generally are made each year, pro forma amounts may not be representative of future years' amounts.

These options were not assumed by WCS on the transfer of the net assets of the Business, and employees could continue to hold the options of Nortel common shares under the Plan.

	April 30, 1997	December 31, 1996
Options granted for the period	144,200	135,900
Weighted-average grant date fair value	$ 13.22	$ 9.92
Options outstanding at period end	282,600	240,286
Options exercisable at period end	60,850	54,786

11. Commitments

As at April 30, 1997, the future minimum lease payments under operating leases consisted of:

Remaining 8 months of 1997	$10,017
1998	12,276
1999	8,330
2000	5,276
2001	1,532
Thereafter	601
Total	$38,032

Rent expense on operating leases for the four months ended April 30, 1997 and the year ended December 31, 1996 amounted to $4,738 and, $14,053, respectively.

12. Contingent Liabilities

The Business is, from time to time, a litigant in various claims and proceedings arising from the normal course of business. Although the outcome of these proceedings cannot be precisely determined, management believes, based on currently known facts and circumstances, that the disposition of these matters will not have a material adverse effect on the Business' financial position.

13. Credit Risk

The Business is exposed to credit risk from customers. Such risk is minimized due to the nature of the telecommunications distribution business which results in the Business transacting with a large number of diverse customers.

Exhibit 10

This Exhibit contains confidential and proprietary information and is being filed separately under seal pursuant to TRA Rule 1220-1-1-.03(8).

Exhibit 11

This Exhibit contains confidential and proprietary information and is being filed separately under seal pursuant to TRA Rule 1220-1-1-.03(8).

Exhibit 12

This Exhibit contains confidential and proprietary information and is being filed separately under seal pursuant to TRA Rule 1220-1-1-.03(8).

NOTICE OF FILING

RE: Application of Williams Communications, Inc. d/b/a Vyvx, Inc., for a Certificate of Public Convenience and Necessity as a Competing Telecommunications Service Provider, 99-00398

BOULT CUMMINGS CONNERS & BERRY PLC

Williams Communications, Inc. d/b/a Vyvx, Inc. has filed an Application with the Tennessee Regulatory Authority for a Certificate of Public Convenience and Necessity as a Competing Telecommunications Service Provider. I hereby certify that copy of this notice has been served on the following persons via U.S. mail this 16th day of July, 1999.

Ardmore Telephone Company, Inc.
Terry Wales, General Manager
P.O. Box 549
517 Ardmore Avenue
Ardmore, TN 38449

Century Telephone or Adamsville
David Dickey, Division Manager
P.O. Box 405
116 N. Oak Street
Adamsville, TN 38310

Century Telephone of Claiborne
Don Ray Fannon, Division Manager
P.O. Box 100
57 Main Street
New Tazewell, TN 37825

Century Telephone of Ooltewah-Collegedale, Inc.
Terry Crutchfield, Division Manager
P.O. Box 782
5616 Main Street
Ooltewah, TN 37363

Citizens Telephone Company of Tennessee
Citizens Telecommunications Company of the Volunteer State
Mike Swatts, State Regulatory Director, South
P.O. Box 770
300 Bland Street
Bluefield, WV 24701

TDS Telecom-Tellico Telephone Company, Inc.
P.O. Box 9
102 Spence Street
Tellico Plains, TN 37385-0009

Loretto Telephone Company, Inc.
Louise Brown, President
P.O. Box 130
Loretto, TN 38469

Millington Telephone Company, Inc.
W. S. Howard, President
4880 Navy Road
Millington, TN 38053

Sprint-United
Steve Parrott
Director-Regulatory Affairs
112 Sixth Street
Bristol, TN 37620

TDS Telecom-Concord Telephone Exchange, Inc.
Jerry R. Parkerson, Manager
P.O. Box 22610
701 Concord Road
Knoxville, TN 37933-0610

TDS Telecom-Humphreys County Telephone Company
Bernard R. Arnold, Manager
P.O. Box 552
203 Long Street
New Johnsonville, TN 37134-0552

TDS Telecom-Tennessee Telphone Company
P.O. Box 18139
Knoxville, TN 37928-2139

TEC-Crockett Telephone Company, Inc.
P.O. Box 7
Friendship, TN 38034

TEC-People's Telephone Company, Inc.
P.O. Box 310
Erin, TN 37061

TEC-West Tennessee Telephone Company, Inc.
P.O. Box 10
244 E. Main Street
Bradford, TN 38316

United Telephone Company
P.O. Box 38
120 Taylor Street
Chapel Hill, TN 37034

Michael B. Bressman

0571665.01
100494-000 07/16/1999

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

Application of Williams Communications, Inc.	)
d/b/a Vyvx, Inc. for a	) TRA Docket No. 99-00398
Certificate of Public Convenience and Necessity as a	)
Competing Telecommunications Service Provider	)

PRE-FILED TESTIMONY OF MICKEY S. MOON

I, Mickey S. Moon, do hereby testify as follows in support of the application of Williams Communications, Inc., d/b/a Vyvx, Inc. ("Williams") for a certificate of public convenience and necessity as a competing telecommunications service provider to provide telecommunications services throughout the State of Tennessee:

Q: Please state your full name, business address, and title.

A: My name is Mickey S. Moon and my business address is 4100 One Williams Center MD 28-6, Tulsa, Oklahoma 74172. I am Williams' Director of Regulatory Affairs.

Q: What are the responsibilities associated with your position?

A: My responsibilities are to ensure compliance with all applicable rules and regulations related to the provision of telecommunications service for Williams, including certification and tariffing requirements. I also represent the company in rulemakings and as a witness.

Q: What is your educational background?

A: I hold a B.A. degree from the University of Texas at Arlington (1991) in Political Science and a J.D. from the University of Tulsa College of Law (1994).

Q: Please describe your employment history as relevant to the telecommunications industry.

A: I have four years experience in public utility and telecommunications law and regulation. I was an assistant attorney general in the Oklahoma Attorney General's Office from 1995 until 1998. During that time, I represented the Oklahoma consumers of public utility services, primarily natural gas, electric power, and telecommunications. From March, 1997 until April, 1998, I was in charge of the Attorney General's Public Utility Section. In April, 1998 I joined Williams in my present role as Director of Regulatory Affairs.

Q: Are all statements in Williams' application for a certificate of public convenience and necessity filed before the Tennessee Regulatory Authority and any amendments or supplemental information filed in connection therewith, true and correct to the best of your knowledge, information and belief?

A: Yes.

Q: Please describe the current corporate structure of Williams.

A: Williams is a wholly-owned subsidiary of Williams Communications Group, Inc., which, in turn, is a wholly owned subsidiary of Williams Holdings of Delaware, Inc. The Williams Companies, Inc., a publicly traded company, owns 100 percent of Williams Holdings of Delaware, Inc.

Q: Where is Williams incorporated?

A: Williams is organized under the laws of the State of Delaware.

Q: Is Williams qualified to do business in Tennessee?

A: Yes.

Q: Does Williams possess the requisite managerial, financial, and technical abilities to provide the services for which it has applied for authority?

A: Yes.

Q: Please describe Williams' financial qualifications.

A: Williams is financially qualified to provide the telecommunications services for which authority is requested. As of the end of 1998, Williams' direct corporate parent, Williams Communications Group, Inc. ("WCG") had assets of approximately $ 2.3 billion and revenues of approximately $ 387 million. The Williams Companies, Inc., the ultimate corporate parent of WCG and Williams recently announced its intention to file an initial public offering for a minority interest in WCG, which will expand access to capital to support growth in the communications-side of the business. On April 9, 1999, WCG filed for an initial public offering which is currently under review by the Securities and Exchange Commission. Williams will primarily fund its services in Tennessee through revenues generated by its operations as well as funds received through its direct corporate parent.

Q: Please describe Williams' technical qualifications.

A: Williams is technically qualified to provide the telecommunications services for which authority is requested in Tennessee. Williams has provided interstate telecommunications services for over 10 years. Specifically, Williams has provided interstate private lines used to transmit point-to-point broadcast quality signals since 1989. Television networks typically send programming from their production studios to their affiliated stations by means of satellite uplinks (satellite dishes). In order to broadcast a remote event, such as a live news report or baseball game, the networks require a telecommunications link, known as "backhaul," to transmit the video and audio signals from the remote location to the studio. Williams is the premier provider of backhaul services. Most of Williams' customers for these services are television networks, television production houses, movie/television studios, cable television systems, and television and radio stations. The content of transmissions regularly include professional sporting events and news feeds.

Because telecommunications is a rapidly changing market driven by technological innovation, Williams regularly provides training to its employees to ensure the provision of high-quality services. To manage its nationwide fiber-optic network, Williams operates a centralized operations and control center ("NOC") in Tulsa, Oklahoma. Customers may report services problems 24 hours per day, seven days a week, although the NOC regularly detects problems on the network before receiving notice from a customer. One of the best indications of Williams' technical ability, however, is the reliance placed on Williams by its customers. For instance, Williams regularly provides point-to-point broadcast-quality transmission services to handle high-profile events, such as the Super Bowl.

Q: Please describe Williams' managerial qualifications.

A: Williams has the requisite managerial qualifications to provide the telecommunications services for which authority is requested in this Application. Williams is managed by a select team of individuals with substantial management and telecommunications experience. This experience and expertise will enable Williams to manage the implementation and provision of the services for which authority is requested.

The President and CEO of Williams is Howard E. Janzen. Mr. Janzen has 18 years of experience in the telecommunications and energy industries, holding a variety of management positions within Williams. Mr. Janzen joined the communications-side of The Williams Companies, Inc. in 1995. Before that, Mr. Janzen served in numerous management positions with Williams' energy affiliates, and was involved in pioneering construction of fiber-optic facilities within pipelines and pipeline corridors for Wiltel, a former affiliate of Williams which ultimately become the fourth largest facilities-based long distance carrier in the nation before it was sold in 1995. Mr. Janzen is also on Williams' Board of Directors. Frank M. Semple is the president of Williams

Network, a division of Williams. Mr. Semple has nearly two decades of experience with Williams and brings to his office a track record of proven leadership skills within several of Williams business units. While serving in numerous management positions with Williams Pipe Line Company ("WPL"), an affiliate of Williams, Mr. Semple implemented innovative technology that positioned that company as an industry leader in customer service and systems. Mr. Semple is also on Williams' Board of Directors and is an Assistant Secretary and Assistant Treasurer.

Delwin L. Bothof is the president of Williams Network Applications, a division of Williams. Mr. Bothof also serves on Williams' Board of Directors and is an Assistant Secretary and Assistant Treasurer. Williams Network Applications division leads multimedia applications across Williams' fiber-optic and satellite communications networks. Services and products within this division include point-to-point broadcast quality transmission services for broadcasters, advertisers, and production studios, audio and video conferencing, ChoiceSeat in-stadium sports entertainment network, interactive training and distance learning, and Williams Telemetry wireless telephony communications for the energy and utility industries.

From 1989 to 1997, Mr. Bothof served as President of Williams. Mr. Bothof has more than 25 years experience in the telecommunications industry. Mr. Bothof served as partner and president of Atlanta-based Tritek Communications, Inc., a provider of integrated communication networks. Before that, he was director of Corporate Planning and Development for BellSouth Corporation and later founded and served as President of BellSouth Ventures Company. Mr. Bothof also served as President of Datko Corporation, a provider of advanced telecommunications systems, and Vice which included software and hardware for data communication test instrumentation. He was later promoted to Marketing Manager and then to General Manager.

Miller S. Williams is the Senior Vice President of Corporate Development and Planning for Williams and an Assistant Secretary and Assistant Treasurer. Mr. Williams has more than 20 years of diversified business experience. Prior to joining Williams, he spent 10 years in real estate development and oil and gas syndications as President of Harbour Group. In 1998, he joined Williams Telecommunications Systems, Inc., as Vice President of Corporate Development. While there, he was responsible for exploring potential strategic partnerships, acquisitions, investments, and projects for enhancing growth. He has also served as manager of Special Projects for Williams Pipe Line Company, and Director of International Marketing for Agrico Chemical Company. Mr. Williams also serves on Williams' Board of Directors and is an Assistant Secretary and Assistant Treasurer.

Joseph C. Turcotte is Senior Vice President and Chief Operating Officer of Williams Communications Network Services, a division of Williams. Mr. Turcotte has 13 years of operations and engineering experience in the telecommunications and energy industries. Before joining Williams, Mr. Turcotte served in supervisory and managerial engineering positions for Williams Pipe Line Company, including Director of Information Services. Mr. Turcotte also serves on Williams' Board of Directors.

Gary L. Watson is Williams' Executive Director of Network Voice Services. Mr. Watson is the lead person for Williams' Switched Voice Network Services. He has twenty-eight years experience in all areas of domestic and international communications. Prior to joining Williams in 1998, Mr. Watson was employed by AT&T as a General Manager of Managed Network Solutions. In that capacity he managed the networks of over sixty of AT&T's largest customers. Prior to joining AT&T, Mr. Watson served thirteen years in Operations, Engineering, and Operator Services for Southwestern Bell Telephone. The last fifteen years of his career with AT&T was spent in both Domestic and International Sales, Operations and Network Management Services. Mr. Watson also serves on Williams' Board of Directors.

Laura A. Kenny is the Senior Vice President and General Manager of Williams Vyvx Services, a Division of Williams. Ms. Kenny is also an Assistant Secretary and Assistant Treasurer and serves on Williams' Board of Directors. Williams Vyvx Services is a leading international provider of integrated video, fiber-optic, satellite and teleport transmission services. Her responsibilities include strategic planning, marketing, sales, operations, and administration for the division's worldwide presence with nearly 500 employees in 30 offices in the United States, the United Kingdom, Singapore, and Australia. Ms. Kenny has more than 17 years experience in the telecommunications industry. Before joining Williams in 1997, Ms. Kenny served as an executive with AT&T, where she held numerous marketing and operations positions. She developed national marketing plans for AT&T Communications Services and established a software development training institute in Singapore in collaboration with Bell Labs and the Singapore government.

Q: What services will Williams offer?

A: Williams initially plans to offer interLATA and intraLATA interexchange switched-voice telecommunications services throughout Tennessee, primarily to authorized interexchange carriers ("IXCs"). These service offerings will give both facilities-based and switchless interexchange carriers a competitive alternative of reselling Williams interexchange services to their end users, rather than building their own IXC facilities or reselling the interexchange services of another IXC. In the future, Williams may also offer local exchange and exchange access services and additional advanced intrastate interexchange services, including, without limitation, private line, Asynchronous Transfer Mode, Internet Protocol, and frame relay services.

Williams initially entered Tennessee's intrastate telecommunications market on a resale basis and presently holds authority from the Tennessee Regulatory Authority to operate as a reseller or telecommunications operator service provider in Tennessee (TRA Case Number 99-00034). However, Williams plans to begin construction of extensive interstate fiber-optic facilities that will pass through Tennessee in 1999, which may be used, in part, to provide intrastate telecommunications services. Williams will, upon certification and prior to commencing service, file its initial tariffs for telecommunications services with the Tennessee Regulatory Authority ("TRA"). If Williams offers additional services in the future, it will file appropriate tariffs with the TRA.

Q: Will the granting of a certificate of public convenience and necessity to Williams serve the public interest and need?

A: Yes. The requested certificate of public convenience and necessity will further the public interest because it will enhance telecommunications facilities and facilities-based competition within Tennessee. This will increase customer choice for users of telecommunications services. The increased competition will also improve the affordability and quality of telephone service in Tennessee.

Williams planned fiber-optic construction project will also serve the public interest. As businesses increasingly rely upon information technologies, the availability of modern telecommunications facilities attracts industry, lowers production costs, and facilitates economic growth.

Q: Has Williams filed its small and minority-owned business participation plan?

A: Yes. Williams is committed to providing opportunities for small and minority-owned businesses in the telecommunications industry.

Q: Has Williams filed its Year 2000 Disclosure Statement?

A: Yes.

Q: Has Williams filed its toll dialing parity plan?

A: No. Williams will file a toll dialing parity plan 60 days prior to offering any voice-grade local exchange services.

Q: Will Williams offer telecommunications services in areas served by rural telcos or telephone cooperatives?

A: Although Williams does not plan to offer local services at this time, it may choose to offer such services in the future. Unless otherwise permitted by federal or state law, Williams would not offer local exchange telecommunications services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines, except for those that have voluntarily entered into an agreement with a competing telecommunications service provider or that have applied to provide telecommunications services in an area outside its service area existing as of June 6, 1995. Williams would also not provide service in any area served by a telephone cooperative [illegible] telecommunications services in Virginia. Williams has initial applications or applications for additional authority pending in New Mexico, Hawaii, Alaska, Utah, and Colorado.

Q: Who is knowledgeable about Williams' operations and will serve as Williams' contact for repair and maintenance information?

A: Tom Armstrong, director of Network Operations.

Q: Will Williams comply with all applicable statutes, rules and orders pertaining to the provision of telecommunications services in Tennessee?

A: Yes.

Q: Does this conclude your testimony?

A: Yes.

VERIFICATION

I affirm that the foregoing representations are true to the best of my knowledge, information, and belief.

Mickey S. Moon
Mickey S. Moon
Director of Regulatory Affairs
Williams Communications, Inc.

Subscribed and sworn to before me this
16th day of July, 1999.

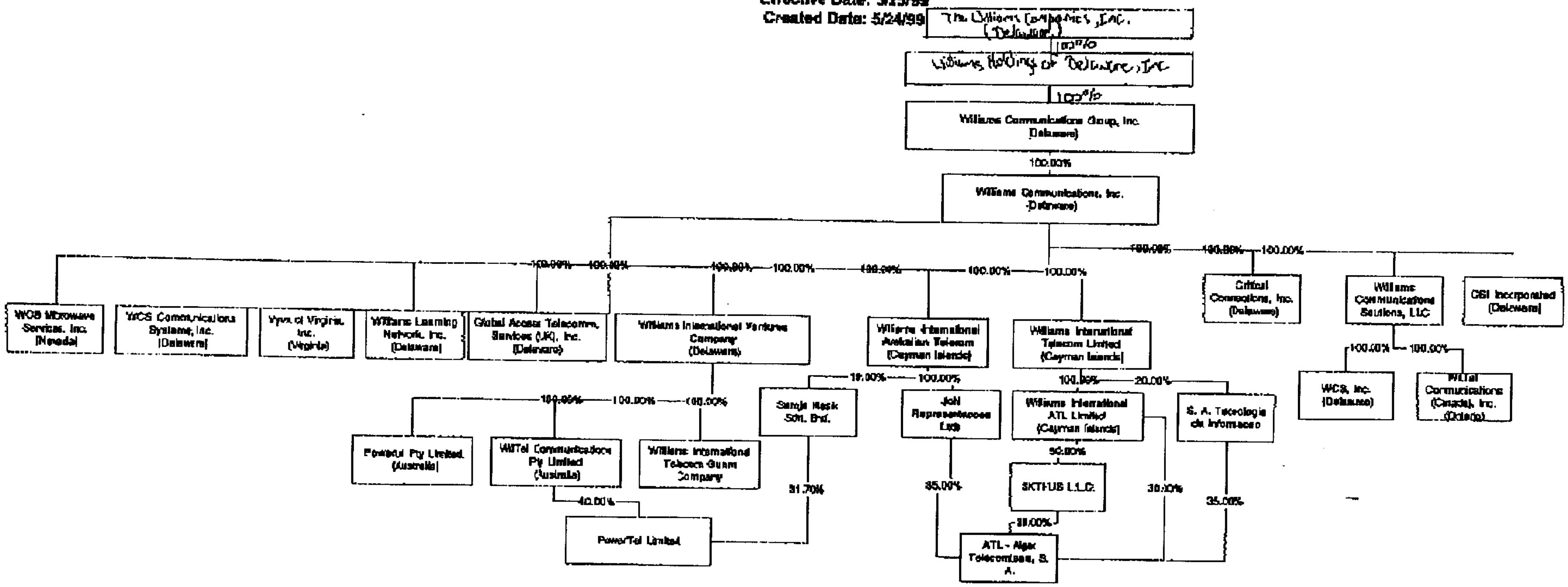
Carol A. Ranck
Notary Public
State of Oklahoma
County of Tulsa

My Commission Expires 4-19-2000

CAROL A. RANCK NOTARY PUBLIC STATE OF OKLAHOMA TULSA COUNTY

Subsidiary Chart for Williams Communications Group, Inc.

Effective Date: 5/25/99
Created Date: 5/24/99



'ed by: Teri Eaton

May 24, 1999