

LEVEL 3 COMMUNICATIONS INC

FORM 10-K (Annual Report)

Filed 03/31/95 for the Period Ending 12/31/94

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, CO 80021
Telephone	7208881000
CIK	0000794323
Symbol	LVLT
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

LEVEL 3 COMMUNICATIONS INC

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Filed 3/31/1995 For Period Ending 12/31/1994

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Telephone	720-888-1000
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended Commission File
December 31, 1994 Number 0-15658

PETER KIEWIT SONS', INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-0210602
(I.R.S. Employer
Identification No.)

1000 Kiewit Plaza, Omaha, Nebraska
(Address of principal executive offices)

68131
(Zip Code)

(402) 342-2052

(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

Class B Construction & Mining Group Nonvoting Restricted Redeemable
Convertible Exchangeable

Common Stock, par value \$.0625

Class C Construction & Mining Group Restricted Redeemable

Convertible Exchangeable

Common Stock, par value \$.0625

Class D Diversified Group Convertible Exchangeable

Common Stock, par value \$.0625

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The registrant's stock is not publicly traded, and therefore there is no ascertainable aggregate market value of voting stock held by nonaffiliates.

As of March 31, 1995, the number of shares outstanding of each class of the Company's common stock was:

Class B - 884,400 shares Class C - 13,006,455 shares Class D - 21,251,591 shares

Portions of the Company's definitive Proxy Statement for the 1995 Annual Meeting of Stockholders are incorporated by reference into

Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS.

Peter Kiewit Sons', Inc. (the "Company") was incorporated in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. The Company entered the coal mining business in 1943 and the telecommunications business in 1988. The Company is a holding company with three wholly-owned first-tier subsidiaries: Kiewit Construction Group Inc. ("KCG"), Kiewit Mining Group Inc. ("KMG"), and Kiewit Diversified Group Inc. ("KDG"). KDG has four primary second-tier subsidiaries: two wholly-owned subsidiaries, Kiewit Energy Group Inc. and PKS Information Services, Inc., and two partially-owned subsidiaries, MFS Communications Company, Inc. and RCN Corporation. Kiewit Energy Group Inc. is the parent of Kiewit Coal Properties Inc. ("KCP") and Kiewit Energy Company ("KEC"), which partially-owns California Energy Company, Inc. ("CECI"). RCN Corporation partially-owns C-TEC Corporation ("C-TEC"). MFS, CECI, and C-TEC are publicly traded companies and additional information about them is contained in their separate Forms 10-K.

The Company reports financial information about three business segments: construction, mining, and telecommunications. This financial information, as well as certain geographical information, is contained in Note 18 to the Company's financial statements. Financial information about the construction segment reflects the assets and operations of KCG. Financial information about the telecommunications segment is a combination of information about MFS and C-TEC. Financial information about the mining segment is a combination of information about KMG and KCP.

CONSTRUCTION

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc., a wholly-owned subsidiary of the Company (collectively, "KCG"). KCG and its joint ventures perform construction services for a broad range of public and private customers primarily in North America. New contract awards during 1994 were distributed among the following construction markets: transportation, including highways, bridges, airports and railroads (48%), power (18%), oil and gas (12%), commercial buildings (8%), sewer and waste disposal (5%), and residential (4%), with smaller awards in the water supply systems, dams and reservoirs, marine, and mining markets. In February 1994, KCG acquired for \$49 million APAC-Arizona, Inc. which has construction operations and produces ready-mixed concrete and asphalt.

As general contractors, KCG's operating subsidiaries are responsible for the overall direction and management of construction projects and for completion of each contract in accordance with terms, plans, and specifications. KCG plans and schedules the projects, procures materials, hires workers as needed, and awards subcontracts. KCG generally requires performance and payment bonds or other assurances of operational capability and financial capacity from its subcontractors.

KCG's construction contracts generally provide for the payment of a fixed price for the work performed. Profit is realized by the difference between the contract price and the actual cost of construction, and the contractor bears the risk that it may not be able to perform all the work for the specified amount. The contracts generally provide for progress payments as work is completed, with a retainage to be paid when performance is substantially complete. Construction contracts frequently contain penalties or liquidated damages for late completion and infrequently provide bonuses for early completion. KCG also provides services under "cost plus" contracts. The contractor is reimbursed for its costs and also receives a flat fee or a fee based on a percentage of its costs.

Government Contracts. Public contracts accounted for 67% of the combined prices of contracts awarded to KCG during 1994. Most of these contracts were awarded by government and quasi-government units after competitive bidding. Most public contracts are subject to termination at the election of the government. In the event of termination, the contractor is entitled to receive the contract price on completed work and payment of termination related costs. The volume of available government work is affected by budgetary and political considerations. A significant decrease in the amount of new government contracts, for whatever reasons, would have a material adverse effect on KCG.

Demand. The volume and profitability of KCG's construction work depends to a significant extent upon the general state of the economies of the United States and Canada, and the volume of work available to contractors. Fluctuating demand cycles are typical of the industry, and such cycles determine to a large extent the degree of competition for available projects. KCG's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or governmental action.

Joint Ventures. KCG enters into joint ventures to efficiently allocate expertise and resources among the venturers and to spread risks associated with particular projects. In most joint ventures, if one venturer is financially unable to bear its share of costs and expenses, the other venturers may be required to pay those costs and expenses. KCG prefers to act as the sponsor of joint ventures. KCG was the sponsor of 50 of its 62 joint venture bids submitted in 1994. KCG's share of joint venture revenue accounted for 24% of its 1994 total revenue.

Locations. KCG structures its construction operations around 19 principal operating offices located throughout the U.S. and Canada, with headquarters in Omaha, Nebraska. Through its decentralized system of management, KCG has been able to quickly respond to changes in the local markets. Outside North America, KCG participates in the construction of a tunnel under Denmark's Great Belt Channel and a geothermal power plant in the Philippines.

Backlog. At the end of 1994, KCG had a backlog (work contracted for but not yet completed) of \$2.2 billion. Of this amount, \$350 million is not expected to be completed during 1995. Backlog was \$2.1 billion at the end of 1993.

Competition. A substantial portion of KCG's business involves construction contracts obtained through competitive bidding. A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, reliability and timeliness. The construction industry is highly competitive and lacks firms with dominant market power. In 1994, Engineering News Record ranked KCG as the 18th largest contractor in the United States. It ranked KCG 2nd in the transportation market and 6th in the domestic heavy construction

market. These rankings were based on the dollar volume of contracts awarded in 1993. The U.S. Department of Commerce reports that the total value of construction put in place in 1994 was \$520 billion. KCG's U.S. revenues for the same period were \$2.1 billion, or 0.4% of the total market. In 1994 KCG was low bidder on 281 contracts, five of which had a contract price exceeding \$50 million; the average contract price was \$6.3 million.

Properties. KCG has 19 district offices, of which 14 are in owned facilities and 5 are leased. KCG owns or leases numerous shops, equipment yards, storage facilities, warehouses, and construction material quarries. Since construction projects are inherently temporary and location-specific, KCG owns approximately 800 portable offices, shops, and transport trailers. KCG has a large equipment fleet, including approximately 3,000 trucks, pickups, and automobiles, and 1,500 heavy construction vehicles, such as graders, scrapers, backhoes, and cranes.

MINING

The Company is engaged in coal mining through its subsidiaries, Kiewit Mining Group Inc. ("KMG") and Kiewit Coal Properties Inc. ("KCP"). KCP has a 50% interest in three mines, which are operated by KMG. Decker Coal Company ("Decker") is a joint venture with Western Minerals, Inc., a subsidiary of The RTZ Corporation PLC. Black Butte Coal Company ("Black Butte") is a joint venture with Bitter Creek Coal Company, a subsidiary of Union Pacific Corporation. Walnut Creek Mining Company ("Walnut Creek") is a general partnership with Phillips Coal Company, a subsidiary of Phillips Petroleum Company. The Decker Mine is located in southeastern Montana, the Black Butte Mine is in southwestern Wyoming, and the Walnut Creek Mine is in east-central Texas. Kiewit also has interests in two smaller coal mines, a precious metals mine, and several construction aggregate quarries.

Production and Distribution. The coal mines use the surface mining method. During surface mining operations, topsoil is removed and stored for later use in land reclamation. After removal of topsoil, overburden in varying thicknesses is stripped from above coal seams. Stripping operations are usually conducted by means of large, earth-moving machines called draglines, or by fleets of trucks, scrapers and power shovels. The exposed coal is fractured by blasting and is loaded into haul trucks or onto overland conveyors for transportation to processing and loading facilities. Coal delivered by rail from Decker originates on the Burlington Northern Railroad. Coal delivered by rail from Black Butte originates on the Union Pacific Railroad. Coal is also hauled by trucks from Black Butte to the nearby Jim Bridger Power Plant. Coal is delivered by trucks from Walnut Creek to the adjacent facilities of the Texas-New Mexico Power Company.

Customers. The coal is sold primarily to electric utilities, which burn coal in order to generate steam to produce electricity. Approximately 89% of sales are made under long-term contracts, and the remainder are made on the spot market. Approximately 71, 84, and 55 percent of KCP's revenues in 1994, 1993, and 1992, respectively, were derived from long-term contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). The sole customer of Walnut Creek is the Texas-New Mexico Power Company.

Contracts. Customers enter into long-term contracts for coal primarily to secure a reliable source of supply at a predictable price. KCP's major long-term contracts have remaining terms ranging from 5 to 34 years. A majority of KCP's long-term contracts provide for periodic price adjustments. The price is typically adjusted through the use of various indices for items such as materials, supplies, and labor. Other portions of the price are adjusted for changes in production taxes, royalties, and changes in cost due to new legislation or regulation, and in most cases, such cost items are passed through directly to the customer as incurred. In most cases the price is also adjusted based on the heating content of the coal. Beginning in 1993 the amended contract between Commonwealth Edison Company and Black Butte Coal Company provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte mine, but with coal purchased from two unaffiliated mines in the Powder River Basin of Wyoming and Decker.

Coal Production. Coal production commenced at the Decker, Black Butte, and Walnut Creek mines in 1972, 1979, and 1989, respectively. KCP's share of coal mined in 1994 at the Decker, Black Butte, and Walnut Creek mines was 5.4, 2.0, and 1.0 million tons, respectively.

Revenue. KCP's total revenue in 1994 was \$225 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities, and other mining operations was \$101 million, \$103 million, \$20 million, and \$1 million, respectively.

Backlog. At the end of 1994, the backlog of coal sold under KCP's long-term contracts was approximately \$1.8 billion, based on December 1994 market prices. Of this amount, \$213 million is expected to be sold in 1995.

Reserves. At the end of 1994, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 179, 58, and 89 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 65.4, 4.8, and 21.4 million tons, respectively. Assigned reserves represent coal which can be mined using KCP's current mining practices. Committed reserves (excluding alternate source coal) represent KCP's maximum contractual amounts. These coal reserve estimates represent total proved and probable reserves.

Leases. The coal reserves and deposits of the mines are held pursuant to leases with the federal government through the Bureau of Land Management, with two state governments (Montana and Wyoming), and with numerous private parties.

Competition. The coal industry is highly competitive. KCP competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than KCP, but also with alternative methods of generating electricity and alternative energy sources. In 1993, KCP's production represented 1.6% of total U.S. coal production.

Demand for KCP's coal is affected by economic, political and regulatory factors. For example, recent "clean air" laws may stimulate demand for low sulphur coal. KCP's western coal reserves generally have a low sulfur content (less than one percent) and are currently useful principally as fuel for coal-fired steam-electric generating units. KCP's sales of its western coal, like sales by other western coal producers, typically provide for delivery to customers at the mine. A significant portion of the customer's delivered cost of coal is attributable to transportation costs. Most of the coal sold from KCP's western mines is currently shipped by rail to utilities outside Montana and Wyoming. The Decker and Black Butte mines are each served by a single railroad. Many of their western coal competitors are served by two railroads and such competitors' customers often benefit from lower transportation costs because of competition between railroads for coal hauling business. Other western coal producers, particularly those in the Powder River Basin of Wyoming, have lower stripping ratios (i.e. the amount of overburden that must be removed in proportion to the amount of mineable coal) than the Black Butte and Decker mines, often resulting in lower comparative costs of production.

Environmental Regulation. Kiewit is required to comply with various federal, state and local laws and regulations concerning protection of the environment. KCP's share of land reclamation expenses in 1994 was \$5.2 million. KCP's share of accrued estimated reclamation costs was \$103 million at the end of 1994. Kiewit does not expect to make significant capital expenditures for environmental compliance in 1995. Kiewit believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors in the industry are similarly affected by such laws.

TELECOMMUNICATIONS

The Company provides telecommunication services through two partially-owned subsidiaries, MFS Communications Company, Inc. and C-TEC Corporation.

MFS COMMUNICATIONS COMPANY, INC.

The Company owns 67% of the common stock of MFS Communications Company, Inc. ("MFS"). The remaining shares are publicly-owned and are traded on the NASDAQ National Market System. Formed in 1987, MFS has headquarters in Omaha, Nebraska. MFS operates, through its subsidiaries, in two business segments: telecommunications services and network systems integration. MFS deploys its own networks and facilities and leases network capacity from other service providers in order to provide a broad array of high quality voice, data and other services specifically designed to meet the requirements of its business and government customers.

MFS Network. At the end of 1993, MFS had fiber optic networks in operation or under development in 22 major metropolitan areas. As of March 1995, MFS provides services on its networks, or through the resale of services, or has network operations under development in 46 major metropolitan areas in the United States and Europe. MFS' networks consist of fiber optic cables, local and long distance switches, advanced electronics, asynchronous transfer mode switching equipment, and associated wiring and equipment. These metropolitan area networks are linked to each other with leased high capacity fiber lines. Since 1993, circuits in service have increased from 947,391 to 1,713,430, the number of buildings connected has increased from 1,583 to 2,754, and the number of switches installed has increased from one to 12.

Telecommunications Services to Large Businesses and Government. MFS Telecom, Inc. ("MFS Telecom") provides dedicated unswitched high capacity access services to large businesses and government telecommunications users. MFS Telecom has historically focused on providing dedicated special access and local private line services, which consist of both primary circuits and back-up protection. While long distance carriers represent a valued portion of MFS Telecom's customer base, MFS Telecom's focus is on the needs of end-user customers. Circuits that have an MFS end user at one or both ends are now the source of approximately 80% of MFS Telecom's revenues.

Integrated Telecommunications Services. MFS Intelenet, Inc. ("MFS Intelenet") provides a single source for integrated local and long distance telecommunications services and facilities management to small and medium sized businesses. MFS Intelenet provides these services utilizing both MFS Intelenet's network and switching platforms as well as facilities and services provided by others. In 1994, MFS Intelenet acquired Centex Telemanagement, Inc. ("Centex"), the nation's largest telemanagement company, for \$273 million, and RealCom Office Communications, Inc. ("RealCom"), the nation's second largest shared tenant service provider, for \$90 million.

Data Transmission Services. MFS Datanet, Inc. ("MFS Datanet") provides high-speed data communications over an asynchronous transfer mode network. Among the services offered by MFS Datanet is the connection of local area networks across town or across the country at the same native speed and protocol as that at which the local area networks operate. During 1994, MFS Datanet acquired Cylix Communications Corporation, a wide area networking company providing network connectivity for IBM compatible computers at sites throughout North America, for \$14 million.

International Services. MFS International, Inc. ("MFS International") was created to provide services to MFS' existing customer base of multinational companies and to new customers. During 1994, MFS International began offering services in London, Paris, and Frankfurt, Germany. MFS International anticipates constructing a network and offering services in Stockholm during mid-1995.

Network Systems Integration. Initially created to design and build the MFS networks, MFS Network Technologies, Inc. ("MFS-NT") also provides development, design and engineering, project management, construction and support of communications networks and systems to a range of third-party customers. Prominent among its recent projects is a three-year, turnkey, design-through-construction project to create a high-speed communications network for the State of Iowa. Substantially completed in 1994, the network connects schools, government office buildings, and healthcare facilities throughout Iowa and is being used for distance learning and certain of the state government's

communications needs. Texas Instruments and MFS-NT have co-developed an automatic vehicle identification system intended to allow electronic toll collection on toll roads, bridges, and tunnels. MFS-NT had a third-party backlog of approximately \$127 million at the end of 1994, an increase of 16% from the previous year. Approximately \$70 million of such backlog is not expected to be completed in 1995. A substantial portion of the backlog is related to federal, state or local government contracts which extend over multiple years.

Customers. The telecommunications services customers of MFS include large corporations, financial services companies, governmental departments and agencies, and academic, scientific and other major institutions, as well as medium and small businesses and long distance carriers. MFS-NT's third party customers include major local and long distance telecommunications carriers, public utilities, cable television operators, agencies of federal, state and local government, and large corporations. MFS-NT's revenues are and may continue to be dependent upon a small number of large projects. Accordingly, these revenues are likely to vary significantly from period to period.

Competition. In each of its markets, MFS Telecom faces significant competition for its special access and private line telecommunications services from local telephone companies, which currently dominate their local telecommunications markets. MFS Telecom also faces competition in most markets in which it operates from one or more competitive access providers that operate independent fiber optic networks. In addition, potential competitors capable of offering private line, special access, and switched services include cable television companies, electric utilities, long distance carriers, microwave carriers, wireless telephone system operators and private networks built by large end users. MFS Intelenet competes with the local telephone companies, certain competitive access providers, equipment vendors and installers, long distance providers and telecommunications management companies. MFS-NT's primary network systems integration and facilities management competitors are the regional Bell operating companies, long distance carriers, equipment manufacturers and major independent telephone companies.

Regulation. MFS' services are subject to varying degrees of federal, state, local, and foreign regulation. The Federal Communications Commission ("FCC") exercises jurisdiction over all facilities of, and services offered by, telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. The state regulatory commissions retain jurisdiction over the same facilities and services to the extent they are used to originate or terminate intrastate communications. MFS actively seeks to initiate regulatory reform at the federal and state levels to open additional telecommunications markets to competition.

Possible Spin-off of MFS. The Company's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit the Company to make a tax-free distribution of its entire ownership interest in MFS to the Company's Class D stockholders (the "Spin-off"). The Company's management intends to propose a plan (the "Plan") to implement the Spin-off to the Company's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, the Company could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, the Company might not receive the Ruling or the board might not adopt the Plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS Preferred Stock and the Company would not be able to complete the Spin-off. Also, the Spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if the Company's board of directors adopts the Plan, it would reserve the right to abandon, defer or modify the Spin-off at any time.

MFS has agreed in principle to issue to KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit the Company to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to the Company in exchange for the transfer by the Company to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by the Company. The Company anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-\$25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have a dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par value six years after the date of issuance, and (v) would be nontransferable for six years after the date of issuance, except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, the Company would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by the Company. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to the Company.

The Plan would provide for an exchange offer (the "Exchange Offer") by the Company for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, the Company would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next regular conversion period (October 15, 1995 through December 15, 1995). If an Exchange Offer could not be completed during 1995, the Company probably would defer any Spin-off until the first quarter of 1996.

C-TEC CORPORATION

In October 1993, the Company purchased a controlling interest in C-TEC Corporation ("C-TEC") for \$208 million. In a December 1994 rights offering, the Company purchased additional C-TEC shares for \$153 million. Through subsidiaries, the Company now owns 44% of the outstanding shares of C-TEC common stock and 60% of the C-TEC Class B common stock. Holders of common stock are entitled to one vote per share; holders of Class B stock are entitled to 15 votes per share. The Company thus owns 49% of the outstanding shares, but is entitled to

58% of the available votes. C-TEC common stock is traded on the NASDAQ National Market System, and the Class B Stock is quoted on NASDAQ and traded over the counter.

C-TEC has its principal office in Wilkes-Barre, Pennsylvania. C-TEC currently has four operating groups. The Telephone Group consists of a Pennsylvania public utility providing local telephone service to a 19 county, 5,067 square mile service territory in Pennsylvania. The Telephone Group services 219,000 main access lines, of which 171,000 are residential and 48,000 are business related. In February 1995, C-TEC agreed to acquire Buffalo Valley Telephone Company, adding 17,300 access lines in central Pennsylvania, for \$55 million, payable in cash and convertible preferred stock of C-TEC.

The Cable Group is a cable television operator with cable television systems located in New York, New Jersey, Michigan and Delaware. The Cable Group owns and operates cable television systems serving approximately 236,000 customers and manages cable television systems with an additional 36,000 customers, ranking it among the top 30 multiple system operators in the United States. C-TEC has agreed to acquire Twin County TransVideo Inc. in a transaction which is expected to close in the second quarter of 1995. Twin County serves 74,000 subscribers in eastern Pennsylvania. The aggregate consideration will be approximately \$103.5 million of cash, a note, and convertible preferred stock of C-TEC. In January 1995, C-TEC purchased the assets of a cable company in Northern Michigan for \$4.4 million, adding 3200 subscribers. Also in January 1995, C-TEC purchased a 40% equity position in Megacable, S.A. de C.V., Mexico's second largest cable television operator, currently serving 174,000 subscribers in 12 cities. The aggregate consideration for the purchase was \$84.1 million, subject to exchange rate adjustments.

The Long Distance Group sells long distance telephone services in the local service area of the Telephone Group and resells services elsewhere in Pennsylvania. The Communications Group provides telecommunications-related engineering and technical services in the northeastern U.S. A fifth operating group, Mobile Services, was discontinued in 1994. C-TEC's cellular operations were sold in September 1994 for approximately \$190 million. C-TEC sold its telephone answering service operations in December 1994 and expects to complete the sale of its paging business in mid- 1995.

Regulation. The Telephone and Long Distance Groups are subject to FCC regulation. Commonwealth Telephone Company is subject to extensive regulation by the Pennsylvania Public Utility Commission, including its rate-making process. Consequently, the ability of Commonwealth Telephone Company to generate increased income is largely dependent on its ability to increase its subscriber base, obtain higher message volume, and control its expenses. C-TEC's cable television operations are regulated by local and state franchise authorities and by the FCC. The Cable Group has restructured rates and channel offerings to comply with the basic rate regulations and to minimize the revenue impact of the federal Cable Television Consumer Protection and Competition Act of 1992.

OTHER OPERATIONS

CALIFORNIA ENERGY COMPANY, INC.

California Energy Company, Inc. ("CECI") is engaged in the exploration for, and development and operation of, environmentally responsible independent power production facilities worldwide utilizing geothermal resources or other energy sources, such as hydroelectric, natural gas, oil and coal. In January 1995, CECI acquired 51% of the outstanding shares of common stock of Magma Power Company through a cash tender offer and in February 1995 acquired the remaining shares through a merger, using proceeds derived from a public offering of CECI shares and secured bank loans.

After the Magma acquisition, CECI is the largest independent geothermal power producer in the world (based on CECI's estimate of the aggregate megawatts ("MW") of electric generating capacity in operation and under construction). CECI has an aggregate net ownership interest of 354 MW of electric generating capacity in power production facilities in the United States, having an aggregate net capacity of 571 MW. All of these facilities are managed and operated by CECI and are principally located in California. In addition to the electricity sales revenue earned from its net ownership position in such facilities, CECI receives significant fee and royalty income from operating such plants and managing production from the geothermal reservoirs for such facilities. CECI and KDG have an aggregate net ownership interest of 409 MW and 74 MW, respectively, of electric generating capacity in three geothermal power projects in the Philippines; the projects have an aggregate net capacity of 500 MW; the projects are financed and under construction. CECI is also developing eight additional projects with executed or awarded power sales contracts in the Philippines, Indonesia, and the United States. CECI and KDG have an approximate potential net ownership interest of 935 MW and 328 MW, respectively, in these development projects; the projects have an aggregate net capacity of 1,589 MW of potential electric generating capacity.

Kiewit Energy Company ("KEC"), a Company subsidiary, owns 22% (10.6 million shares, including 1.5 million shares purchased in February 1995) of the outstanding common stock of CECI. CECI common stock is traded on the New York, Pacific, and London Stock Exchanges. KEC has options to purchase 5.8 million common shares, at exercise prices below the current market price. In 1991, KEC purchased \$50 million of CECI voting convertible preferred stock, on which dividends are payable in kind at an 8.125% rate. In March 1995, CECI exchanged the preferred stock for \$64.85 million of nonvoting 9.5% convertible subordinated debentures. If its options were exercised and its debentures were converted, KEC would own approximately 34% of CECI's common stock. A 1991 agreement provides for three KEC representatives on the CECI board of directors and prohibits KEC from acquiring more than 49% of CECI's voting stock before March 1996. CECI has headquarters in Omaha, Nebraska.

In 1993, KDG and KCG (together "Kiewit") and CECI signed a joint venture agreement concerning their international activities, which provides that if both Kiewit and CECI agree to participate in a project, they will share all development costs equally. Each of Kiewit and CECI

will provide 50% of the equity required for financing a project developed by the joint venture and CECI will operate and manage such project. The agreement creates a joint development structure under which, on a project by project basis, CECI will be the development manager, managing partner and/or project operator, an equal equity participant with Kiewit and a preferred participant in the construction consortium and Kiewit will be an equal equity participant and the preferred turnkey construction contractor. The joint venture agreement may be terminated by either party on 15 days written notice, provided that such termination cannot affect the pre-existing contractual obligations of either party.

PKS INFORMATION SERVICES, INC.

PKS Information Services, Inc. ("PKSIS") provides remote computing services, or "computer outsourcing", to large scale computing customers on a nationwide basis under long-term contracts. PKSIS provides its services to firms that desire to focus resources on their core businesses while avoiding the capital and overhead costs of operating their own computer centers. Voice and data telecommunications services and professional services practices are in place to support existing and prospective customers. In 1994, 67 percent of PKSIS' revenue was from external customers, and the remainder was from the Company and its subsidiaries. PKSIS' operations and computing equipment are located in a specially designed 89,000 square foot computer center in Omaha, Nebraska.

GENERAL INFORMATION

Environmental Protection. Compliance with federal, state, and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not and is not expected to have a material effect upon the capital expenditures, earnings, or competitive position of the Company and its subsidiaries.

Employees. At the end of 1994, the Company and its majority-owned subsidiaries employed approximately 14,000 people -- 7,100 in Construction, 2,000 in Mining, 4,400 in Telecommunications, 200 in Information Services, and 200 in Diversified and corporate positions.

ITEM 2. PROPERTIES.

The properties used in the construction segment are described under a separate heading in Item 1 above. Properties relating to the Company's mining and telecommunications segments are described as part of the general business descriptions of those segments in Item 1 above. The Company considers its properties to be adequate for its present and foreseeable requirements.

ITEM 3. LEGAL PROCEEDINGS.

General. The Company and its subsidiaries are parties to many pending legal proceedings. Management believes that any resulting liabilities for legal proceedings, beyond amounts reserved, will not materially affect the Company's financial condition or results of operations.

Environmental Proceedings. In a large number of proceedings, the Company, its subsidiaries, or their predecessors are among numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited in landfills or other sites. Management believes that any resulting liabilities for environmental legal proceedings, beyond amounts reserved, will not materially affect the Company's financial condition or results of operations.

Whitney Litigation. In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMCRA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Kiewit and Whitney filed an action, now titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States, in the U.S. Court of Federal Claims ("Claims Court"), alleging that the enactment of SMCRA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Claims Court and the U.S. Supreme Court denied certiorari. In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgment would bear interest compounded annually from 1977 until payment. Kiewit has calculated the interest for the 1977-1994 period to be \$249 million. By agreement, Kiewit will receive 67.5 percent of any award and Whitney will receive the remainder. At year-end 1994, Kiewit and Whitney would be entitled to \$209 million and \$100 million, respectively. Any payments received by Kiewit will be the property of Peter Kiewit Sons' Co., a subsidiary of KDG.

The government filed two post-trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the 1977 value of the property. The government also filed a motion to reopen and set aside the 1989 judgment as void and to dismiss plaintiffs' complaint for lack of jurisdiction. In May 1994, the Claims Court entered an order denying both motions. The government appealed that order, as well as the order regarding compound interest. A hearing on these appeals was held on February 10, 1995. It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment will occur.

MFS Litigation. In March 1994, several former stockholders of MFS Telecom filed a lawsuit against MFS, KDG, and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of MFS Telecom to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and have vigorously contested this lawsuit. Defendants expect that a

trial will be held in summer 1995. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS's liabilities in accordance with the indemnification agreement. If the Spin-off is approved by the Company's Board of Directors and is consummated, KDG would remain obligated to satisfy these liabilities. If KDG does make payments as a result of this litigation, the Company's earnings and stockholders' equity will not immediately decline, because such payments will be recorded in the financial statements as an increase to the original purchase price of the MFS Telecom shares, resulting in goodwill which will be amortized against earnings in future periods.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of 1994.

EXECUTIVE OFFICERS OF THE REGISTRANT.

The table below shows information as of March 31, 1995 about each executive officer of the Company, including his business experience during the past five years (1990-1995). The Company considers its executive officers to be its directors who are employed by the Company or one of its subsidiaries. The Company's directors and officers are elected annually and each was elected on June 4, 1994 to serve until his successor is elected and qualified or until his death, resignation or removal.

Name	Business Experience (1990-1995)	Age
Walter Scott, Jr.	Chairman of the Board and President	63
William L. Grewcock	Vice Chairman	69
Robert E. Julian	Executive Vice President-Chief Financial Officer (since 1991); Vice President-Chief Financial Officer (1990-1991); Treasurer (1990-1993)	55
Kenneth E. Stinson	Executive Vice President (since 1991) Vice President (1990-1991)	52
Richard Geary	Executive Vice President, KCG; President, Kiewit Pacific Co.	60
Leonard W. Kearney	Vice President, KCG; President, Kiewit Construction Company and Kiewit Western Co.	54
James Q. Crowe	Chairman and Chief Executive Officer of MFS	45
Richard R. Jaros	Executive Vice President (since 1993); Vice President (1990-1992); Chairman (since 1993), President and CEO (1992-1993) of CECI; Vice President, KDG (1989-1990)	43
George B. Toll, Jr.	Executive Vice President, KCG (1994); Vice President, Kiewit Pacific Co. (1990-1994)	58
Richard W. Colf	Vice President, Kiewit Pacific Co.	51
Bruce E. Grewcock	President (since 1992), Sr. Vice President (1991-1992), Vice President (1989-1991), Kiewit Mining Group Inc.	41

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information. There is no established public trading market for the Company's common stock. Under the Company's Restated Certificate of Incorporation effective January 1992, the Company now has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock ("Class B"), Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock ("Class C"), and Class D Diversified Group Convertible Exchangeable Common Stock ("Class D"). New Class B and Class C shares can be issued only to Company employees and can be resold only to the Company at a formula price based on the year-end book value of the Construction & Mining Group. The Company is generally required to repurchase Class B and Class C shares for cash upon stockholder demand. Class D shares have a formula price based on the year-end book value of the Diversified Group. The Company must generally repurchase Class D shares for cash upon stockholder demand at the formula price, unless the Class D shares become publicly traded. Although almost all of the Class D shares are owned by employees and former employees, such shares are not

subject to ownership or transfer restrictions.

The formula price of the Class D Stock is based on the book value of Kiewit Diversified Group Inc. ("KDG") and its subsidiaries, plus one-half of the book value, on a stand-alone basis, of the parent company, Peter Kiewit Sons', Inc. ("PKS"). The formula price of the Class B and Class C Stock is based on the combined book value of Kiewit Mining Group Inc. ("KMG") and Kiewit Construction Group Inc. ("KCG") and their subsidiaries, plus one-half of the book value of the unconsolidated PKS. A significant element of the latter formula price is the subtraction of the book value of property, plant and equipment used in construction activities (\$92 million in 1994). A significant annual intercompany transaction reduces the value of the Class D Stock and increases the value of the Class B and Class C Stock. The primary assets of the Company's mining segment are coal mining leases and long-term coal contracts owned by Kiewit Coal Properties, Inc. ("KCP"), a subsidiary of KDG. However, the coal mining properties are managed and operated by KMG. KCP paid mine management fees of \$29 million to KMG in 1994.

Dividends. During 1993 and 1994 the Company declared the following dividends on its common stock:

Dividends. During 1993 and 1994 the Company declared the following dividends on its common stock:

Date Declared	Date Paid	Dividend Per Share	Class
March 19, 1993	May 1, 1993	0.30	B&C
March 19, 1993	May 1, 1993	0.35	D
March 19, 1993	June 1, 1993	0.15	D
October 29, 1993	January 6, 1994	0.40	B&C
April 22, 1994	May 1, 1994	0.45	B&C
October 21, 1994	January 5, 1995	0.45	B&C

The Board of Directors announced in August 1993 that the Company did not intend to pay dividends on Class D shares in the foreseeable future.

Stockholders. On March 31, 1995, the Company had the following number of stockholders for each class of its common stock: Class B--4, Class C--1129, and Class D--1536.

ITEM 6. SELECTED FINANCIAL DATA.

PETER KIEWIT SONS', INC. SELECTED CONSOLIDATED FINANCIAL DATA

The Selected Financial Data of Peter Kiewit Sons', Inc. ("PKS"), the Kiewit Construction & Mining Group ("B&C Stock") and the Kiewit Diversified Group ("D Stock") appear below and on the next five pages. The consolidated data of PKS are presented below with the exception of per common share data which is presented in the Selected Financial Data of the respective groups.

(dollars in millions, except per share amounts)	1994	1993	1992	1991	1990
Results of Operations:					
Revenue (1)	\$ 2,991	\$ 2,191	\$ 2,027	\$ 2,086	\$ 1,917
Earnings from continuing operations before cumulative effect of change in accounting principle (2)	110	261	150	49	108
Net earnings (2)	110	261	181	441	80
Financial Position:					
Total assets (1)	4,504	3,634	2,549	2,632	2,966
Current portion of long-term debt (1)	33	15	3	15	31
Long-term debt, less current portion (1)	908	462	30	110	269
Stockholders' equity (3)	1,736	1,671	1,458	1,396	1,185

PETER KIEWIT SONS', INC.
SELECTED CONSOLIDATED FINANCIAL DATA
(continued)

(1) In October 1993, the Company acquired 35% of the outstanding shares of C-TEC Corporation that have 57% of the available voting rights. In December 1994, the Company increased its ownership to 49% and 58%, respectively.

In January 1994, MFS Communications Company, Inc. ("MFS"), issued \$500 million of 9.375% Senior Discount Notes.

(2) In 1993, through two public offerings, the Company sold 29% of its subsidiary, MFS, resulting in a \$137 million after-tax gain. In 1994, additional MFS stock transactions resulted in a \$35 million after-tax gain to the Company and reduced its ownership in MFS to 67%.

(3) The aggregate redemption value of common stock at December 31, 1994 was \$1.6 billion.

KIEWIT CONSTRUCTION & MINING GROUP
SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1990 to 1994 have been derived from audited financial statements. The historical financial information for the Kiewit Construction & Mining and Kiewit Diversified Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	1994	1993	1992	1991	1990
Fiscal Year Ended					
Results of Operations:					
Revenue	\$ 2,175	\$ 1,783	\$ 1,675	\$ 1,834	\$ 1,671
Earnings before cumulative effect of change in accounting principle	77	80	69	23	57
Net earnings	77	80	82	23	57
Per Common Share (1):					
Earnings before cumulative effect of change in accounting principle	4.92	4.63	3.79	1.12	2.47
Net earnings	4.92	4.63	4.48	1.12	2.47
Dividends (2)	0.90	0.70	0.70	0.30	0.25
Stock price (3)	25.55	22.35	18.70	14.40	10.35
Book value	31.39	27.43	23.31	19.25	14.99
Financial Position:					
Total assets	967	889	862	849	762
Current portion of long-term debt	3	4	2	7	15
Long-term debt, less current portion	9	10	12	13	14
Stockholders' equity (4)	505	480	437	400	350
Formula value (3)	411	391	351	299	249

PETER KIEWIT SONS', INC.

**KIEWIT CONSTRUCTION & MINING GROUP
SELECTED FINANCIAL DATA**

(continued)

(1) In connection with the January 8, 1992 reorganization, each share of previous Class B and Class C Stock was exchanged for one share of new Class B&C Stock and one share of new Class D Stock. Therefore, for purposes of computing Class B&C Stock per share data, the number of shares for years 1990 and 1991 are assumed to be the same as the corresponding number of shares of previous Class B and Class C Stock. Fully diluted earnings per share have not been presented because it is not materially different from earnings per share.

(2) The 1994, 1993 and 1992 dividends include \$.45, \$.40 and \$.30 for dividends declared in 1994, 1993 and 1992, respectively, but paid in January of the subsequent year. Years 1990 and 1991 reflect dividends paid by PKS on its previous Class B and Class C Stock that have been attributed to Kiewit Construction & Mining Group and Kiewit Diversified Group based upon the relative formula values of each group which were determined at the end of each preceding year. Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in such years had the new Class B&C Stock and the Class D Stock been outstanding.

(3) Pursuant to the Restated Certificate of Incorporation, the stock price and formula value calculations are computed annually at the end of the fiscal year.

(4) Ownership of the Class B&C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class B&C Stock at the amount computed, when put to PKS by a stockholder, pursuant to the Restated Certificate of Incorporation. The aggregate redemption value of the B&C Stock at December 31, 1994 was \$411 million.

PETER KIEWIT SONS', INC.

**KIEWIT DIVERSIFIED GROUP
SELECTED FINANCIAL DATA**

The following selected financial data for each of the years in the period 1990 to 1994 have been derived from audited financial statements. The historical financial information for the Kiewit Diversified and Kiewit Construction & Mining Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions except per share amounts)	1994	1993	1992	1991	1990
Results of Operations:					
Revenue (1)	\$ 821	\$ 408	\$ 352	\$ 252	\$ 246
Earnings from continuing operations before cumulative effect of change in accounting principle (2)	33	181	81	26	51
Net earnings (2)	33	181	99	418	23
Per Common Share (3):					
Earnings from continuing operations before cumulative effect of change in accounting principle	1.63	9.08	4.00	1.26	2.20
Net earnings	1.63	9.08	4.92	20.30	1.03
Dividends (4)	-	0.50	1.95	0.70	0.70
Stock price (5)	60.25	59.40	50.65	47.85	35.00
Book value	60.36	59.52	50.75	47.93	35.75
Financial Position:					
Total assets (1)	3,549	2,759	1,709	1,801	2,204
Current portion of long-term debt (1)	30	11	1	8	16
Long-term debt, less current portion (1)	899	452	18	97	255
Stockholders' equity (6)	1,231	1,191	1,021	996	835
Formula value (5)	1,231	1,191	1,021	996	835

PETER KIEWIT SONS', INC.

**KIEWIT DIVERSIFIED GROUP
SELECTED FINANCIAL DATA**

(continued)

(1) In October 1993, the Group acquired 35% of the outstanding shares of C-TEC Corporation that have 57% of the available voting rights. In December 1994, the Group increased its ownership to 49% and 58%, respectively.

In January, 1994, MFS Communications Company, Inc. ("MFS"), issued \$500 million of 9.375% Senior Discount Notes.

(2) In 1993, through two public offerings, the Group sold 29% of MFS Communications Company, Inc., resulting in a \$137 million after-tax gain. In 1994, additional MFS stock transactions resulted in a \$35 million after-tax gain to the Group and reduced its ownership in MFS to 67%.

(3) In connection with the January 8, 1992 reorganization, each share of previous Class B and Class C Stock was exchanged for one share of new Class B&C Stock and one share of new Class D Stock. Therefore, for purposes of computing Class D Stock per share data, the number of shares for years 1990 and 1991 are assumed to be the same as the corresponding number of shares of previous Class B and Class C Stock. Fully diluted earnings per share have not been presented because it is not materially different from earnings per share.

(4) The 1992 dividends include \$.35 for dividends declared in 1992 but paid January, 1993. Years 1990 and 1991 reflect dividends paid by PKS on its previous Class B and Class C Stock that have been attributed to Kiewit Diversified Group and Kiewit Construction & Mining Group based upon the relative formula values of each group which were determined at the end of each preceding year. Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in such years had the new Class D Stock and

the new Class B&C Stock been outstanding.

(5) Pursuant to the Restated Certificate of Incorporation, the stock price and formula value calculations are computed annually at the end of the fiscal year.

(6) Unless Class D Stock becomes publically traded, PKS is generally committed to purchase all Class D Stock at the amount computed, in accordance with the Restated Certificate of Incorporation, when put to PKS by a stockholder. The aggregate redemption value of the Class D Stock at December 31, 1994 was \$1.2 billion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Separate management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and the Kiewit Diversified Group have been filed as Exhibits 99.A and 99.B to this report. The Company will furnish without charge a copy of such exhibits upon the written request of a stockholder addressed to Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131.

Revenue from each of the Company's business segments was (in millions):

	1994	1993	1992
	<hr/>	<hr/>	<hr/>
Construction	\$ 2,143	\$ 1,757	\$ 1,659
Mining	246	230	246
Telecommunications	578	189	109
Other Operations	24	15	13
	<hr/>	<hr/>	<hr/>
	\$ 2,991	\$ 2,191	\$ 2,027
	=====	=====	=====
General			
<hr/>			

Additional financial information about the Company's industry segments, including operating earnings, identifiable assets, capital expenditures and depreciation, depletion and amortization, as well as geographic information, is contained in Note 18 to the Company's consolidated financial statements.

Results of Operations 1994 vs. 1993

Construction

Construction revenue increased by \$386 million or 22% in 1994. The Company's share of joint venture revenue also rose 22% in 1994 and accounted for 24% of total construction revenue in 1994 and 1993. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase in revenues, the largest of which was the San Joaquin Toll Road Joint Venture ("San Joaquin"). Also contributing to the increase were revenues generated from the APAC acquisition. Contract backlog at December 31, 1994 was \$2.2 billion, of which 16% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 40% of the total backlog, \$333 million pertaining to San Joaquin. San Joaquin is scheduled for completion in 1997.

PETER KIEWIT SONS', INC.

Results of Operations 1994 vs. 1993 (continued)

Construction (continued)

Direct costs associated with construction contracts increased \$404 million or 26% to \$2.0 billion in 1994. Costs as a percentage of revenue were approximately 92% and 89% for 1994 and 1993.

In 1994, the margins were adversely affected by cost overruns and a more competitive market environment. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

Mining

Mining revenue increased \$16 million or 7% in 1994. This increase is primarily due to an increase in spot sales. Mining gross profits were 46% in 1994 and 47% in 1993.

Alternate source coal sales by Black Butte and Decker in 1994 were consistent with 1993. Alternate source coal consists of coal purchased from unaffiliated mines located in the Powder River Basin area of Wyoming and from a mine in which the Company has a 50% interest. In 1994, alternate source coal sales accounted for 30% of revenues and 47% of gross profits compared to 31% and 51% in 1993.

See "Legal Proceedings" with respect to the Whitney Benefits case.

Telecommunications

In 1994 telecommunications revenues increased 205% from 1993. MFS and C-TEC each generated 50% of the revenues and were responsible for 38% and 62% of the increase.

Telecommunications services revenue for MFS increased 227% from \$70 million in 1993 to \$229 million in 1994. Over 70% of the increase relates to the acquisition of Centex, RealCom and Cylix during 1994. The remaining increase resulted from additional market penetration in all other telecommunication services.

PETER KIEWIT SONS', INC.

Results of Operations 1994 vs. 1993 (continued)

Telecommunications (continued)

MFS' network systems integration services group refocused its attention in 1994 to the design and construction of MFS' own networks. The completion of the Iowa project and increased emphasis on affiliated work contributed to a decline in third party revenues to \$58 million in 1994 from \$71 million in 1993. Had the group been allowed to recognize the MFS network construction revenues, total revenues would have been \$156 million and \$116 million in 1994 and 1993.

C-TEC generated revenues for the Company of \$291 million and \$48 million in 1994 and 1993. The 1993 figures represent activity from the acquisition date. C-TEC's Telephone group, Cable group and Long Distance group had revenues of \$122 million, \$95 million and \$30 million in 1994. The cellular group, sold in 1994, and communications services group generated the balance.

Telecommunications cost of revenue increased 202% in 1994. Of the total increase in costs, MFS accounted for 59% of the increase and incurred 64% of the costs while C-TEC accounted for 41% of the increase and incurred 36% of the total costs.

Costs associated with the MFS' telecommunications revenues totaled \$294 million and \$80 million in 1994 and 1993. In addition to the acquisitions, higher costs associated with the expansion of Intelenet, Datanet and international businesses and the direct costs associated with operating additional networks were responsible for the increase. Also contributing to the increase was additional depreciation of the MFS' networks and the amortization of goodwill resulting from the acquisitions.

Network systems integration services operating expenses decreased from \$55 million in 1993 to \$48 million in 1994. The change is primarily due to a decrease in the level of services provided to third parties, particularly the State of Iowa.

The cost of revenue for C-TEC included in the Company's results was \$189 million and \$42 million in 1994 and 1993. The costs in 1994 are primarily attributable to the Telephone group - \$57 million, the Cable group - \$71 million and the Long Distance group - \$23 million.

PETER KIEWIT SONS', INC.

Results of Operations 1994 vs. 1993 (continued)

General and Administrative Expenses

General and administrative expenses in 1994 exceeded those of 1993 by 61%. The telecommunications segment generated the majority of the increase with C-TEC and MFS accounting for 63% and 37% of the increase.

The inclusion of a full year of operations is responsible for C-TEC's increase. Overall, C-TEC's general and administrative expenses remained fairly consistent in 1994. The increase in MFS is primarily due to their acquisitions in 1994 and higher costs associated with expanding the domestic and international operations. MFS expects to incur significant expenses in 1995 to further develop its integrated, single source telecommunications, high speed data communications and international services.

Gain on Subsidiary's Stock Issuances, net

In 1994, the Company settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Company, valued at market prices, as payment of the obligation. This transaction, along with the MFS issuance of stock for the Cylix and RealCom acquisitions and MFS employee stock options, resulted in a \$54 million pre-tax gain to the Company. Deferred taxes have been provided on these gains.

Investment Income, net

The improvement in investment income is directly attributable to a decline of \$37 million in losses from the sale and writedown of derivative and other securities, and a \$15 million increase in interest income. Partially offsetting these items was the recognition of \$4 million of developmental expenses associated with the international energy projects being jointly developed by the Company and CECI.

PETER KIEWIT SONS', INC.

Results of Operations 1994 vs. 1993 (continued)

Interest Expense, net

Interest expense increased significantly in 1994. The interest associated with the debt issuance by MFS in early 1994, \$41 million, net of capitalized interest, and the interest on the debt recorded in the C-TEC acquisition, \$33 million, are primarily responsible for the increase.

Other, net

Debt prepayment penalties incurred by C-TEC (\$6 million) are primarily responsible for the decline.

Income Taxes

The effective income tax rate for earnings from continuing operations is 31% in 1994 and 30% in 1993. Unutilized tax benefits due to net operating losses incurred by MFS were primarily offset by adjustments to prior year tax provisions. Dividend exclusions and mineral depletion deductions contributed to the lower overall effective rate.

Results of Operations 1993 vs. 1992

Construction

Construction revenue increased by \$98 million or 6% in 1993. The Company's share of joint venture revenue rose by 60% and accounted for 24% of total construction revenue for the period as compared to 16% for 1992. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase. The increase in joint venture revenue was partially offset by a small decrease in sole contract revenue due to a decrease in the average size of sole contracts awarded. Contract backlog at December 31, 1993 was \$2.1 billion, of which 6% was attributable to foreign operations, principally, Canada. Projects on the west coast comprised 50% of the total backlog of which San Joaquin accounted for \$435 million.

Direct costs associated with construction contracts increased \$66 million or 4% to \$1.6 billion in 1993. The increase is net of a \$20 million reduction in reserves previously established for the non-sponsored Denmark tunnel project. The overall rise in costs is directly attributable to the increase in volume. Costs as

PETER KIEWIT SONS', INC.

Results of Operations 1993 vs. 1992 (continued)

Construction (continued)

a percentage of revenue, excluding the reduction in reserves, approximated 90% and 91% for 1993 and 1992, respectively.

Management of the non-sponsored Denmark tunnel project completed a cost estimate which indicated a favorable variance in the estimated costs of the project. As a result of this revised cost estimate and negotiations with the owner, management reduced

reserves maintained to provide for the Company's share of estimated losses on the project. This reduction contributed to the increase in gross margin to 11% in 1993 from 9% in 1992.

Mining

Mining revenue decreased 6.5% in 1993. The renegotiation of the agreements with Commonwealth Edison Company ("Commonwealth"), ceased sales of undivided interests in coal reserves. Such sales accounted for approximately \$40 million or 16% of the total mining revenue recognized in 1992. The absence of the sale of undivided interests to Commonwealth in 1993, was partially offset by a \$9 million increase in precious metal sales, a rise in tonnage shipped and an approximate \$4 increase in the average price per ton of coal shipped. The sales of precious metals increased in 1993 due to improved market conditions.

Alternate source coal sales by the Black Butte mine produced the increase in the average price per ton of coal shipped. Alternate source coal consists of coal purchased from two unaffiliated mines located in the Powder River Basin area of Wyoming and from a mine in which the Company has a 50% interest. The purchased coal is sold to Commonwealth under terms of the renegotiated agreements. Alternate source coal sales in 1993 comprised 31% of 1993 mining revenue.

The gross margin on mining revenue increased to 47% in 1993 from 43% in 1992. Alternate source coal sales, which result in larger margins than mined coal, led to the increase.

PETER KIEWIT SONS', INC.

Results of Operations 1993 vs. 1992 (continued)

Telecommunications

In 1993, the components of telecommunications revenue were as follows: 37% - MFS Communications Company, Inc. ("MFS") telecommunications services; 38% - MFS network systems integration and facilities management services; and 25% - C-TEC operations (two months). In 1992, revenue was comprised of 44% telecommunications services and 56% network systems integration and facilities management services.

MFS telecommunications revenue increased from \$48 million to \$70 million, an increase of 46%. The majority of the increase in revenue resulted from sales of additional services to existing customers and, to a lesser extent, further market penetration. The growth of services in New York City, the expansion of networks in Boston, Chicago and the Washington, D.C. metropolitan area, and new services provided by MFS Datanet and MFS Intelenet also contributed to the revenue increase.

Third party revenue from services offered by the MFS network systems integration and facilities management segment increased from \$61 million in 1992 to \$71 million in 1993, a 16% increase. The increase primarily resulted from network systems integration projects in the United Kingdom and for the State of Iowa. MFS purchased the other 50% interest in a partnership providing network systems integration services to customers in the United Kingdom, thereby increasing revenue from that country. The network systems integration and facilities management services segment had third party backlog of \$110 million at December 31, 1993.

Two months of C-TEC activity accounted for \$48 million of telecommunications revenues. The telephone and cable television groups generated the majority of the revenues.

Telecommunications operating expenses increased 78% in 1993. Components of 1993 operating expenses were: 45% - MFS telecommunications services; 32% - MFS network systems integration and facilities management services; and 23% - C-TEC operating expenses. In 1992, operating expenses were 51% MFS telecommunications services and 49% MFS network systems integration and facilities management services.

MFS telecommunications operating expenses increased from \$48 million to \$80 million in 1993, a 67% increase. The increase reflects operating costs associated with MFS Datanet and MFS Intelenet services and higher costs associated with the new and expanded networks. Increased depreciation of existing networks accounted for nearly 41% of the increase.

PETER KIEWIT SONS', INC.

Results of Operations 1993 vs. 1992 (continued)

Telecommunications (continued)

MFS network systems integration and facilities management services operating expenses increased from \$49 million to \$55 million in 1993, a 12% increase. The increase directly relates to increased activity on several network systems integration projects, primarily direct costs associated with the projects in the United Kingdom and for the State of Iowa.

Two months of C-TEC activity accounted for \$42 million of telecommunications operating expenses. The telephone and cable television groups generated the majority of these costs.

Progress on the network systems integration project for the State of Iowa was delayed in June and July 1993 by significant rainfall and flooding. The additional costs resulting from the floods did not materially impact the Company's telecommunications operations.

General and Administrative Expenses

Selling and administrative expenses increased 12% or \$21 million in 1993. Costs incurred in developing MFS Datanet and MFS Intelenet account for a large portion of the increase. Increased legal costs, primarily reserves established for environmental matters (see "Legal Proceedings"), also contributed to the increase.

Gain on Subsidiary's Stock Issuances, net

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public on September 15, 1993 at a price of \$50 per share for \$218 million, net of certain transaction costs. These transactions reduced the Company's ownership interest in MFS to 71% at December 31, 1993. Substantially all of the net proceeds from the offerings funded MFS' growth. Prior to the initial public offering, MFS was a wholly-owned subsidiary of the Company.

As a result of the above transactions, the Company recognized a pre-tax gain of \$211 million representing the increase in the Company's equity in the underlying net assets of MFS. Deferred income taxes have been provided on this gain.

PETER KIEWIT SONS', INC.

Results of Operations 1993 vs. 1992 (continued)

Investment Income, net

Investment income decreased from \$98 million in 1992 to \$26 million in 1993, a decrease of 73%. The decline primarily relates to a \$40 million increase in realized losses and permanent valuation adjustments on marketable securities, including certain derivative securities. Interest income declined by \$20 million due to lower interest rates and to a change in portfolio mix. Dividend income decreased by \$10 million due to dividends accrued in 1992 on an investment in United States Can Company preferred stock redeemed in March of 1993. Slight increases in equity earnings and miscellaneous income partially offset the declines noted above.

Interest Expense

Interest expense increased by \$3 million or 27% in 1993. The increase is due to the C-TEC debt assumed in the acquisition. Interest on C-TEC debt during the last two months approximated \$6 million. The extinguishment of significant debt in 1992 partially offset C-TEC interest.

Income Taxes

The effective income tax rate for earnings from continuing operations is 30% in 1993 and 32% in 1992. The decrease in rates is due to adjustments to prior year tax provisions which more than offset the effects of the increase in 1993 Federal income tax rates. In both years, dividend exclusions and mineral depletion expenses also reduced the overall effective rate.

PETER KIEWIT SONS', INC.

Financial Condition - December 31, 1994

The Company's working capital decreased \$63 million or 5% during 1994. For the year, the Company generated \$165 million of cash from operating activities, a decrease of 42% from 1993.

Cash used in investing activities includes \$513 million of capital expenditures (71% for MFS networks), \$207 for MFS acquisitions, \$47 million for the purchase of APAC, \$29 million for the purchase of CECI stock and \$49 million in deferred development costs. Partially offsetting these uses were \$182 million of proceeds from the sale of C-TEC's cellular properties and \$158 million of net proceeds from marketable securities activity.

Net financing activities generated \$431 million during 1994, the majority of which related to MFS and C-TEC. MFS' debt issuance resulted in net proceeds of approximately \$482 million and C-TEC borrowings, primarily for refinancing, totalled \$148 million. C-TEC also raised \$217 million, \$153 from PKS, in a December rights offering. Long-term debt paid off by C-TEC totalled \$284 million.

In addition to the C-TEC and MFS activities described below, the Company anticipates investing between \$45 and \$85 million annually in its construction and mining businesses, making significant investments in its energy businesses - including its joint venture agreement with California Energy covering international power project development activities - and searching for opportunities to acquire capital intensive businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchases of common stock. The Company's current financial condition should be sufficient for these cash requirements and future investing activities.

The funds generated from the rights issuance and the cellular sale enabled C-TEC to fund the Megacable acquisition, pursue the Twin County and Buffalo Valley purchases, prepay certain indebtedness and meet its current working capital requirements. C-TEC intends to utilize its available cash balance to develop full service networks using certain existing cable and telephone systems, and pursue additional acquisitions, joint ventures or similar strategic investments in the telecommunications industry.

MFS requires significant capital to fund future building expansion and acquisition of communications networks in major metropolitan areas. As part of a 3-5 year \$1 billion expansion plan announced in 1993, MFS intends to invest up to \$400 million for network construction & equipment purchases in 1995.

PETER KIEWIT SONS', INC.

Financial Condition - December 31, 1994 (continued)

To continue the funding of the 1993 expansion plan, MFS expects to finalize arrangements for a \$250 million secured revolving credit facility ("Credit Facility") with a syndicate of commercial banks in the second quarter of 1995. MFS anticipates that the Credit Facility, together with cash on hand and internally generated funds, will be sufficient to fund its anticipated operating losses, working capital needs and the remaining capital spending requirements necessary to complete its expansion. MFS may, however, obtain vendor financing as an alternative to utilization of all or a portion of the Credit Facility.

MFS intends to issue approximately \$250 million on mandatorily convertible preferred stock in the second quarter of 1995 to provide the capital necessary to fund certain opportunities arising from recent regulatory, legislative, and competitive developments. MFS will continue to consider other opportunities to sell equity or debt securities in the public or private markets to maintain the financial flexibility to react to opportunities while cost-effectively funding the capital investments required to implement its expansion plan.

MFS, from time to time, evaluates acquisitions in pursuit of its business strategy, either as an alternative to constructing networks or introducing services that complement existing and/or planned services. Such acquisitions may be significant in size and could use a substantial portion of MFS available cash. As discussed above, MFS may fund future activity through additional debt or equity financing.

MFS has also had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving acquisitions, combinations and equity investments in MFS or one of its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

The Company's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit the Company to make a tax-free distribution of its entire ownership interest in MFS to the Company's Class D stockholders (the "Spin-off"). The Company's management intends to propose a plan (the "Plan") to implement the Spin-off to the Company's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, the Company could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, the Company might not receive the Ruling or the Board might not adopt the plan. In

PETER KIEWIT SONS', INC.

Financial Condition - December 31, 1994 (continued)

addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and the Company would not be able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if the Company's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit the Company to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to the Company in exchange for the transfer by the Company to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by the Company. The Company anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, the Company would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by the Company. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to the Company.

The Plan would provide for an exchange offer (the "Exchange Offer") by the Company for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, the Company would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next conversion permitted by the Certificate of Incorporation. If an Exchange Offer could not be

PETER KIEWIT SONS', INC.

Financial Condition - December 31, 1994 (continued)

completed prior to the next conversion under the Certificate of Incorporation, the Company probably would defer any Spin-off until the first quarter of 1996.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and supplementary financial information for Peter Kiewit Sons', Inc. and Subsidiaries begin on page P1. Separate financial statements and financial statement schedules for the Kiewit Construction & Mining Group and the Kiewit Diversified Group have been filed as Exhibits 99.A and 99.B to this report. The Company will furnish without charge a copy of such exhibits upon the written request of a stockholder addressed to Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

ITEM 11. EXECUTIVE COMPENSATION.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Part III is incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on June 10, 1995. However, certain information is set forth under the caption "Executive Officers of the Registrant" following Item 4 above.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Financial statements and financial statement schedules required to be filed for the registrant under Items 8 or 14 are set forth following the index page at page P1.

Exhibits filed as a part of this report are listed below. Exhibits incorporated by reference are indicated in parentheses.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, effective January 8, 1992 (Exhibit 3.1 to Company's Form 10-K for 1991).
3.4	By-laws, composite copy, including all amendments, as of March 19, 1993 (Exhibit 3.4 to Company's Form 10-K for 1992).
10.11	Kiewit Construction and Mining Long-Term Incentive Plan, Construction and Mining Appreciation Rights (Exhibit 10.11 to Company's Form 10-K for 1988).
10.12	Kiewit Long-Term Incentive Plan, Stock Appreciation Rights (Exhibit 10.12 to Company's Form 10-K for 1988).
21	List of subsidiaries of the Company.
99.A	Kiewit Construction & Mining Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.
99.B	Kiewit Diversified Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.
(b) 1994.	No Form 8-K was filed during the fourth quarter of 1994.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of March, 1995.

PETER KIEWIT SONS', INC.

*By: /s/ R. E. Julian
Robert E. Julian
Executive Vice President -
Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 31st day of March, 1995.

<i>/s/ Walter Scott, Jr. Walter Scott, Jr.</i>	<i>Chairman of the Board and President (principal executive officer)</i>
<i>/s/ R. E. Julian Robert E. Julian</i>	<i>Director, Executive Vice President-Chief Financial Officer (principal financial officer)</i>
<i>/s/ Eric J. Mortensen Eric J. Mortensen</i>	<i>Controller (principal accounting officer)</i>
<i>/s/ Richard W. Colf Richard W. Colf, Director</i>	<i>Charles M. Harper, Director</i>
<i>/s/ James Q. Crowe James Q. Crowe, Director</i>	<i>/s/ Richard R. Jaros Richard R. Jaros, Director</i>
<i>Robert B. Daugherty, Director</i>	<i>/s/ Leonard W. Kearney Leonard W. Kearney, Director</i>

/s/ Richard Geary
Richard Geary, Director

Peter Kiewit, Jr., Director

/s/ Bruce E. Grewcock
Bruce E. Grewcock, Director

/s/ Kenneth E. Stinson
Kenneth E. Stinson, Director

/s/ W. L. Grewcock
William L. Grewcock, Director

/s/ George B. Toll, Jr.
George B. Toll, Jr., Director

**PETER KIEWIT SONS', INC.
AND SUBSIDIARIES**

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
21	List of Subsidiaries of the Company.
99.A	Kiewit Construction & Mining Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.
99.B	Kiewit Diversified Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.

LIST OF SUBSIDIARIES*
OF
PETER KIEWIT SONS', INC.
DECEMBER 31, 1994

Peter Kiewit Sons', Inc. (Delaware)

Kiewit Construction Group Inc. (Delaware) Kiewit Pacific Co. (Delaware)

Kiewit Mining Group Inc. (Delaware) Kiewit Diversified Group Inc. (Delaware) Continental Holdings Inc. (Wyoming) CCC Canada Holding, Inc. (Delaware) Continental Kiewit Inc. (Delaware) Kiewit Energy Group Inc.

Kiewit Coal Properties Inc. (Delaware) Black Butte Coal Company (50%) (joint venture) Decker Coal Company (50%) (joint venture) Kiewit Energy Company (Delaware) California Energy Company, Inc.(34%) (Delaware) MFS Communications Company, Inc. (67%) (Delaware) MFS Datanet, Inc. (Delaware) MFS Intelenet, Inc. (Delaware) Centex Telemanagement, Inc. (Delaware) MFS International, Inc. (Delaware) MFS Telecom, Inc. (Delaware) RCN Corporation (90%)(Delaware) RCN Holdings, Inc. (Delaware) C-TEC Corporation (49%)(Pennsylvania) Commonwealth Telephone Company

(Pennsylvania)

* Only "significant" subsidiaries as defined in Rule 1-02 of Regulation S-X are listed.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Index to Financial Statements and Financial Statement Schedules

Pages

Report of Independent Accountants

Consolidated Financial Statements as of December 31, 1994 and December 25, 1993 and for the three years ended December 31, 1994:

Consolidated Statements of Earnings
Consolidated Balance Sheets
Consolidated Statements of Cash Flows
Consolidated Statements of Changes in
Stockholders' Equity

Notes to Consolidated Financial Statements

Consolidated Financial Statement Schedule for the three years ended December 31, 1994:

II--Valuation and Qualifying Accounts and Reserves

Schedules not indicated above have been omitted because of the absence of the conditions under which they are required or because the information called for is shown in the consolidated financial statements or in the notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders
Peter Kiewit Sons', Inc.

We have audited the consolidated financial statements and the financial statement schedule of Peter Kiewit Sons', Inc. and Subsidiaries as listed in the index on the preceding page of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peter Kiewit Sons', Inc. and Subsidiaries as of December 31, 1994 and December 25, 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for income taxes in 1992, and its method of accounting for certain investments in debt and equity securities in 1993.

COOPERS & LYBRAND L.L.P

Omaha, Nebraska
March 20, 1995

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the three years ended December 31, 1994

(dollars in millions)	1994	1993	1992
Revenue	\$ 2,991	\$ 2,191	\$ 2,027
Cost of Revenue	(2,650)	(1,876)	(1,746)
	<u>341</u>	<u>315</u>	<u>281</u>
General and Administrative Expenses	(311)	(193)	(172)
	<u>30</u>	<u>122</u>	<u>109</u>
Operating Earnings			
Other Income (Expense):			
Gain on Subsidiary's Stock Transactions, net	54	211	-
Investment Income, net	67	26	98
Interest Expense, net	(79)	(14)	(11)
Other, net	15	24	23
	<u>57</u>	<u>247</u>	<u>110</u>
Earnings from Continuing Operations Before Income Taxes, Minority Interest and Cumulative Effect of Change in Accounting Principle	87	369	219
Provision for Income Taxes	(27)	(111)	(69)
Minority Interest in Loss of Subsidiaries	50	3	-
	<u>110</u>	<u>261</u>	<u>150</u>
Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting Principle			
Cumulative Effect of Change in Accounting Principle	-	-	12
	<u>110</u>	<u>261</u>	<u>162</u>
Earnings from Continuing Operations			

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
Discontinued Operations:			
Earnings from discontinued operations net of income tax of \$- in 1992	-	-	1
Gain on disposal of discontinued operations net of income tax benefit of \$19 in 1992	-	-	18

Net Earnings	\$ 110	\$ 261	\$ 181
	=====	=====	=====

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the three years ended December 31, 1994

(continued)

(dollars in millions, except per share data)	1994	1993	1992
<hr/>			
Earnings Attributable to Class			
B&C Stock:			
Earnings Before Cumulative			
Effect of Change in Accounting			
Principle	\$ 77	\$ 80	\$ 69
Cumulative Effect of Change in			
Accounting Principle	-	-	13
Net Earnings	<u>\$ 77</u>	<u>\$ 80</u>	<u>\$ 82</u>
	=====	=====	=====
Earnings Attributable to Class			
D Stock:			
Earnings from Continuing			
Operations Before Cumulative			
Effect of Change in Accounting			
Principle	\$ 33	\$ 181	\$ 81
Cumulative Effect of Change in			
Accounting Principle	-	-	(1)
	<u> </u>	<u> </u>	<u> </u>
Earnings from Continuing			
Operations	33	181	80
Discontinued Operations:			
Earnings	-	-	1
Gain on Disposal	-	-	18
Net Earnings	<u>\$ 33</u>	<u>\$ 181</u>	<u>\$ 99</u>
	=====	=====	=====
Earnings Per Common and Common			
Equivalent Share:			
Class B&C:			
Earnings Before Cumulative			
Effect of Change in			
Accounting Principle	\$ 4.92	\$ 4.63	\$ 3.79
Cumulative Effect of Change in			
Accounting Principle	-	-	.69
Net Earnings	<u>\$ 4.92</u>	<u>\$ 4.63</u>	<u>\$ 4.48</u>
	=====	=====	=====

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the three years ended December 31, 1994

(continued)

(dollars in millions, except per share data)	1994	1993	1992
<hr/>			
Class D:			
Continuing Operations:			
Earnings from Continuing			
Operations Before Cumulative			
Effect of Change in			
Accounting Principle	\$ 1.63	\$ 9.08	\$ 4.00

Cumulative Effect of Change in Accounting Principle	-	-	(.05)
Earnings from Continuing Operations	1.63	9.08	3.95
Discontinued Operations:			
Earnings	-	-	.04
Gain on Disposal	-	-	.93
Net Earnings	\$ 1.63 =====	\$ 9.08 =====	\$ 4.92 =====

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions)	1994	1993
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 400	\$ 296
Marketable securities	910	1,082
Receivables, less allowance of \$9 and \$7	414	291
Note receivable from sale of discontinued operations	29	5
Costs and earnings in excess of billings on uncompleted contracts	126	79
Investment in construction joint ventures	69	81
Deferred income taxes	74	66
Other	93	54
Total Current Assets	<hr/> 2,115	<hr/> 1,954
Property, Plant and Equipment, at cost:		
Land	30	29
Buildings	206	200
Equipment	1,739	1,251
	<hr/> 1,975	<hr/> 1,480
Less accumulated depreciation and amortization	(731)	(636)
Net Property, Plant and Equipment	<hr/> 1,244	<hr/> 844
Note Receivable from Sale of Discontinued Operations	-	29
Investments	298	288
Intangible Assets, net	749	427
Other Assets	98	92
	<hr/> \$ 4,504	<hr/> \$ 3,634
	=====	=====
<hr/>		

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES
Consolidated Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions, except share data)	1994	1993
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 344	\$ 260
Current portion of long-term debt:		
Telecommunications	26	7
Other	7	8
Accrued costs and billings in excess of revenue on uncompleted contracts	143	107
Accrued insurance costs	75	67
Other	218	140
Total Current Liabilities	<hr/> 813	<hr/> 589
Long-Term Debt, less current portion:		
Telecommunications	827	420
Other	81	42
Deferred Income Taxes	302	335
Retirement Benefits	67	71
Accrued Reclamation Costs	103	99
Other Liabilities	127	109
Minority Interest	448	298
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding in 1994 and 1993	-	-
Common stock, \$.0625 par value, \$1.6 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 1,000,400 outstanding in 1994 and 1,180,400 outstanding in 1993	-	-
Class C, authorized 125,000,000 shares: 15,087,028 outstanding in 1994 and 16,316,070 outstanding in 1993	1	1
Class D, authorized 50,000,000 shares: 20,391,568 outstanding in 1994 and 20,010,696 outstanding in 1993	1	1

PETER KIEWIT SONS', INC. AND SUBSIDIARIES
Consolidated Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions, except share data)	1994	1993
Additional paid-in capital	182	164
Foreign currency adjustment	(7)	(3)
Net unrealized holding gain(loss)	(8)	9
Retained earnings	1,567	1,499
Total Stockholders' Equity	<u>1,736</u>	<u>1,671</u>
	<u>\$ 4,504</u>	<u>\$ 3,634</u>
	=====	=====

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three years ended December 31, 1994

(dollars in millions)	1994	1993	1992
<hr/>			
Cash flows from operations:			
Earnings from continuing operations	\$ 110	\$ 261	\$ 162
Adjustments to reconcile earnings from continuing operations to net cash provided by continuing operations:			
Cumulative effect of change in accounting principle	-	-	(12)
Depreciation, depletion and amortization	217	99	86
(Gain) loss on sale of property, plant and equipment, and other investments	5	23	(18)
Gain on sale of subsidiary's stock	(54)	(211)	-
Noncash interest expense	40	-	-
Minority interest in losses	(50)	(3)	-
Decline in market value of investments	-	21	12
Retirement benefits paid	(6)	(17)	(8)
Deferred income taxes	(42)	49	(4)
Change in working capital items:			
Receivables	(49)	9	(16)
Other current assets	(67)	(48)	18
Payables	42	47	(12)
Other liabilities	19	13	(33)
Other	-	43	25
Net cash provided by continuing operations	<hr/> 165	<hr/> 286	<hr/> 200
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	1,876	4,927	6,542
Purchases of marketable securities	(1,718)	(5,231)	(6,629)
Acquisitions, excluding cash acquired	(254)	(146)	-
Proceeds from sale of cellular properties	182	-	-

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
<hr/>			
Proceeds from sale of property, plant and equipment, and other investments	20	38	31
Capital expenditures	(513)	(192)	(129)
Investments in affiliates	(34)	(14)	(42)
Acquisition of minority interest	(6)	(2)	(27)
Deferred development costs			

and other	(49)	(35)	6
Net cash used in investing activities	(496)	(655)	(248)

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
<hr/>			
Cash flows from financing activities:			
Long-term debt borrowings	693	21	3
Payments on long-term debt, including current portion	(309)	(8)	(98)
Net change in short-term borrowings	-	(80)	80
Issuances of common stock	21	24	24
Issuances of subsidiaries' stock	70	458	-
Repurchases of common stock	(31)	(54)	(85)
Dividends paid	(13)	(27)	(40)
Other	-	-	(1)
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) financing activities	431	334	(117)
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	5	110	163
Other cash provided by (used in) discontinued packaging operations	-	20	(34)
	<hr/>	<hr/>	<hr/>
Net cash provided by discontinued packaging operations	5	130	129
Effect of exchange rates on cash	(1)	(2)	(4)
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	104	93	(40)
Cash and cash equivalents at beginning of year	296	203	243
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 400	\$ 296	\$ 203
	=====	=====	=====

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
<hr/>			
Supplemental disclosure of cash flow information for continuing and discontinued operations:			
Taxes	\$ 115	\$ 83	\$ 183
Interest	41	7	14

Noncash investing activities:					
Issuance of MFS stock for acquisitions	\$	71	\$	-	\$ -
MFS stock transactions to settle contingent purchase price adjustment		25		-	-

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 31, 1994

(dollars in millions)

	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain(Loss)	Retained Earnings	Total
Balance at December 28, 1991	\$ 1	\$ 1	\$ 128	\$ 9	\$ -	\$1,257	\$ 1,396
Issuances of stock	-	-	24	-	-	-	24
Repurchases of stock	-	-	(7)	-	-	(78)	(85)
Foreign currency adjustment	-	-	-	(6)	-	-	(6)
Net earnings	-	-	-	-	-	181	181
Dividends: (a) Class B&C (\$.70 per common share)	-	-	-	-	-	(13)	(13)
Class D (\$1.95 per common share)	-	-	-	-	-	(39)	(39)
Balance at December 26, 1992	\$ 1	\$ 1	\$ 145	\$ 3	\$ -	\$ 1,308	\$ 1,458

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 31, 1994

(dollars in millions)

(continued)

	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain(Loss)	Retained Earnings	Total
Balance at December 26, 1992	\$ 1	\$ 1	\$ 145	\$ 3	\$ -	\$1,308	\$ 1,458
Issuances of stock	-	-	24	-	-	-	24
Repurchases of stock	-	-	(5)	-	-	(49)	(54)
Foreign currency adjustment	-	-	-	(6)	-	-	(6)
Net unrealized holding gain	-	-	-	-	9	-	9
Net earnings	-	-	-	-	-	261	261
Dividends: (b) Class B&C (\$.70 per common share)	-	-	-	-	-	(11)	(11)
Class D (\$.50 per common share)	-	-	-	-	-	(10)	(10)
Balance at December 25, 1993	\$ 1	\$ 1	\$ 164	\$ (3)	\$ 9	\$ 1,499	\$ 1,671

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 31, 1994

(dollars in millions)

(continued)

	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain(Loss)	Retained Earnings	Total
Balance at December 25, 1993	\$ 1	\$ 1	\$ 164	\$ (3)	\$ 9	\$1,499	\$ 1,671
Issuances of stock	-	-	21	-	-	-	21
Repurchases of stock	-	-	(3)	-	-	(28)	(31)
Foreign currency adjustment	-	-	-	(4)	-	-	(4)
Net change in unrealized holding gain (loss)	-	-	-	-	(17)	-	(17)
Net earnings	-	-	-	-	-	110	110
Dividends:(c) Class B&C (\$.90 per common share)	-	-	-	-	-	(14)	(14)
Balance at December 31, 1994	<u>\$ 1</u> =====	<u>\$ 1</u> =====	<u>\$ 182</u> =====	<u>\$ (7)</u> =====	<u>\$ (8)</u> =====	<u>\$ 1,567</u> =====	<u>\$ 1,736</u> =====

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 31, 1994

(dollars in millions)

(continued)

(a) Includes \$.30 and \$.35 per share for dividends on Class B&C Stock and Class D Stock, respectively, declared in 1992 but paid in January 1993.

(b) Includes \$.40 per share for dividends on Class B&C Stock declared in 1993 but paid in January 1994.

(c) Includes \$.45 per share for dividends on Class B&C Stock declared in 1994 but paid in January 1995.

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Peter Kiewit Sons', Inc. and subsidiaries in which it owns more than 50% of the voting stock ("PKS" or "the Company"), which are engaged in enterprises primarily related to construction, mining, telecommunications and data management services. See Note 2 with respect to discontinued packaging operations. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. All significant intercompany accounts and transactions have been eliminated. Investments in other companies in which the Company exercises significant influence over operating and financial policies and construction joint ventures are accounted for by the equity method. The Company accounts for its share of the operations of the construction joint ventures on a pro rata basis in the consolidated statements of earnings.

Construction Contracts

The Company operates generally within North America as a general contractor and engages in various types of construction projects for both public and private owners. Credit risk is minimal with public (government) owners since the Company ascertains that funds have been appropriated by the governmental project owner prior to commencing work on public projects. Most public contracts are subject to termination at the election of the government. In the event of termination, the Company is entitled to receive the contract price on completed work and reimbursement of termination related costs. Credit risk with private owners is minimized because of statutory mechanics liens, which give the Company high priority in the event of lien foreclosures following financial difficulties of private owners.

The Company recognizes revenue on long-term construction contracts and joint ventures on the percentage-of-completion method based upon engineering estimates of the work performed on individual contracts. Provisions for losses are recognized on uncompleted contracts when they become known. Claims for additional revenue are recognized in the period when allowed. Assets and liabilities arising from construction activities, the operating cycle of which extends over several years, are classified as current in the financial statements. A one-year

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies (continued)

time period is used as the basis for classification of all other current assets and liabilities.

Coal Sales Contracts

The Company and its mining ventures have entered into various agreements with its customers which stipulate delivery and payment terms for the sale of coal. Prior to 1993, one of the primary customers deferred receipt of certain commitments by purchasing undivided fractional interests in coal reserves of the Company and the mining ventures. Under the arrangements, revenue was recognized when cash was received. The agreements with this customer were renegotiated in 1992. In accordance with the renegotiated agreements, there were no sales of interests in coal reserves subsequent to January 1, 1993. The Company has the obligation to deliver the coal reserves to the customer in the future if the customer exercises its option. If the option is exercised, the Company presently intends to deliver coal from unaffiliated mines and a mine in which the Company has a 50% interest. In the opinion of management, the Company has sufficient coal reserves to cover the above sales commitments.

The Company's coal sales contracts are with several electric utility and industrial companies. In the event that these customers do not fulfill contractual responsibilities, the Company would pursue the available legal remedies.

Telecommunications Revenues

MFS Communications Company, Inc. ("MFS") provides a variety of telecommunications services through a number of subsidiaries. MFS Telecom, Inc. provides dedicated circuits for critical telecommunications needs of large business and government customers. MFS Intelenet, Inc. provides a single source integrated local and long distance telecommunications services and facilities management, primarily for medium and small businesses. MFS Network Technologies Inc. designs, engineers, develops and installs telecommunications networks and systems and also provides facilities management services. MFS recognizes revenue on telecommunications services in the month the related service is provided. Network systems integration revenue is recognized on the percentage-of-completion method of accounting.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies (continued)

Telecommunications Revenues (continued)

C-TEC Corporation's ("C-TEC"), most significant operating groups are its local telephone service and cable system operations. C-TEC's telephone network access revenues are derived from net access charges, toll rates and settlement arrangements for traffic that originates or terminates within C-TEC's local telephone company. Revenues from basic and premium cable programming services are recorded in the month the service is provided.

Concentration of credit risk with respect to accounts receivable are limited due to the dispersion of customer base among different industries and geographic areas and remedies provided by terms of contracts and statutes.

Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization for the majority of the Company's property, plant and equipment are computed on accelerated and straight-line methods. Depletion of mineral properties is provided primarily on a units-of-extraction basis determined in relation to estimated reserves.

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$232 million is depreciated based on the estimated remaining lives of the various classes of depreciable property and straight-line composite rates. When property is retired, the original cost, plus cost of removal, less salvage, is charged to accumulated depreciation.

Intangible Assets

Intangible assets consist of amounts allocated upon purchase of existing operations and development costs. These assets are amortized on a straight-line basis over the expected period of benefit, which does not exceed 40 years.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies (continued)

Intangible Assets (continued)

The Company reviews the carrying amount of goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the goodwill to the net carrying value of the goodwill.

Pension Plans

The Company maintains defined benefit plans primarily for retired packaging employees. Benefits paid under the plans are based on years of service for hourly employees and years of service and rates of pay for salaried employees.

Substantially all of C-TEC's employees are included in a trustee noncontributory defined benefit plan. Upon retirement, employees are provided a monthly pension based on length of service and compensation.

The plans are funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Reserves for Reclamation

The Company follows the policy of providing an accrual for reclamation of mined properties, based on the estimated cost of restoration of such properties, in compliance with laws governing strip mining.

Foreign Currencies

The local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes. Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Revenue and expenses are translated using average exchange rates prevailing during the year. Gains or losses resulting from currency translation are recorded as adjustments to stockholders' equity.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies (continued)

Subsidiary Stock Sales and Issuances

The Company recognizes gains and losses from the sales and issuances of stock by its subsidiaries.

Earnings Per Share

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each year. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings per share. The number of shares used in computing earnings per share was as follows:

	1994	1993	1992
Class B&C	15,697,724	17,290,971	18,262,680
Class D	20,438,806	19,941,885	20,126,768

Marketable Securities and Investments

On December 25, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries.

Income Taxes

In 1992, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial and tax basis for assets and liabilities using enacted tax rates in effect for the year

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(1) Summary of Accounting Policies (continued)

Income Taxes (continued)

in which the differences are expected to reverse. In 1992, the Company recorded income of \$12 million which represented the decrease in the net deferred tax liabilities as a result of the accounting change. This amount has been reflected in the consolidated statements of earnings as a cumulative effect of a change in accounting principle.

Reclassifications

Where appropriate, items within the consolidated financial statements and notes thereto have been reclassified from previous years to conform to current year presentation.

Fiscal Year

The Company's fiscal year ends on the last Saturday in December. There were 53 weeks in fiscal 1994 and 52 weeks in the fiscal years 1993 and 1992.

MFS and C-TEC's fiscal years end on December 31.

(2) Discontinued Operations

In 1990, the Company's management authorized the disposition of its packaging businesses. As a result, the consolidated financial statements reflect the packaging businesses as discontinued operations.

Discontinued Packaging Operations for the year ended December 26, 1992 reflect the equity earnings of the Company's investment in a plastics joint venture, net of tax at the statutory rate.

(3) Acquisitions

During 1994 and 1993, the Company and its subsidiaries acquired the entities described below. The Company has accounted for the transactions as purchases and consolidated the operating results since the acquisition dates. Purchase prices in excess of the fair market values

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(3) Acquisitions (continued)

of net assets acquired have been recorded as goodwill.

On February 28, 1994, the Company acquired APAC-Arizona, Inc. ("APAC"), a contracting and construction materials business, from Ashland Oil Company, Inc. for \$47 million. APAC's operations have been integrated into various construction subsidiaries. APAC's 1993 and 1994 operating results prior to the acquisition were not significant relative to the Company's results.

The \$17 million of goodwill from the APAC acquisition is being amortized on a straight-line basis over 20 years.

On May 18, 1994, MFS acquired Centex Telemanagement, Inc. ("Centex") for \$273 million, comprised of \$202 million cash and \$71 million of assumed liabilities. Centex provides telecommunications management services for small and medium-sized businesses. Centex operations have been integrated into MFS' subsidiary MFS Intelenet.

On November 1, 1994, MFS acquired Cylix Communications Corporation ("Cylix") for \$14 million, comprised of \$2 million cash, \$6 million MFS stock and \$6 million of assumed liabilities. Cylix's data communications services provide connectivity from IBM compatible hosts to remote sites. Cylix operations have been integrated into MFS' subsidiary MFS Datanet.

On November 14, 1994, MFS acquired RealCom Office Communications, Inc. ("RealCom") for \$90 million, comprised of \$7 million cash, \$53 million MFS stock and \$30 million of assumed liabilities. RealCom, a provider of telecommunications services, including long distance, equipment and outsourcing, has been integrated into MFS Intelenet.

Goodwill of \$188 resulting from the above MFS purchases is being amortized on a straight-line basis over a 40 year life.

In October of 1993, the Company acquired 35% and 57% of C-TEC's outstanding shares and voting rights for \$208 million. In September of 1994, C-TEC sold certain cellular businesses for approximately \$190 million. At that time, the Company reallocated the original purchase price, assigning the cellular businesses a fair value equal to C-TEC's sale proceeds. The cellular results of

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(3) Acquisitions (continued)

operations for the period prior to the sale have been consolidated and are insignificant to the Company's operating results.

In December of 1994, through its participation in the C-TEC rights offering (\$153 million), the Company increased its ownership in C-TEC to 49% and 58% of the outstanding shares and voting rights. The difference between the investment and the increase in the Company's proportionate share of C-TEC's equity has been recorded as goodwill.

The \$177 million of goodwill from the C-TEC purchases is being amortized on a straight-line basis over lives of 30-40 years.

The following unaudited pro forma information shows the results of the Company as though the C-TEC acquisition occurred at the beginning of 1992 and the MFS acquisitions occurred at the beginning of 1993. These results include certain adjustments, primarily increased amortization, and do not necessarily indicate future results, nor the results of historical operations had the acquisitions actually occurred on the assumed dates.

(in millions, except per share data)

1994

1993

1992

Revenue	\$ 3,126	\$ 2,686	\$ 2,284
Net Earnings	93	227	175
Earnings Per Share of Class D Stock	0.78	7.37	4.63

(4) Gain on Subsidiary's Stock Transactions, net

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public in September 1993, at a price of \$50 per share for \$218 million, net of certain transaction costs. Substantially all of the net proceeds from the offerings funded MFS' growth.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(4) Gain on Subsidiary's Stock Transactions, net (continued)

In 1994, the Company settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Company, valued at current market prices, as payment of the obligation.

The above transactions, along with the Cylix, RealCom and other MFS transactions (including issuances for employee stock options), reduced the Company's ownership in MFS to 67% and 71% at the end of 1994 and 1993. As a result, the Company recognized gains of \$54 million and \$211 million in 1994 and 1993 representing the increase in its proportionate share of MFS equity. Deferred income taxes have been provided on these gains. The outside ownership interest has been included in minority interest.

(5) Disposal of Packaging Businesses

In July 1992, the Company sold its equity investment in a plastics joint venture to Ball Corporation for \$7 million. No significant gain or loss was recognized as a result of this transaction. The gain on disposal of discontinued operations in 1992 resulted from a \$19 million adjustment to prior year tax estimates and an \$8 million sales adjustment payment, net of tax, and a \$1 million accrual, net of tax, relating to additional sales proceeds from the 1990 sale of Continental PET Technologies, Inc. This gain was partially offset by miscellaneous sales adjustments related to the 1991 and 1990 sales of certain discontinued packaging operations.

(6) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to determine classification and fair values of financial instruments:

Cash and Cash Equivalents

Cash equivalents generally consist of highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (continued)

Marketable Securities and Non-current Investments

The Company has classified all marketable securities and non-current investments not accounted for under the equity method as available-for-sale. The amortized cost of the securities used in computing unrealized and realized gains and losses are determined by specific identification. Fair values are estimated based on quoted market prices for the securities on hand or for similar investments. Fair values of certificates of deposit approximate cost. Net unrealized holding gains and losses are reported as a separate component of stockholders' equity, net of tax.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments
(continued)

The following summarizes the cost, unrealized holding gains and losses, and estimated fair values of marketable securities and non-current investments at December 31, 1994 and December 25, 1993.

1994	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Kiewit Mutual Fund:				
Short-term government	\$ 69	\$ -	\$ 1	\$ 68
Intermediate term bond	232	-	5	227
Tax exempt	39	-	1	38
Equity securities	4	-	1	3
U.S. debt securities	322	-	3	319
Federal agency securities	77	-	-	77
Municipal debt securities	15	-	-	15
Corporate debt securities	145	-	2	143
Collateralized mortgage obligations	12	1	3	10
Certificates of deposit	10	-	-	10
	<hr/> \$ 925	<hr/> \$ 1	<hr/> \$ 16	<hr/> \$ 910
	=====	===	=====	=====
Non-current Investments:				
Equity securities	\$ 59	\$ 5	\$ 2	\$ 62
	=====	===	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments
(continued)

1993	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Marketable Securities:				
Equity securities	\$ 79	\$ 2	\$ 2	\$ 79
U.S. debt securities	536	-	-	536
Municipal				

debt securities	136	1	-	137
Foreign government debt securities	84	-	-	84
Corporate debt securities	204	-	1	203
Collateralized mortgage obligations	27	-	-	27
Certificates of deposit	16	-	-	16
	<u>\$1,082</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$1,082</u>
	=====	=====	=====	=====
Non-current Investments: Equity securities	\$ 80	\$ 13	\$ -	\$ 93
	=====	=====	=====	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were \$2 million and \$18 million, respectively, in 1994, and \$31 million and \$64 million in 1993.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (continued)

At December 31, 1994 the contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
U.S. debt securities:		
less than 1 year	\$ 297	\$ 294
1-5 years	25	25
	<u>\$ 322</u>	<u>\$ 319</u>
	=====	=====
Federal agency securities		
less than 1 year	\$ 77	\$ 77
	=====	=====
Municipal debt securities:		
1-5 years	\$ 14	\$ 14
5-10 years	-	-
over 10 years	1	1
	<u>\$ 15</u>	<u>\$ 15</u>
	=====	=====
Corporate debt securities:		
less than 1 year	\$ 117	\$ 116
1-5 years	23	22
5-10 years	1	1
over 10 years	4	4
	<u>\$ 145</u>	<u>\$ 143</u>
	=====	=====
Certificates of deposit:		
less than 1 year	\$ 4	\$ 4
1-5 years	6	6
	<u>\$ 10</u>	<u>\$ 10</u>
	=====	=====

Maturities for the mutual fund and collateralized mortgage obligations have not been presented as they do not have a single maturity date.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments
(continued)

Note Receivable from Sale of Discontinued Operations:

The carrying amount approximates fair value due to the interest rate provided in the note.

Long-term Debt:

The fair value of debt was estimated using the incremental borrowing rates of the Company for debt of the same remaining maturities.

(7) Retainage on Construction Contracts

Marketable securities at December 31, 1994 and December 25, 1993 include approximately \$61 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage.

Receivables at December 31, 1994 and December 25, 1993 include approximately \$48 million and \$37 million of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

(8) Investment in Construction Joint Ventures

The Company has entered into a number of construction joint venture arrangements. Under these arrangements, if one venturer is financially unable to bear its share of the costs, the other venturers will be required to pay those costs.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(8) Investment in Construction Joint Ventures (continued)

Summary joint venture financial information follows:

Financial Position (dollars in millions)	1994	1993	
<hr/>			
Total Joint Ventures			
Current assets	\$ 563	\$ 563	
Other assets (principally construction equipment)	50	71	
	<hr/> 613	<hr/> 634	
Current liabilities	(503)	(481)	
Net assets	<hr/> \$ 110	<hr/> \$ 153	
	=====	=====	
Company's Share			
Equity in net assets	\$ 67	\$ 80	
Receivable from joint ventures	2	1	
	<hr/>	<hr/>	
Investment in construction joint ventures	<hr/> \$ 69	<hr/> \$ 81	
	=====	=====	
Operations (dollars in millions)	1994	1993	1992
<hr/>			
Total Joint Ventures			
Revenue	\$ 1,034	\$ 906	\$ 575
Costs	937	841	522
	<hr/>	<hr/>	<hr/>
Operating income	\$ 97	\$ 65	\$ 53
	=====	=====	=====
Company's Share			
Revenue	\$ 523	\$ 430	\$ 269
Costs	473	372	243
	<hr/>	<hr/>	<hr/>
Operating income	<hr/> \$ 50	<hr/> \$ 58	<hr/> \$ 26
	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(8) Investment in Construction Joint Ventures (continued)

Management of the nonsponsored Denmark tunnel project completed a cost estimate in 1993 which indicated a favorable variance in the estimated costs of the project. As a result of this cost estimate and negotiations with the owner, the Company's management reduced reserves by \$20 million which had been maintained to provide for the Company's share of estimated losses on the project. Based on 1994 estimates, management believes that the resolution of the uncertainties in completing the tunnel, primarily due to adverse soil conditions, should not materially affect the Company's financial position or results of operations.

(9) Investments

During 1994, the Company purchased additional shares of California Energy Company, Inc. ("CECI") common stock for \$29 million. These purchases, along with stock repurchases by CECI, increased the Company's ownership interest to 29%. The cumulative investment in common stock, accounted for on the equity method, totals \$113 million, \$62 million in excess of the Company's proportionate share of CECI's equity. The excess investment is being amortized over 20 years. Equity earnings, net of goodwill amortization were \$5 million, \$7 million and \$4 million in 1994, 1993 and 1992. CECI common stock is traded on the New York Stock Exchange. On December 31, 1994, the market value of the Company's investment in CECI common stock was \$140 million.

In 1994, 1993 and 1992, the Company also recorded dividends in kind, of \$5 million, \$5 million and \$4 million declared by CECI consisting of

voting convertible preferred stock. The stock dividends brought the Company's total investment in convertible preferred stock to \$64 million at December 31, 1994. On March 15, 1995, CECI exchanged the preferred stock for 9.5% Convertible Subordinated Debentures (the "Debentures").

In addition to the Debentures, the Company has 5.8 million options to purchase additional CECI shares.

In 1994, a \$3 million purchase increased the Company's interest in an electrical contracting business to 42%. The cumulative investment in common stock, accounted for on the equity method, totals \$24 million, \$3 million in excess of the

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(9) Investments (continued)

Company's share of equity. The excess investment is being amortized over 5 years. The contracting business is not publicly traded and does not have a readily determinable market value. The Company is committed to acquire 80% ownership by 1997.

Investments also include equity securities classified as non-current and carried at the fair value of \$62 million.

(10) Intangible Assets

Intangible assets consist of the following at December 31, 1994 and December 25, 1993 (dollars in millions):

	1994	1993
	<hr/>	<hr/>
Goodwill	\$ 483	\$ 229
Franchise and subscriber lists	145	107
Licenses and right-of-way	15	11
Noncompete agreements	15	22
Deferred development costs	65	35
Toll road franchise costs	75	40
Deferred financing costs	19	-
	<hr/>	<hr/>
	817	444
Less accumulated amortization	(68)	(17)
	<hr/>	<hr/>
	\$ 749	\$ 427
	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements

At December 31, 1994 and December 25, 1993, long-term debt was as follows:

(dollars in millions) 1994 1993

Telecommunications:

MFS Long-term Debt (with recourse only to MFS):

9.375% Senior Discount Notes, Due 2004, with semi-annual interest payments 1999-2004	\$ 549	\$ -
Notes Payable, Due 1995, (Prime plus 1.5%)	16	-
C-TEC Long-term Debt (with recourse only to C-TEC):		
Credit Agreement - National Bank for Cooperatives (7.63% due 1999)	128	-
Mortgage notes payable to the United States of America -		
Rural Telephone Bank		
5% - 6.05%	-	64
6.5% - 7%	-	58
Federal Financing Bank		
7.69% - 8.36%	-	14
Senior Secured Notes -		
9.65%, with annual principal payments 1996 through 1999 (includes unamortized premium of \$6 and \$7 based on imputed rate of 6.12%)	156	157
9.52% (includes unamortized premium of \$4 based on imputed rate of 6.93%)	-	104
Revolving Credit Agreements and Other	4	30
	<hr/> 853	<hr/> 427

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements
(continued)

(dollars in millions)	1994	1993
Other PKS Long-term Debt:		
6.5% to 11.1% Notes to former stockholders due 1995-2001	12	16
6.25% to 10.5% Convertible debentures due 2000-2004	8	7
Construction loans and other	68	27
	<hr/> 88	<hr/> 50
	<hr/> 941	<hr/> 477
Less current portion	(33)	(15)
	<hr/> \$ 908	<hr/> \$ 462

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PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(11) Long-term Debt and Unutilized Borrowing Arrangements
(continued)

MFS issued the Senior Discount Notes ("Notes") in January of 1994. The Notes are accruing to the principal amount of \$788 million through January 1999. Commencing July 15, 1999 cash interest will be payable semi-annually.

On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. In addition, under certain conditions related to a change in control, MFS may be required to repurchase all or any part of the notes as stipulated in the note agreement. The notes are senior unsecured obligations of MFS and are subordinated to all current and future indebtedness of MFS' subsidiaries, including trade payables. The notes contain certain covenants which, among other things, restrict MFS' ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets to or merge with another company.

Notes payable consist of three notes assumed in 1994 MFS acquisitions. The notes accrue interest at prime plus 1.5% (10% at December 31, 1994) and mature in the first three months of 1995. The notes are collateralized by certain equipment of an MFS subsidiary.

In March 1994, C-TEC's Telephone Group entered into a \$135 million Credit Agreement with the National Bank for Cooperatives ("National"). The funds were used to prepay outstanding borrowings with the United States of America.

The Senior Secured notes are collateralized by pledges of the stock of C-TEC's cable group. The notes contain restrictive covenants which require, among other things, specific debt to cash flow ratios.

C-TEC's Revolving Credit agreements are collateralized by a pledge of the stock of C-TEC's cable group subsidiaries.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(11) Long-term Debt and Unutilized Borrowing Arrangements
(continued)

The convertible debentures are convertible during October of the fifth year preceding their maturity date. Each annual series may be redeemed in its entirety prior to the due date except during the conversion period. Debentures were converted into 12,594, 14,322 and 10,468 shares of Class C and Class D common stock in 1994, 1993 and 1992.

At December 31, 1994, 309,654 shares of Class C common stock and 69,010 shares of Class D common stock are reserved for future conversions.

Other PKS debt consists primarily of construction financing of a privately owned toll road which will be converted to term debt upon completion of the project. Variable interest rates on this debt ranged from 5% to 10% at December 31, 1994.

The Company capitalized \$7 million of interest in 1994.

With the exception of MFS, the fair value of debt approximates the carrying amount. The MFS debt has a fair market value of \$496 million at December 31, 1994.

Scheduled maturities of long-term debt through 1999 are as follows (in millions): 1995 - \$33; 1996 - \$39; 1997 - \$56 1998 - \$59 and \$62 in 1999.

The Company has the following unutilized borrowing arrangements at December 31, 1994:

C-TEC's telephone group's agreement with National provides for an additional \$7 million of borrowings. The agreement requires C-TEC to invest in Rural Telephone Bank stock for approximately 5% of the available amount.

C-TEC's Revolving Credit agreements provide for an additional \$22 million of borrowings collateralized by stock pledges from the cable group. The total commitments are reduced on a quarterly basis through maturity in September 1996.

C-TEC also has an unused line of credit for \$13 million under which unsecured borrowings may be made. Unused lines are cancelable at the

option of the lenders.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(12) Income Taxes

An analysis of the provision for income taxes related to continuing operations before minority interest and cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Current:			
U.S. federal	\$ 54	\$ 52	\$ 62
Foreign	10	2	5
State	5	8	6
	<u>69</u>	<u>62</u>	<u>73</u>
Deferred:			
U.S. federal	(29)	51	(2)
Foreign	(5)	(1)	(4)
State	(8)	(1)	2
	<u>(42)</u>	<u>49</u>	<u>(4)</u>
	<u>\$ 27</u>	<u>\$ 111</u>	<u>\$ 69</u>
	=====	=====	=====

The United States and foreign components of earnings, for tax reporting purposes, from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle follow:

(dollars in millions)	1994	1993	1992
United States	\$ 71	\$ 362	\$ 215
Foreign	16	7	4
	<u>\$ 87</u>	<u>\$ 369</u>	<u>\$ 219</u>
	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(12) Income Taxes (continued)

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1994 and 1993 and 34% in 1992) to the earnings from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Computed tax at statutory rate	\$ 30	\$ 129	\$ 74
State income taxes	3	4	5
Depletion	(4)	(4)	(4)
Dividend exclusion	(3)	(4)	(3)
Tax exempt interest	(4)	-	-
Equity earnings	-	-	(3)
Prior year tax adjustments	(54)	(13)	-
Unutilized tax benefits due to			
net operating loss of MFS	50	-	-
Goodwill amortization	4	-	-
Other	5	(1)	-
	<u>\$ 27</u>	<u>\$ 111</u>	<u>\$ 69</u>
	=====	=====	=====

The Company files a consolidated federal income tax return including its domestic subsidiaries as allowed by the Internal Revenue Code.

Possible taxes, beyond those provided, on remittances of undistributed earnings of foreign subsidiaries are not expected to be material.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(12) Income Taxes (continued)

The components of the net deferred tax liabilities for the years ended December 31, 1994 and December 25, 1993 were as follows:

(dollars in millions)	1994	1993
Deferred tax liabilities:		
Investments in joint ventures	\$ 69	\$ 78
Investments in subsidiaries	101	84
Asset bases - accumulated depreciation	200	196
Deferred coal sales	11	26
Other	32	34
Total deferred tax liabilities	413	418
Deferred tax assets:		
Construction accounts	12	16
Insurance claims	39	20
Compensation - retirement benefits	21	22
Provision for estimated expenses	10	8
Net operating losses of subsidiaries	84	52
Alternative minimum tax credits of subsidiary	13	11
Other	58	37
Valuation allowance	(52)	(17)
Total deferred tax assets	185	149
Net deferred tax liabilities	\$ 228	\$ 269
	=====	=====

The Company's subsidiaries have federal income tax net operating loss carryforwards of approximately \$225 million which begin to expire in 1997.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(13) Employee Benefit Plans

The Company makes contributions, based on collective bargaining agreements related to its construction operations, to several multi-employer union pension plans. These contributions are included in the cost of revenue. Under federal law, the Company may be liable for a portion of plan deficiencies; however, there are no known deficiencies.

The Company's defined benefit pension plans cover primarily packaging employees who retired prior to the disposition of the packaging operations. The expense related to these plans was approximately \$1 million in 1994, \$7 million in 1993 and \$1 million in 1992.

C-TEC maintains a separate defined benefit plan for substantially all of its employees. The prepaid pension cost and income related to this plan is not significant at December 31, 1994 or at December 25, 1993.

The Company also has a long-term incentive plan, consisting of stock appreciation rights, for certain employees. The expense related to this plan was \$2 million, \$3 million, and \$6 million in 1994, 1993 and 1992.

Substantially all employees of the Company, with the exception of stockholders and MFS and C-TEC employees, are covered under the Company's profit sharing plans. The expense related to these plans was \$2 million, \$2 million and \$3 million in 1994, 1993 and 1992.

(14) Postretirement Benefits

In addition to providing pension and other supplemental benefits, the Company provides certain health care and life insurance benefits primarily for packaging employees who retired prior to the disposition of certain packaging operations and C-TEC employees. Employees become eligible for these benefits if they meet minimum age and service requirements or if they agree to contribute a portion of the cost. These benefits have not been funded.

The net periodic costs for health care benefits were \$1 million in 1994 and \$4 million in 1993 and 1992. The net periodic costs for life insurance benefits were \$1 million, \$2 million, and \$2 million in 1994, 1993, and 1992. In all years, the costs related primarily to interest on accumulated benefits.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(14) Postretirement Benefits (continued)

The accrued postretirement benefit liability as of December 31, 1994 was as follows:

(dollars in millions)	Health Insurance	Life Insurance
Retirees	\$ 31	\$ 15
Fully eligible active plan participants	-	-
Other active plan participants	1	-
	<hr/>	<hr/>
Total accumulated postretirement benefit obligation	32	15
Unrecognized prior service cost	21	1
Unrecognized net loss	(5)	(1)
	<hr/>	<hr/>
Accrued postretirement benefit liability	\$ 48 =====	\$ 15 =====

The unrecognized prior service cost resulted from certain modifications to the postretirement benefit plan which reduced the accumulated postretirement benefit obligation. The Company may make additional modifications in the future.

A 7.7% increase in the cost of covered health care benefits was assumed for fiscal 1994. This rate is assumed to gradually decline to 6.2% in the year 2020 and remain at that level thereafter. A 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation ("APBO") by less than \$1 million at year-end 1994. The weighted average discount rate used in determining the APBO was 8.0%.

(15) Stockholders' Equity

Under the Company's Restated Certificate of Incorporation, effective January 8, 1992, the Company now has three classes of common stock: Class B Construction and Mining Group Nonvoting Restricted Redeemable Convertible exchangeable Common Stock ("Class B"), Class C Construction and Mining Group Restricted Redeemable Convertible Exchangeable Common Stock ("Class C"), and Class D Diversified Group Convertible Exchangeable Common Stock ("Class D"). In connection with a

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(15) Stockholders' Equity (continued)

reclassification in January 1992, each "old" Class B share was exchanged for one "new" Class B share and one Class D share, and each "old" Class C share was exchanged for one "new" Class C share and one Class D share.

New Class B and Class C shares can be issued only to Company employees and can be resold only to the Company at a formula price based on the book value of the Construction & Mining Group. The Company is generally required to repurchase Class B and Class C shares for cash upon stockholder demand. Class D shares have a formula price based on the book value of the Diversified Group. The Company must generally repurchase Class D shares for cash upon stockholder demand at the formula price, unless the Class D shares become publicly traded. Although almost all the Class D shares are owned by employees and former employees, such shares are not subject to ownership or transfer restrictions.

In the event of liquidation, after the holders of any preferred stock have been paid the par value and any accrued and unpaid dividends, the Board of Directors will establish two liquidation accounts, the "B&C Liquidation Account" and the "D Liquidation Account." The assets of the liquidation accounts will be distributed as follows: first, Class B&C stockholders will receive an amount equal to \$1.00 per share, reducing the B&C Liquidation Account; second, Class D stockholders will receive an amount equal to \$2.00 per share, reducing the D Liquidation Account; and third, any amount remaining in the B&C Liquidation Account shall be distributed pro rata to the Class B&C stockholders, and any amount remaining in the D Liquidation Account shall be distributed pro rata to the Class D stockholders.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(15) Stockholders' Equity (continued)

For the three years ended December 31, 1994, issuances and repurchases of common shares, including conversions, were as follows:

	Class B Common Stock	Class C Common Stock	Class D Common Stock
Shares issued in 1992	-	2,886,418	1,019,553
Shares repurchased in 1992	137,000	4,765,161	1,693,353
Shares issued in 1993	-	1,027,657	748,026
Shares repurchased in 1993	76,600	2,217,122	841,808
Shares issued in 1994	-	1,018,144	777,556
Shares repurchased in 1994	180,000	2,247,186	396,684

(16) Investment Income, net

Investment income includes interest income of \$69 million, \$54 million and \$74 million in 1994, 1993 and 1992, gains and losses on the sales of securities, equity earnings and dividend income. Partially offsetting interest income was \$16 million, \$53 million and \$14 million in losses on the sales of securities and the permanent writedown of certain derivative and other securities in 1994, 1993 and 1992.

(17) Other, net

Other is primarily gains and losses on sales of property, plant and equipment and other assets. In 1994, 1993 and 1992 the net gain on the sales of these assets was \$15 million, \$12 million and \$14 million. Also, included in 1994 was a \$6 million loss on the early extinguishment of debt.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(18) Industry and Geographic Data

The Company operates primarily in three reportable segments: construction, mining and telecommunications.

A summary of the Company's operations by geographic area and industry follows:

Geographic Data (dollars in millions)	1994	1993	1992
Revenue:			
United States	\$ 2,676	\$ 1,942	\$ 1,815
Canada	233	175	182
Other	82	74	30
	<u>\$ 2,991</u>	<u>\$ 2,191</u>	<u>\$ 2,027</u>
	=====	=====	=====
Operating earnings:			
United States	\$ 17	\$ 97	\$ 112
Canada	14	3	(3)
Other	(1)	22	-
	<u>\$ 30</u>	<u>\$ 122</u>	<u>\$ 109</u>
	=====	=====	=====
Identifiable assets:			
United States	\$ 3,611	\$ 2,628	\$ 1,316
Canada	105	82	90
Other areas	27	29	21
Corporate (1)	761	895	1,122
	<u>\$ 4,504</u>	<u>\$ 3,634</u>	<u>\$ 2,549</u>
	=====	=====	=====

(1) Principally cash, cash equivalents, marketable securities, notes receivable from sales of discontinued operations and investments in all years.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(18) Industry and Geographic Data (continued)

Industry Data (dollars in millions)	1994	1993	1992
Revenue:			
Construction	\$ 2,143	\$ 1,757	\$ 1,659
Mining	246	230	246
Telecommunications	578	189	109
Other	24	15	13
	<u>\$ 2,991</u>	<u>\$ 2,191</u>	<u>\$ 2,027</u>
	=====	=====	=====
Operating earnings:			
Construction	\$ 55	\$ 85	\$ 57
Mining	106	98	96
Telecommunications	(109)	(24)	(11)
Other	(22)	(37)	(33)
	<u>\$ 30</u>	<u>\$ 122</u>	<u>\$ 109</u>
	=====	=====	=====
Identifiable assets:			
Construction	\$ 895	\$ 816	\$ 852
Mining	162	167	175
Telecommunications	2,575	1,682	363
Other	111	74	37
Corporate (1)	761	895	1,122
	<u>\$ 4,504</u>	<u>\$ 3,634</u>	<u>\$ 2,549</u>
	=====	=====	=====
Capital expenditures:			
Construction	\$ 61	\$ 48	\$ 37
Mining	3	5	8
Telecommunications	426	127	80
Other	12	5	-
Corporate	11	7	4
	<u>\$ 513</u>	<u>\$ 192</u>	<u>\$ 129</u>
	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(18) Industry and Geographic Data (continued)

Industry Data (dollars in millions)	1994	1993	1992
<hr/>			
Depreciation, depletion and amortization:			
Construction	\$ 49	\$ 43	\$ 45
Mining	11	13	12
Telecommunications	149	35	21
Other	6	6	6
Corporate	2	2	2
	<hr/>	<hr/>	<hr/>
	\$ 217	\$ 99	\$ 86
	=====	=====	=====

(1) Principally cash, cash equivalents, marketable securities, notes receivable from sales of discontinued operations and investments in all years.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(19) Summarized Financial Information

Holders of Class B&C Stock (Construction & Mining Group) and Class D Stock (Diversified Group) are stockholders of PKS. The Construction & Mining Group contains the Company's traditional construction and materials operations performed by Kiewit Construction Group Inc. and certain mining services, performed by Kiewit Mining Group Inc. The Diversified Group contains coal mining properties owned by Kiewit Coal Properties Inc., communications companies owned by MFS and C-TEC, a data management services company, a minority interest in CECI and miscellaneous investments. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the groups.

A summary of the results of operations and financial position for the Construction & Mining Group and the Diversified Group follows. These summaries were derived from the audited financial statements of the respective groups which are exhibits to this Annual Report.

All significant intercompany accounts and transactions, except those directly between the Construction & Mining Group and the Diversified Group, have been eliminated.

Construction & Mining Group:	1994	1993	1992
<hr/>			
Results of Operations:			
Revenue	\$ 2,175	\$ 1,783	\$ 1,675
	=====	=====	=====
Earnings before cumulative effect of change in accounting principle	\$ 77	\$ 80	\$ 69
Cumulative effect of change in accounting principle	-	-	13
Net Earnings	\$ 77	\$ 80	\$ 82
	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(19) Summarized Financial Information (continued)

Earnings per Share:			
Earnings before cumulative effect of change in accounting principle	\$ 4.92	\$ 4.63	\$ 3.79
Cumulative effect of change in accounting principle	-	-	.69
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 4.92	\$ 4.63	\$ 4.48
	=====	=====	=====
Financial Position:			
Working capital	\$ 333	\$ 372	\$ 342
Total assets	967	889	862
Long-term debt, less current portion	9	10	12
Stockholders' equity	505	480	437

Included within earnings before income taxes is mine service income from the Diversified Group of \$19 million, after-tax, in 1994, 1993 and 1992.

Diversified Group:	1994	1993	1992
<hr/>			
Results of Operations:			
Revenue	\$ 821	\$ 408	\$ 352
	=====	=====	=====

Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 33	\$ 181	\$ 81
Cumulative effect of change in accounting principle	-	-	(1)
Discontinued operations	-	-	19
Net Earnings	<u>\$ 33</u>	<u>\$ 181</u>	<u>\$ 99</u>
	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(19) Summarized Financial Information (continued)

Earnings per Share:			
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 1.63	\$ 9.08	\$ 4.00
Cumulative effect of change in accounting principle	-	-	(.05)
Discontinued operations	-	-	.97
Net Earnings	<u>\$ 1.63</u>	<u>\$ 9.08</u>	<u>\$ 4.92</u>
	=====	=====	=====
Financial Position:			
Working capital	\$ 969	\$ 993	\$ 796
Total assets	3,549	2,759	1,709
Long-term debt, less current portion	899	452	18
Stockholders' equity	1,231	1,191	1,021

Included within earnings from continuing operations before income taxes is mine management fees paid to the Kiewit Construction & Mining Group of \$19 million, after-tax, in 1994, 1993 and 1992.

(20) Other Matters

The Company's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit the Company to make a tax-free distribution of its entire ownership interest in MFS to the Company's Class D stockholders (the "Spin-off"). The Company's management intends to propose a plan (the "Plan") to implement the Spin-off to the Company's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, the Company could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, the Company might not receive the Ruling or the Board might not adopt the plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and the Company would not be

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(20) Other Matters (continued)

able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if the Company's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit the Company to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to the Company in exchange for the transfer by the Company to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by the Company. The Company anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, the Company would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by the

Company. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to the Company.

The Plan would provide for an exchange offer (the "Exchange Offer") by the Company for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, the Company would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next conversion permitted by the Certificate of Incorporation.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(20) Other Matters (continued)

If an Exchange Offer could not be completed prior to the next conversion under the Certificate of Incorporation, the Company probably would defer any Spin-off until the first quarter of 1996.

The Company is involved in various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability, beyond that provided, should not materially affect the Company's financial position or results of operations.

In many pending proceedings, the Company is one of numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited in landfills or other sites. The Company has established reserves to cover its probable liabilities for environmental cases and believes that any additional liabilities will not materially affect the Company's financial condition or results of operations.

In 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, Kiewit Diversified Group, Inc. ("KDG") and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that

MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Defendants expect that a trial will be held in the summer of 1995. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. If the spin-off is approved by the Company's Board of Directors and is consummated, KDG would remain obligated to satisfy these liabilities. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

It is customary in the Company's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(20) Other Matters (continued)

Company in accordance with specified terms and conditions. As of December 31, 1994, the Company had outstanding letters of credit of approximately \$124 million.

A subsidiary of the Company, Continental Holdings Inc. remains contingently liable as a guarantor of \$103 million of debt relating to various businesses which have been sold.

The Company leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 16 years aggregate \$238 million.

In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease agreement with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying approximately a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMCRA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Whitney and Kiewit filed an action now titled Whitney Benefits, Inc. and Peter Kiewit Sons', Co. v. The United States, in the U.S. Court of Federal Claims ("Claims Court") alleging that the enactment of SMCRA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Claims Court and the U.S. Supreme Court denied certiorari.

In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgement would bear interest compounded annually from 1977 until payment. Interest for the 1977-1994 period is \$249 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. Any payments received by Kiewit will be the property of Peter Kiewit Sons', Co., a subsidiary of KDG.

The government filed two post-trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the 1977 value of the property. The government also filed a motion to reopen and set aside the 1989 judgement as void and to dismiss plaintiff's complaint for lack of jurisdiction. In May 1994, the
PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(20) Other Matters (continued)

Claims Court entered an order denying both motions. The government appealed that order, as well as the order regarding compound interest. A hearing on these appeals was held on February 10, 1995. It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment will occur.

(21) Subsequent Events

In February 1995, CECI completed the purchase of Magma Power Company. The cash transaction, valued at \$950 million was partially financed by the sale of 17 million shares of common stock at \$17 per share. As part of this transaction, the Company purchased 1.5 million shares, effectively reducing its ownership percentage of common stock in CECI to 22%.

C-TEC entered into a merger agreement with Twin County Trans Video, Inc. ("Twin County") and its shareholders. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. The transaction, subject to regulatory approval and other conditions, is expected to close in the second quarter of 1995. In consideration for all the capital stock of Twin County, C-TEC will pay \$48 million in cash, issue a \$4 million note and issue \$52 million in exchangeable preferred stock of its subsidiary, C-TEC Cable Systems, Inc. The preferred stock will be exchangeable in C-TEC common stock under certain conditions.

In January 1995, C-TEC entered into an agreement to purchase Buffalo Valley Telephone Company. The aggregate consideration for the purchase (\$55 million) will be a combination of cash and convertible preferred stock in the Telephone Group. The transaction is expected to close in the third quarter of 1995. Buffalo Valley Telephone Company provides local telephone service to 17,300 access lines in central Pennsylvania.

Also in January 1995, C-TEC purchased, for \$84 million in cash, a forty percent equity position in Megacable, S.A. De C.V., Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. The purchase price is subject to adjustments based on fourth quarter 1995 exchange rates.

PETER KIEWIT SONS', INC.

Notes to Consolidated Financial Statements

(21) Subsequent Events (continued)

In March 1995 the Company settled its liability with respect to certain postretirement life insurance benefits. The Company has purchased insurance coverage from a third party insurance company for approximately \$14 million to be paid over the next seven years.

The postretirement life insurance benefits were provided for packaging employees who retired prior to the disposition of certain packaging operations. The settlement will not have a material impact on the Company's financial position or results of operations.

SCHEDULE II

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

(dollars in millions)	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
<hr/>					
Year ended December 31, 1994					
<hr/>					
Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (3)	\$ -	\$ 9
Reserves:					
Insurance claims	67	19	(11)	-	75
Retirement benefits	71	2	(6)	-	67
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (6)	\$ 1	\$ 7
Reserves:					
Insurance claims	66	14	(13)	-	67
Retirement benefits	74	12	(17)	2	71

SCHEDULE II

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves (continued)

(dollars in millions)	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
Year ended December 26, 1992					
Allowance for doubtful trade accounts	\$ 7	\$ 1	\$ (1)	\$ -	\$ 7
Reserves:					
Insurance claims	61	20	(15)	-	66
Retirement benefits	58	8	(8)	16 (a)	74

(a) In 1992, adjustments made in accordance with SFAS No. 109 to adjust remaining retirement benefits, acquired in prior business acquisitions, recorded net of tax, to their pre-tax amounts.

[ARTICLE] 5

[LEGEND]

This schedule contains summary financial information extracted from the Form 10-K for the period ending December 31, 1994 and is qualified in its entirety by reference to such financial statements

[/LEGEND]

[PERIOD-TYPE]	12-MOS
[FISCAL-YEAR-END]	DEC-31-1994
[PERIOD-END]	DEC-31-1994
[CASH]	400
[SECURITIES]	910
[RECEIVABLES]	443
[ALLOWANCES]	9
[INVENTORY]	0
[CURRENT-ASSETS]	2,115
[PP&E]	1,975
[DEPRECIATION]	731
[TOTAL-ASSETS]	4,504
[CURRENT-LIABILITIES]	813
[BONDS]	908
[COMMON]	2
[PREFERRED-MANDATORY]	0
[PREFERRED]	0
[OTHER-SE]	1,734
[TOTAL-LIABILITY-AND-EQUITY]	4,504
[SALES]	2,392
[TOTAL-REVENUES]	2,991
[CGS]	2,108
[TOTAL-COSTS]	2,650
[OTHER-EXPENSES]	311
[LOSS-PROVISION]	0
[INTEREST-EXPENSE]	79
[INCOME-PRETAX]	87
[INCOME-TAX]	27
[INCOME-CONTINUING]	110
[DISCONTINUED]	0
[EXTRAORDINARY]	0
[CHANGES]	0
[NET-INCOME]	110
[EPS-PRIMARY]	\$4.92<F1>
[EPS-DILUTED]	\$4.92<F1>
<F1>\$4.92 represents Class C Stock earnings per share. Class "D" stock earnings per share; \$1.63.	

KIEWIT CONSTRUCTION & MINING GROUP

Index to Financial Statements

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

Pages

Report of Independent Accountants

Financial Statements as of December 31, 1994 and December 25, 1993 and for the three years ended December 31, 1994:

Statements of Earnings

Balance Sheets

Statements of Cash Flows

Statements of Changes in Stockholders' Equity Notes to Financial Statements

Financial Statement Schedule for the three years ended December 31, 1994:

II--Valuation and Qualifying Accounts and Reserves

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

Schedules not indicated above have been omitted because of the absence of the conditions under which they are required or because the information called for is shown in the financial statements or in the notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders
Peter Kiewit Sons', Inc.

We have audited the financial statements and the financial statement schedule of Kiewit Construction & Mining Group, a business group of Peter Kiewit Sons', Inc. (as defined in Note 1 to these financial statements) as listed in the index on the preceding page of this exhibit to Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, when read in conjunction with the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries, present fairly, in all material respects, the financial position of Kiewit Construction & Mining Group as of December 31, 1994 and December 25, 1993, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note 2 to the financial statements, the Group has changed its method of accounting for income taxes in 1992, and its method of accounting for certain investments in debt and equity securities in 1993.

COOPERS & LYBRAND L.L.P.

Omaha, Nebraska
March 20, 1995

KIEWIT CONSTRUCTION & MINING GROUP

Statements of Earnings

For the three years ended December 31, 1994

(dollars in millions, except per share data)	1994	1993	1992
Revenue	\$ 2,175	\$ 1,783	\$ 1,675
Cost of Revenue	(1,995)	(1,588)	(1,516)
	<u>180</u>	<u>195</u>	<u>159</u>
General and Administrative Expenses	(121)	(113)	(111)
	<u>59</u>	<u>82</u>	<u>48</u>
Operating Earnings			
Other Income (Expense):			
Investment Income (Loss)	13	(1)	20
Interest Expense	(2)	(3)	(2)
Other, net	46	40	46
	<u>57</u>	<u>36</u>	<u>64</u>
Earnings Before Income Taxes and Cumulative Effect of Change in Accounting Principle	116	118	112
Provision for Income Taxes	(39)	(38)	(43)
	<u>77</u>	<u>80</u>	<u>69</u>
Earnings Before Cumulative Effect of Change in Accounting Principle			
Cumulative Effect of Change in Accounting Principle	-	-	13
	<u>77</u>	<u>80</u>	<u>82</u>
Net Earnings	=====	=====	=====
Net Earnings Per Common and Common Equivalent Share:			
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 4.92	\$ 4.63	\$ 3.79
Cumulative Effect of Change in Accounting Principle	-	-	.69
	<u>\$ 4.92</u>	<u>\$ 4.63</u>	<u>\$ 4.48</u>
	=====	=====	=====

See accompanying notes to financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions)	1994	1993
Assets		
Current Assets:		
Cash and cash equivalents	\$ 70	\$ 99
Marketable securities	156	183
Receivables, less allowance of \$7 and \$5	260	215
Costs and earnings in excess of billings on uncompleted construction contracts	101	75
Investment in construction joint ventures	69	81
Deferred income taxes	59	48

Other	23	18
Total Current Assets	<u>738</u>	<u>719</u>
Property, Plant and Equipment, at cost:		
Land	15	14
Buildings	36	28
Equipment	484	449
	<u>535</u>	<u>491</u>
Less accumulated depreciation and amortization	(395)	(384)
Net Property, Plant and Equipment	<u>140</u>	<u>107</u>
Deferred Income Taxes	4	9
Other Assets	85	54
	<u>\$ 967</u>	<u>\$ 889</u>
	=====	=====

See accompanying notes to financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions)	1994	1993
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$41 and \$37	\$ 179	\$ 148
Current portion of long-term debt	3	4
Accrued construction costs and billings in excess of revenue on uncompleted contracts	106	87
Accrued insurance costs	73	65
Other	44	43
	<hr/>	<hr/>
Total Current Liabilities	405	347
Long-Term Debt, less current portion	9	10
Other Liabilities	48	52
Stockholders' Equity (Redeemable Common Stock, \$411 million aggregate redemption value)		
Common equity	513	483
Foreign currency adjustment	(7)	(3)
Unrealized holding loss	(1)	-
	<hr/>	<hr/>
Total Stockholders' Equity	505	480
	<hr/>	<hr/>
	\$ 967	\$ 889
	=====	=====
<hr/>		

See accompanying notes to financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(dollars in millions)	1994	1993	1992
Cash flows from operations:			
Net earnings	\$ 77	\$ 80	\$ 82
Adjustments to reconcile net earnings to net cash provided by operations:			
Cumulative effect of change in accounting principle	-	-	(13)
Depreciation and amortization	52	48	47
(Gain) loss on sale of property, plant and equipment, and other assets	(11)	15	(11)
Change in other noncurrent liabilities	5	7	16
Deferred income taxes	(3)	4	(12)
Change in working capital items:			
Receivables	(21)	5	(9)
Costs and earnings in excess of billings on uncompleted construction contracts	(26)	(22)	18
Investment in construction joint ventures	12	(33)	(3)
Other current assets	(5)	7	1
Accounts payable	19	(9)	(9)
Accrued construction costs and billings in excess of revenue on uncompleted contracts	19	(8)	(21)
Other liabilities	(3)	3	(6)
Other	(19)	(10)	11
Net cash provided by operations	96	87	91

KIEWIT CONSTRUCTION & MINING GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	266	773	931
Purchases of marketable securities	(245)	(741)	(983)
Proceeds from sale of property, plant and equipment	26	14	19
Capital expenditures	(76)	(54)	(40)
APAC Arizona, Inc. acquisition	(47)	-	-
Investment in affiliates	(1)	(9)	(16)
Other	-	(3)	(5)
Net cash used in investing activities	(77)	(20)	(94)

KIEWIT CONSTRUCTION & MINING GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
Cash flows from financing activities:			
Long-term debt borrowings	\$ 2	\$ 2	\$ 2
Payments on long-term debt, including current portion	(4)	(2)	(9)
Issuances of common stock	20	16	24
Repurchases of common stock	(11)	(14)	(21)
Dividends paid	(13)	(10)	(7)
Exchange of Class B&C Stock for Class D Stock, net	(42)	(26)	(32)
Other	1	-	-
	<hr/>	<hr/>	<hr/>
Net cash used in financing activities	(47)	(34)	(43)
Effect of exchange rates on cash	(1)	(2)	(4)
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(29)	31	(50)
Cash and cash equivalents at beginning of year	99	68	118
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 70	\$ 99	\$ 68
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Taxes	\$ 49	\$ 54	\$ 66
Interest	2	3	3

See accompanying notes to financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Statements of Changes in Stockholders' Equity For three years ended December 31, 1994

(dollars in millions, except per share data)	1994	1993	1992
Common equity:			
Balance at beginning of year	\$ 483	\$ 438	\$ 398
Issuances of stock	20	16	24
Repurchases of stock	(11)	(14)	(21)
Exchange of Class B&C Stock for Class D Stock, net	(42)	(26)	(32)
Net earnings	77	80	82
Dividends (per share: \$.90 in 1994, \$.70 in 1993, and \$.70 in 1992) (a)	(14)	(11)	(13)
Balance at end of year	<u>\$ 513</u> =====	<u>\$ 483</u> =====	<u>\$ 438</u> =====
Other equity adjustments:			
Balance at beginning of year	\$ (3)	\$ (1)	\$ 2
Foreign currency adjustment	(4)	(2)	(3)
Unrealized Holding Loss	(1)	-	-
Balance at end of year	<u>\$ (8)</u> =====	<u>\$ (3)</u> =====	<u>\$ (1)</u> =====
Total stockholders' equity	<u>\$ 505</u> =====	<u>\$ 480</u> =====	<u>\$ 437</u> =====

(a) Dividends include \$.45, \$.40, and \$.30 for dividends declared in 1994, 1993 and 1992 but paid in January of the subsequent year.

See accompanying notes to financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(1) Basis of Presentation

The Class B&C Stock and the Class D Stock are designed to provide stockholders with separate securities reflecting the performance of Peter Kiewit Sons', Inc.'s ("PKS") construction business and certain mining services ("Construction & Mining Group") and its other businesses ("Diversified Group"), respectively. Dividends on the Class B&C Stock are limited to the legally available funds of PKS less the Class D formula value which is to be reduced by any dividends on Class D Stock declared during the current year. Subject to this limitation, the Board of Directors intends to declare and pay dividends on the Class B&C Stock based primarily on the Construction & Mining Group's separately reported financial condition and results of operations.

The financial statements of the Construction & Mining Group include the financial position, results of operations and cash flows for PKS' construction business and certain mining service businesses held by wholly-owned subsidiaries, Kiewit Construction Group Inc. and Kiewit Mining Group Inc., respectively, and a portion of the PKS corporate assets and liabilities and related transactions which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements. Corporate amounts reflected in these financial statements are determined based upon methods which management believes to be reasonable.

Although the financial statements of PKS' Construction & Mining Group and Diversified Group separately report the assets, liabilities and stockholders' equity of PKS attributed to each such group, legal title to such assets and responsibility for such liabilities will not be affected by such attribution. Holders of Class B&C Stock and Class D Stock are stockholders of PKS. Accordingly, the PKS consolidated financial statements and related notes should be read in conjunction with these financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies

Principles of Group Presentation

These financial statements include the accounts of the Construction & Mining Group ("the Group"). The Group's and Diversified Group's financial statements, taken together, comprise all the accounts included in the PKS consolidated financial statements. All significant intercompany accounts and transactions, except those directly between the Group and the Diversified Group, have been eliminated. Investments in construction joint ventures and other companies in which the Group exercises significant influence over operating and financial policies are accounted for by the equity method. The Group accounts for its share of the operations of the construction joint ventures on a pro rata basis in the statements of earnings.

Construction Contracts

The Group operates generally within the United States and Canada as a general contractor and engages in various types of construction projects for both public and private owners. Credit risk is minimal with public (government) owners since the Group ascertains that funds have been appropriated by the governmental project owner prior to commencing work on public projects. Most public contracts are subject to termination at the election of the government. In the event of termination, the Group is entitled to receive the contract price on completed work and reimbursement of termination related costs. Credit risk with private owners is minimized because of statutory mechanics liens, which give the Group high priority in the event of lien foreclosures following financial difficulties of private owners.

The Group recognizes revenue on long-term construction contracts and joint ventures on the percentage-of-completion method based upon engineering estimates of the work performed on individual contracts. Provisions for losses are recognized on uncompleted contracts when they become known. Claims for additional revenue are recognized in the period when allowed.

Assets and liabilities arising from construction activities, the operating cycle of which extends over several years, are classified as current in the financial statements. A one-year time period is used as the basis for classification of all

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Construction Contracts (continued)

other current assets and liabilities.

The costs to repair equipment used on construction contracts are charged against such contracts and included in cost of revenue.

Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed on accelerated and straight-line methods.

Foreign Currencies

The local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes. Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Revenue and expenses are translated using average exchange rates prevailing during the year. Gains or losses resulting from currency translation are recorded as adjustments to stockholders' equity.

Earnings Per Share

Primary earnings per share of Class B&C Stock have been computed using the weighted average number of shares outstanding during each year. The number of shares used in computing primary earnings per share was 15,697,724 in 1994, 17,290,971 in 1993 and 18,262,680 in 1992. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Marketable Securities

On December 25, 1993, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries. No significant impact resulted from adopting SFAS No. 115.

Income Taxes

At the beginning of 1992, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. In 1992, the Group recorded income of \$13 million, which represented the increase in the net deferred tax assets, as a result of the accounting change. This amount has been reflected in the statements of earnings as a cumulative effect of change in accounting principle.

Reclassifications

Where appropriate, items within the financial statements and notes thereto have been reclassified from previous years to conform to current year presentation.

Fiscal Year

The Group's fiscal year ends on the last Saturday in December. There were 53 weeks in fiscal 1994 and 52 weeks in the fiscal years 1993 and 1992.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(3) Corporate Activities

Financial Structure

Cash, cash equivalents and marketable securities were allocated to the Group and the Diversified Group based on the desired capital structure of the two groups at December 28, 1991. Financial statement impacts of dividends paid to holders of Class B&C Stock and repurchases and

issuances of Class B&C Stock in 1994, 1993 and 1992 were reflected in their entirety in the Group's financial statements.

The desired capital structure at December 28, 1991 for the Group was stockholders' equity of \$400 million. It was determined by PKS management that this was the appropriate level of equity at December 28, 1991 necessary for the Group to continue its traditional construction and mining service businesses, based upon certain factors such as contract volume, prequalification requirements to bid on projects, bonding requirements of its outside insurance company, and working capital requirements. The capital structure of the Diversified Group consisted of the remaining equity of PKS and provided the equity and liquidity to allow the Diversified Group the opportunity to invest in capital intensive businesses, a primary objective of the reorganization.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(3) Corporate Activities (continued)

Financial Structure (continued)

PKS has corporate assets, liabilities and related income and expense which are not separately identified with the ongoing operations of the Group or the Diversified Group. The Group's 50% portion is as follows (in millions):

	1994	1993	
Cash and cash equivalents	\$ 25	\$ 47	
Marketable securities	15	11	
Property, plant and equipment, net	5	12	
Other assets	16	11	
Total Assets	<u>\$ 61</u>	<u>\$ 81</u>	
	=====	=====	
Accounts payable	\$ 30	\$ 27	
Convertible debentures	1	2	
Notes to former stockholders	6	8	
Liability for stock appreciation rights	1	2	
Other liabilities	1	5	
Total Liabilities	<u>\$ 39</u>	<u>\$ 44</u>	
	=====	=====	
	1994	1993	1992
	<u></u>	<u></u>	<u></u>
Net investment income			
(expense)	\$ 1	\$ (1)	\$ 3
Other income (expense)	(2)	1	1

Corporate General and Administrative Costs

A portion of corporate general and administrative costs has been allocated to the Group based upon certain measures of business activities, such as employment, investments and sales, which method management believes to be reasonable. The allocations were \$21 million, \$26 million, and \$27 million in 1994, 1993 and 1992.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(3) Corporate Activities (continued)

Income Taxes

All domestic members of the PKS affiliated group are included in the consolidated U.S. income tax return filed by PKS as allowed by the Internal Revenue Code. Accordingly, the provision for income taxes and the related payments or refunds of tax are determined on a consolidated basis.

The financial statement provision and actual cash tax payments have been reflected in the Group's and the Diversified Group's financial statements in accordance with PKS' tax allocation policy for such groups. In general, such policy provides that the consolidated tax provision and related cash flows and balance sheet amounts are allocated between the Group and the Diversified Group, for group financial statement purposes, based principally upon the financial income, taxable income, credits, preferences and other amounts directly related to the respective groups. The provision for estimated United States income taxes for the Group does not differ materially from that which would have been determined on a separate return basis.

(4) Acquisitions

On February 28, 1994, the Group acquired APAC-Arizona, Inc. ("APAC"), a contracting and construction materials business, from Ashland Oil Company, Inc. for \$47 million. APAC's operations have been integrated into various construction subsidiaries. APAC's 1993 and 1994 operating results prior to the acquisition were not significant relative to the Group's results.

The \$17 million of goodwill from the APAC acquisition is being amortized on a straight-line basis over 20 years.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(5) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to determine classification and fair values of financial instruments:

Cash and Cash Equivalents

Cash equivalents generally consist of highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

Marketable Securities

The Group has classified all marketable securities as available-for-sale. The amortized cost of the securities used in computing unrealized and realized gains and losses are determined by specific identification. Fair values are estimated based on quoted market prices for the securities on hand or for similar investments. Fair values of certificates of deposit approximate cost. Net unrealized holding gains and losses, if any, are reported as a separate component of stockholders' equity, net of tax.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(5) Disclosures about Fair Value of Financial Instruments (continued)

The following summarizes the cost, unrealized holding gains and losses, and estimated fair values of marketable securities and other investments at December 31, 1994 and December 25, 1993.

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1994				
Kiewit Mutual Fund:				
Short-term government	\$ 27	\$ -	\$ -	\$ 27
Intermediate term bond	30	-	1	29
Tax exempt	34	-	1	33
U.S. debt securities	46	-	-	46
Municipal debt securities	11	-	-	11
Certificates of deposit	10	-	-	10
	<u>\$ 158</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 156</u>
	=====	===	====	=====

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(5) Disclosures about Fair Value of Financial Instruments (continued)

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1993				
Equity securities	\$ 29	\$ -	\$ -	\$ 29
U.S. debt securities	40	-	-	40
Municipal debt securities	48	1	-	49
Corporate debt securities	49	-	1	48
Collateralized mortgage obligations	2	-	-	2
Certificates of deposit	15	-	-	15
	<u>\$ 183</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 183</u>
	=====	===	===	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable

securities were less than \$1 million and \$2 million in 1994 and \$2 million and \$25 million in 1993.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(5) Disclosures about Fair Value of Financial Instruments (continued)

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
	<hr/>	<hr/>
U.S. debt securities:		
less than 1 year	\$ 23	\$ 23
1-5 years	23	23
	<hr/>	<hr/>
	\$ 46	\$ 46
	=====	=====
 Municipal debt securities:		
less than 1 year	\$ -	\$ -
1-5 years	10	10
5-10 years	-	-
over 10 years	1	1
	<hr/>	<hr/>
	\$ 11	\$ 11
	=====	=====
 Certificates of deposit:		
less than 1 year	\$ 4	\$ 4
1-5 years	6	6
	<hr/>	<hr/>
	\$ 10	\$ 10
	=====	=====

Maturities for the mutual fund have not been presented as it does not have a single maturity date.

Long-term Debt

The fair value of debt was estimated using the incremental borrowing rates of the Group for debt of the same remaining maturities and approximates the carrying amount.

(6) Retainage on Construction Contracts

Marketable securities at December 31, 1994 and December 25, 1993 include approximately \$61 million and \$56 million, of investments which are being held by the owners of various construction projects in lieu of retainage.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(6) Retainage on Construction Contracts (continued)

Receivables at December 31, 1994 and December 25, 1993 include approximately \$48 million and \$37 million, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(7) Investment in Construction Joint Ventures

The Group has entered into a number of construction joint venture arrangements. Under these arrangements, if one venturer is financially unable to bear its share of the costs, the other venturers will be required to pay those costs.

Summary joint venture financial information follows:

Financial Position (dollars in millions)	1994	1993	
Total Joint Ventures			
Current assets	\$ 563	\$ 563	
Other assets (principally construction equipment)	50	71	
	<u>613</u>	<u>634</u>	
Current liabilities	(503)	(481)	
	<u></u>	<u></u>	
Net assets	\$ 110	\$ 153	
	=====	=====	
Group's Share			
Equity in net assets	\$ 67	\$ 80	
Receivable from joint ventures	2	1	
	<u></u>	<u></u>	
Investment in construction joint ventures	\$ 69	\$ 81	
	=====	=====	
Operations (dollars in millions)	1994	1993	1992
Total Joint Ventures			
Revenue	\$ 1,034	\$ 906	\$ 575
Costs	937	841	522
	<u></u>	<u></u>	<u></u>
Operating income	\$ 97	\$ 65	\$ 53
	=====	=====	=====

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(7) Investment in Construction Joint Ventures (continued)

Operations (dollars in millions)	1994	1993	1992
Group's Share			
Revenue	\$ 523	\$ 430	\$ 269
Costs	473	372	243
	<u></u>	<u></u>	<u></u>
Operating income	\$ 50	\$ 58	\$ 26
	=====	=====	=====

Management of the nonsponsored Denmark tunnel project completed a cost estimate in 1993 which indicated a favorable variance in the estimated costs of the project. As a result of this cost estimate and negotiations with the owner, the Group's management reduced reserves by \$20 million which had been maintained to provide for the Group's share of estimated losses on the project. Based on 1994 estimates, management believes that the resolution of the uncertainties in completing the tunnel, primarily due to adverse soil conditions, should not

materially affect the Group's financial position or results of operations.

(8) Other Assets

Other assets includes the Group's equity method investments, investment in partnerships and the net goodwill recognized in the APAC acquisition. In 1994, a \$3 million purchase increased the Group's interest in ME Holdings, Inc, an electrical contracting business, to 42%. The cumulative investment in common stock, accounted for on the equity method, totals \$24 million, \$3 million in excess of the Group's share of equity. The excess investment is being amortized over 5 years. The contracting business is not publicly traded and does not have a readily determinable market value. The Group is committed to acquire 80% ownership by 1997.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(9) Long-Term Debt

At December 31, 1994 and December 25, 1993, long-term debt consisting of a portion of PKS' notes to former stockholders and convertible debentures which have been allocated to the Group and the Diversified Group, and specifically attributed debt was as follows:

(dollars in millions)	1994	1993
6.5%-11.1% Notes to former stockholders, 1995-2001	\$ 6	\$ 8
6.25%-10.50% Convertible debentures, 2000-2004	6	3
Other	-	3
	<hr/>	<hr/>
	12	14
Less current portion	(3)	(4)
	<hr/>	<hr/>
	\$ 9	\$ 10
	====	====

The convertible debentures are convertible during October of the fifth year preceding their maturity date. Each annual series may be redeemed in its entirety prior to the due date except during the conversion period. Debentures were converted into 12,594, 14,322 and 10,468 shares of Class C common stock in 1994, 1993 and 1992. At December 25, 1994, 309,654 shares of Class C common stock are reserved for future conversions.

Scheduled maturities of long-term through 1999 are as follows (in millions): 1995 - \$3; 1996 - \$2; 1997 - \$1, 1998 - \$1 and 1999 - \$3.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(10) Income Taxes

An analysis of the provision (benefit) for income taxes relating to earnings before cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Current:			
U.S. federal	\$ 33	\$ 28	\$ 47
Foreign	8	2	5
State	1	4	3
	<u>42</u>	<u>34</u>	<u>55</u>
Deferred:			
U.S. federal	-	4	(10)
Foreign	(1)	1	(4)
State	(2)	(1)	2
	<u>(3)</u>	<u>4</u>	<u>(12)</u>
	<u>\$ 39</u>	<u>\$ 38</u>	<u>\$ 43</u>
	=====	=====	=====

The United States and foreign components of earnings for tax reporting purposes, before income taxes and cumulative effect of change in accounting principle follow:

(dollars in millions)	1994	1993	1992
United States	\$ 101	\$ 111	\$ 110
Foreign	15	7	2
	<u>\$ 116</u>	<u>\$ 118</u>	<u>\$ 112</u>
	=====	=====	=====

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(10) Income Taxes (continued)

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1994 and 1993 and 34% in 1992) to the earnings before income taxes and cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Computed tax at statutory rate	\$ 41	\$ 41	\$ 38
State income taxes	3	1	3
Prior year tax adjustments	(3)	-	-
Other	(2)	(2)	2
Effect of federal income tax rate change	-	(2)	-
	<u>\$ 39</u>	<u>\$ 38</u>	<u>\$ 43</u>
	=====	=====	=====

Possible taxes, beyond those provided, on remittances of undistributed earnings of foreign subsidiaries are not expected to be material.

The components of the net deferred tax assets as of December 31, 1994 and December 25, 1993 were as follows:

(dollars in millions)	1994	1993

Deferred tax assets:		
Construction accounts	\$ 12	\$ 16
Investments in construction joint ventures	14	13
Insurance claims	29	24
Compensation	6	6
Other	14	11
	<hr/>	<hr/>
Total deferred tax assets	75	70
Deferred tax liabilities:		
Other	(12)	(13)
	<hr/>	<hr/>
Total deferred tax liabilities	(12)	(13)
	<hr/>	<hr/>
Net deferred tax assets	\$ 63	\$ 57
	=====	=====

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(11) Employee Benefit Plans

The Group makes contributions, based on collective bargaining agreements related to its construction operations, to several multi-employer union pension plans. These contributions are included in construction contract costs. Under federal law, the Group may be liable for a portion of future plan deficiencies; however, there are no known deficiencies.

The Group also has a long-term incentive plan, stock appreciation rights, for certain employees. The expense related to this plan was \$1 million in 1994, \$2 million in 1993 and \$4 million in 1992. Substantially all employees of the Group, with the exception of stockholders, are covered under the Group's profit sharing plans. The expense related to these plans was \$1 million in 1994, 1993 and 1992.

(12) Stockholders' Equity

Ownership of the Class B&C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class B&C Stock at the amount computed pursuant to the Restated Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 31, 1994 were as follows:

B&C

	Stock
	<hr/>
Shares issued in 1992	2,886,418
Shares repurchased in 1992	4,902,161
Shares issued in 1993	1,027,657
Shares repurchased in 1993	2,293,722
Shares issued in 1994	1,018,144
Shares repurchased in 1994	2,427,186

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(13) Investment Income, net

Investment income is comprised of interest income of \$12 million, \$13 million and \$17 million for 1994, 1993 and 1992, dividend income, gains and losses on the sale and writedown of securities and equity earnings.

(14) Other, net

Other is principally mine service income of \$29 million in 1994, 1993 and 1992 from the Diversified Group and gains and losses from the sale and disposition of property, plant and equipment and other miscellaneous assets.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(15) Industry and Geographic Data

The Group's operations are primarily conducted in one business segment; construction contracting. The following is derived from geographic information in the PKS consolidated financial statements as it relates to the Group.

Geographic Data (dollars in millions)	1994	1993	1992
<hr/>			
Revenue:			
United States	\$ 1,896	\$ 1,556	\$ 1,470
Canada	233	175	182
Other	46	52	23
	<hr/>	<hr/>	<hr/>
	\$ 2,175	\$ 1,783	\$ 1,675
	=====	=====	=====
Operating earnings:			
United States	\$ 45	\$ 57	\$ 51
Canada	14	3	(3)
Other	-	22	-
	<hr/>	<hr/>	<hr/>
	\$ 59	\$ 82	\$ 48
	=====	=====	=====
Identifiable assets:			
United States	\$ 787	\$ 713	\$ 682
Canada	105	82	90
Other areas	14	13	9
Corporate (1)	61	81	81
	<hr/>	<hr/>	<hr/>
	\$ 967	\$ 889	\$ 862
	=====	=====	=====
<hr/>			

(1) 50% of PKS corporate assets not identifiable to a specific group.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(16) Other Matters

PKS's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to PKS's Class D stockholders (the "Spin-off"). PKS's management intends to propose a plan (the "Plan") to implement the Spin-off to PKS's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, PKS could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, PKS might not receive the Ruling or the Board might not adopt the plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and PKS would not be able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if PKS's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit PKS to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to KDG in exchange for the transfer by KDG to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by KDG. PKS anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(16) Other Matters (continued)

in any election of MFS directors. If the Spin-off occurs, PKS would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by KDG. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to KDG.

The Plan would provide for an exchange offer (the "Exchange Offer") by PKS for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in PKS's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next conversion permitted by the Certificate of Incorporation. If an Exchange Offer could not be completed prior to the next conversion under the Certificate of Incorporation, the Company probably would defer any Spin-off until the first quarter of 1996.

The Group is involved in various lawsuits and claims incidental to its business. Management believes that any resulting liability, beyond that provided, should not materially affect the Group's financial position or results of operations.

The Group leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancellable operating leases during the next 16 years aggregate \$11 million.

It is customary in the Group's industry to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Group in accordance with specified terms and conditions. As of December 31, 1994, the Group had outstanding letters of credit of approximately \$84 million.

SCHEDULE II

KIEWIT CONSTRUCTION & MINING GROUP

Valuation and Qualifying Accounts and Reserves

(dollars in millions)	Balance Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
<hr/>					
Year ended December 31, 1994					
<hr/>					
Allowance for doubtful trade accounts	\$ 5	\$ 4	\$ (2)	\$ -	\$ 7
Reserves:					
Insurance claims	65	19	(11)	-	73
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 4	\$ (1)	\$ -	\$ 5
Reserves:					
Insurance claims	66	13	(13)	(1)	65
Year ended December 26, 1992					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 1	\$ (1)	\$ -	\$ 2

Reserves:

Insurance claims 61 20 (15) - 66

KIEWIT CONSTRUCTION & MINING GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial statements of the Construction & Mining Group (the "Group") include the financial position, results of operations and cash flows for the construction business and certain mining services of Peter Kiewit Sons', Inc. ("PKS") and a portion of the corporate assets and liabilities and related transactions which are not separately identified with ongoing operations of the Construction & Mining Group or the Diversified Group. The Group's share of corporate assets and liabilities and related transactions includes amounts to reflect certain financial activities, corporate general and administrative costs and income taxes. See Notes 1 and 3 to the Group's financial statements.

Revenue from each of the Group's business segments was (in millions):

	1994	1993	1992
	<hr/>	<hr/>	<hr/>
Construction	\$ 2,148	\$ 1,757	\$ 1,659
Other	27	26	16
	<hr/>	<hr/>	<hr/>
	\$ 2,175	\$ 1,783	\$ 1,675
	=====	=====	=====

Results of Operations - 1994 vs. 1993

Construction

Construction revenue increased by \$391 million or 22% in 1994. The Group's share of joint venture revenue also rose by 22% in 1994 and accounted for 24% of total construction revenue in 1994 and 1993. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase in revenue, the largest of which was the San Joaquin Toll Road Joint Venture ("San Joaquin"). Also contributing to the increase were revenues generated from the APAC acquisition. Contract backlog at December 31, 1994 was \$2.2 billion, of which 16% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 40% of the total backlog which includes San Joaquin revenues of \$333 million. San Joaquin is scheduled for completion in 1997.

Direct costs associated with construction contracts increased \$409 million or 26% to \$2.0 billion in 1994. Costs as a percentage of revenue were approximated 92% and 89% for 1994 and 1993, respectively.

KIEWIT CONSTRUCTION & MINING GROUP

Results of Operations - 1994 vs. 1993 (continued)

Construction (continued)

In 1994, the margins were adversely affected by cost overruns and a more competitive market environment. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

General and Administrative Expenses

Moderate increases in professional services fees, insurance costs and other administrative departments were primarily responsible for the 7% increase in general and administrative costs.

Investment Income (Loss)

Investment income increased to \$13 million in 1994 from a \$1 million loss in 1993. The improvement is directly attributable to the decline in losses from the sale and writedown of derivative and other securities from \$18 million in 1993 to \$2 million in 1994.

Other, net

Significantly higher equipment sales led to an increase in the gains recognized on the sale of property, plant and equipment in 1994 to \$13 million from \$8 million in 1993.

Income Taxes

The effective income tax rates of 34% and 32% in 1994 and 1993 differ from the statutory rates primarily because of prior year tax adjustments in 1994 and the effect of the Federal income tax rate change on deferred tax assets in 1993.

Results of Operations - 1993 vs. 1992

Construction

Construction revenue increased by \$98 million or 6% in 1993. The Group's share of joint venture revenue rose by 60% and accounted for 24% of the total construction revenue for the period as compared to 16% for 1992. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase. The

KIEWIT CONSTRUCTION & MINING GROUP

Results of Operations - 1993 vs. 1992 (continued)

Construction (continued)

increase in joint venture revenue was partially offset by a small decrease in sole contract revenue recognized due to a decrease in the average size of sole contracts awarded. Contract backlog at December 25, 1993 was \$2.1 billion, of which 6% is attributable to foreign operations, principally, Canada. Projects on the west coast comprised 50% of the total backlog of which San Joaquin accounted for \$435 million.

Direct costs associated with construction contracts increased \$66 million or 4% to \$1.6 billion in 1993. The increase is net of a \$20 million reduction in reserves previously established for the non-sponsored Denmark tunnel project. The overall rise in costs was directly attributable to the increase in volume. Costs as a percentage of revenue, excluding the reduction in reserves, approximated 90% and 91% for 1993 and 1992, respectively.

Management of the non-sponsored Denmark tunnel project completed a cost estimate which indicated a favorable variance in the estimated costs of the project. As a result of this revised cost estimate and negotiations with the owner, management reduced reserves maintained to provide for the Group's share of estimated losses on the project. This reduction contributed to the increase in gross margin to 11% in 1993 from 9% in 1992.

General and Administrative Expenses

General and administrative expenses increased 2% in 1993 as a result of moderate increases in several of the Group's operating districts.

Investment Income (Loss)

The realization of losses on the sale of and valuation adjustments to certain derivative instruments and a decline in interest income resulted in the change in investment income.

Other, net

Slight increases in miscellaneous income partially offset a \$4 million decline in the net gains on disposition of assets.

KIEWIT CONSTRUCTION & MINING GROUP

Results of Operations - 1993 vs. 1992 (continued)

Income Taxes

The effective income tax rates are 32% in 1993 and 38% in 1992. The rates differ from the statutory rates principally because of the effect of the Federal income tax rate change on deferred tax assets in 1993 and state income taxes in 1992.

KIEWIT CONSTRUCTION & MINING GROUP

Financial Condition - December 31, 1994

In 1994, the Group's working capital decreased \$39 million or 10% to \$333 million. For the year, the Group generated \$96 million of cash from operating activities, an increase of 10% from the prior year.

The Group's 1994 net investing activities used \$77 million. The \$47 million acquisition of APAC and capital expenditures of \$76 exceeded net proceeds from sales and maturities of marketable securities of \$21 million and proceeds from sales of fixed assets of \$26 million. Future investing activity includes purchasing additional shares of an electrical contractor - the Group is committed to acquire 80% ownership by 1997 - and investing between \$40 and \$75 million annually in the construction business.

Financing activities reduced cash during 1994 and consisted of net conversions of Class B&C stock for Class D stock of \$42 million, stock repurchases of \$11 million and dividends of \$13 million. Stock issuances and long-term debt borrowings generated cash of \$20 million and \$2 million, respectively, in 1994. Stock conversions and repurchases, dividends (\$7 million paid in January of 1995), and stock issuances will continue as the Group's major financing activities.

The Group's existing cash and cash equivalents, marketable securities and operating cash flows, along with existing borrowing capacity, should suffice for 1995 working capital and capital expenditure requirements and provide adequate liquidity for the expenditures discussed above.

PKS's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to PKS's Class D stockholders (the "Spin-off"). PKS's management intends to propose a plan (the "Plan") to implement the Spin-off to PKS's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, PKS could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, PKS might not receive the Ruling or the Board might not adopt the plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If

KIEWIT CONSTRUCTION & MINING GROUP

Financial Condition - December 31, 1994 (continued)

the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and PKS would not be able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if PKS's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit PKS to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to KDG in exchange for the transfer by KDG to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by the Company. PKS anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, PKS would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by KDG. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to KDG.

The Plan would provide for an exchange offer (the "Exchange Offer") by PKS for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next conversion permitted by the Certificate of Incorporation. If an Exchange Offer could not be completed prior to the next conversion under the Certificate of Incorporation, PKS probably would defer any Spin-off until the first quarter of 1996.

EXHIBIT 99.B

KIEWIT DIVERSIFIED GROUP

Index to Financial Statements

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

Report of Independent Accountants

Financial Statements as of December 31, 1994 and December 25, 1993 and for the three years ended December 31, 1994:

Statements of Earnings

Balance Sheets

Statements of Cash Flows

Statements of Changes in Stockholders' Equity Notes to Financial Statements

Financial Statement Schedule for the three years ended December 31, 1994:

II--Valuation and Qualifying Accounts and Reserves

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

Schedules not indicated above have been omitted because of the absence of the conditions under which they are required or because the information called for is shown in the financial statements or in the notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders
Peter Kiewit Sons', Inc.

We have audited the financial statements and the financial statement schedule of Kiewit Diversified Group, a business group of Peter Kiewit Sons', Inc. (as defined in Note 1 to these financial statements) as listed in the index on the preceding page of this exhibit to Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, when read in conjunction with the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries, present fairly, in all material respects, the financial position of Kiewit Diversified Group as of December 31, 1994 and December 25, 1993 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles. In addition, in our opinion the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information required to be included therein.

As discussed in Note 2 to the financial statements, the Group changed its method of accounting for income taxes in 1992, and its method of accounting for certain investments in debt and equity securities in 1993.

COOPERS & LYBRAND L.L.P

Omaha, Nebraska
March 20, 1995

KIEWIT DIVERSIFIED GROUP

Statements of Earnings

For the three years ended December 31, 1994

(dollars in millions)	1994	1993	1992
Revenue	\$ 821	\$ 408	\$ 352
Cost of Revenue	(660)	(288)	(230)
	<u>161</u>	<u>120</u>	<u>122</u>
General and Administrative Expenses	(219)	(109)	(90)
	<u></u>	<u></u>	<u></u>
Operating Earnings (Loss)	(58)	11	32
Other Income (Expense):			
Gain on Subsidiary's Stock Transactions, net	54	211	-
Investment Income, net	54	27	78
Interest Expense, net	(77)	(11)	(9)
Other, net	(2)	13	6
	<u>29</u>	<u>240</u>	<u>75</u>
Earnings (Loss) from Continuing Operations Before Income Taxes, Minority Interest and Cumulative Effect of Change in Accounting Principle	(29)	251	107
Benefit (Provision) for Incomes Taxes	12	(73)	(26)

Minority Interest in Loss of Subsidiaries	50	3	-
	<hr/>	<hr/>	<hr/>
Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	33	181	81
Cumulative Effect of Change in Accounting Principle	-	-	(1)
	<hr/>	<hr/>	<hr/>
Earnings from Continuing Operations	33	181	80

KIEWIT DIVERSIFIED GROUP

Statements of Earnings

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
<hr/>			
Discontinued Operations:			
Earnings from discontinued operations net of income tax provision of \$- in 1992	-	-	1
Gain on disposal of discontinued operations net of income tax benefit of \$19 in 1992	-	-	18
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 33 =====	\$ 181 =====	\$ 99 =====
<hr/>			

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Statements of Earnings

For the three years ended December 31, 1994

(continued)

(dollars in millions, except per share data)	1994	1993	1992
<hr/>			
Earnings Per Common and Common Equivalent Share:			
Continuing Operations:			
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 1.63	\$ 9.08	\$ 4.00
Cumulative Effect of Change in Accounting Principle	-	-	(.05)
	<hr/>	<hr/>	<hr/>
Earnings from Continuing Operations	1.63	9.08	3.95
Discontinued Operations:			
Earnings	-	-	.04
Gain on disposal	-	-	.93
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 1.63 =====	\$ 9.08 =====	\$ 4.92 =====
<hr/>			

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions)	1994	1993
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 330	\$ 197
Marketable securities	754	899
Receivables, less allowance of \$2 and \$2	157	81
Note receivable from sale of discontinued operations	29	5
Deferred income taxes	15	18
Other	95	40
	<hr/>	<hr/>
Total Current Assets	1,380	1,240
Property, Plant and Equipment, at cost:		
Land	15	15
Buildings	171	172
Equipment	1,254	802
	<hr/>	<hr/>
	1,440	989
Less accumulated depreciation and amortization	(336)	(252)
	<hr/>	<hr/>
Net Property, Plant and Equipment	1,104	737
Note Receivable from Sale of Discontinued Operations	-	29
Investments	243	233
Intangible Assets, net	733	427
Other Assets	89	93
	<hr/>	<hr/>
	\$ 3,549	\$ 2,759
	=====	=====
<hr/>		

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Balance Sheets

December 31, 1994 and December 25, 1993

(dollars in millions)	1994	1993
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 165	\$ 113
Current portion of long-term debt:		
Telecommunications	26	7
Other	4	4
Accrued costs and billings in excess of revenue on uncompleted contracts	37	20
Accrued reclamation and other mining costs	20	23
Other	159	80
	<hr/>	<hr/>
Total Current Liabilities	411	247
Long-Term Debt, less current portion:		
Telecommunications	827	420
Other	72	32
Deferred Income Taxes	306	344
Retirement Benefits	67	71
Accrued Reclamation Costs	102	99
Other Liabilities	85	57
Minority Interest	448	298
Stockholders' Equity (Redeemable Common Stock, \$1.2 billion aggregate redemption value)		
Common equity	1,238	1,182
Net unrealized holding gain (loss)	(7)	9
	<hr/>	<hr/>
Total Stockholders' Equity	1,231	1,191
	<hr/>	<hr/>
	\$ 3,549	\$ 2,759
	=====	=====
<hr/>		

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(dollars in millions)	1994	1993	1992
Cash flows from operations:			
Earnings from continuing operations	\$ 33	\$ 181	\$ 80
Adjustments to reconcile earnings from continuing operations to net cash provided by continuing operations:			
Depreciation, depletion and amortization	165	51	39
(Gain) loss on sale of property, plant and equipment, and other investments	16	8	(7)
Gain on subsidiary's stock transactions, net	(54)	(211)	-
Non-cash interest expense	40	-	-
Minority interest in losses	(50)	(3)	-
Decline in market value of investments	-	25	12
Retirement benefits paid	(6)	(17)	(8)
Deferred income taxes	(39)	45	8
Change in working capital items:			
Receivables	(28)	8	(14)
Other current assets	(48)	-	16
Payables	23	51	13
Other liabilities	(2)	36	(29)
Other	19	22	(1)
Net cash provided by continuing operations	69	196	109
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	1,610	4,155	5,611
Purchases of marketable securities	(1,473)	(4,490)	(5,646)
Acquisitions, excluding cash acquired	(207)	(146)	-
Proceeds from sale of cellular properties	182	-	-
Proceeds from sale of property, plant and equipment, and other investments	7	25	12
Capital expenditures	(450)	(139)	(89)
Investments in affiliates	(33)	(3)	(26)
Acquisition of minority interest	(6)	-	(27)

KIEWIT DIVERSIFIED GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
Deferred development costs and other	(49)	(36)	11
Net cash used in investing activities	(419)	(634)	(154)
Cash flows from financing activities:			
Long-term debt borrowings	691	19	1
Payments on long-term debt, including current portion	(305)	(7)	(89)
Net change in short-term borrowings	-	(80)	80
Issuances of common stock	1	8	-
Issuances of subsidiaries' stock	70	458	-
Repurchases of common stock	(20)	(40)	(64)
Dividends paid	-	(17)	(33)
Exchange of B&C Stock for Class D Stock, net	42	26	32
Other	(1)	3	(1)
Net cash provided by (used in) financing activities	478	370	(74)
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	5	110	163
Other cash provided by (used in) discontinued packaging operations	-	20	(34)
Net cash provided by discontinued packaging operations	5	130	129
Net increase in cash and cash equivalents	133	62	10
Cash and cash equivalents at beginning of year	197	135	125
Cash and cash equivalents at end of year	\$ 330 =====	\$ 197 =====	\$ 135 =====

KIEWIT DIVERSIFIED GROUP

Statements of Cash Flows

For the three years ended December 31, 1994

(continued)

(dollars in millions)	1994	1993	1992
Supplemental disclosure of cash flow information for continuing and discontinued operations:			
Taxes	\$ 66	\$ 29	\$ 117
Interest	39	4	11

Noncash investing activities:				
Issuances of MFS stock for acquisitions	\$	71	\$	-
			\$	-
MFS stock transactions to settle contingent purchase price adjustment		25	-	-
<hr/>				

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Statements of Changes in Stockholders' Equity For the three years ended December 31, 1994

(dollars in millions, except per share data)	1994	1993	1992
Common equity:			
Balance at beginning of year	\$ 1,182	\$ 1,017	\$ 989
Issuances of stock	1	8	-
Repurchases of stock	(20)	(40)	(64)
Exchange of Class B&C Stock for Class D Stock, net	42	26	32
Net earnings	33	181	99
Dividends (per share: \$.50 in 1993, \$1.95 in 1992 (a))	-	(10)	(39)
Balance at end of year	<u>\$ 1,238</u> =====	<u>\$ 1,182</u> =====	<u>\$ 1,017</u> =====
Other equity adjustments:			
Balance at beginning of year	\$ 9	\$ 4	\$ 7
Foreign currency adjustment	-	(4)	(3)
Net unrealized holding gain (loss)	(16)	9	-
Balance at end of year	<u>\$ (7)</u> =====	<u>\$ 9</u> =====	<u>\$ 4</u> =====
Total stockholders' equity	<u>\$ 1,231</u> =====	<u>\$ 1,191</u> =====	<u>\$ 1,021</u> =====

(a) Includes \$.35 per share for dividends declared in 1992 but paid in 1993.

See accompanying notes to financial statements.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(1) Basis of Presentation

The Class B&C Stock and the Class D Stock are designed to provide stockholders with separate securities reflecting the performance of Peter Kiewit Sons', Inc.'s ("PKS") construction business and certain mining services ("Construction & Mining Group") and its other businesses ("Diversified Group").

The financial statements of the Diversified Group include the financial position, results of operations and cash flows for PKS' businesses other than its Construction & Mining Group businesses, held by a wholly-owned subsidiary, Kiewit Diversified Group Inc. ("KDG") and a portion of the PKS corporate assets and liabilities and related transactions which are not separately identified with the ongoing operations of the Diversified Group or the Construction & Mining Group. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements. Corporate amounts reflected in these financial statements are determined based upon methods which management believes to be reasonable.

Although the financial statements of PKS' Diversified Group and Construction & Mining Group separately report the assets, liabilities and stockholders' equity of PKS attributed to each such group, legal title to such assets and responsibility for such liabilities will not be affected by such attribution. Holders of Class D Stock and Class B&C Stock are stockholders of PKS. Accordingly, the PKS consolidated financial statements and related notes should be read in conjunction with these financial statements.

(2) Summary of Significant Accounting Policies

Principles of Group Presentation

These financial statements include the accounts of the Diversified Group ("the Group"). The Group's and Construction & Mining Group's financial statements, taken together, comprise all of the accounts included in the PKS consolidated financial statements. The Group's enterprises include coal mining, telecommunications, data management services, energy production and timberland sales. The Group's only reportable segments are coal mining and telecommunications.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Principles of Group Presentation (continued)

See Note 4 with respect to discontinued packaging operations. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. All significant intercompany accounts and transactions, except those directly between the Group and the Construction & Mining Group, have been eliminated. Investments in other companies in which the Group exercises significant influence over operating and financial policies are accounted for by the equity method.

Coal Sales Contracts

The Group and its mining ventures have entered into various agreements with its customers which stipulate delivery and payment terms for the sale of coal. Prior to 1993, one of the primary customers deferred receipt of certain commitments by purchasing undivided fractional interests in coal reserves of the Group and the mining ventures. Under these arrangements revenue was recognized when cash was received. The agreements with this customer were renegotiated in 1992. In accordance with the renegotiated agreements, there were no sales of interests in coal reserves subsequent to January 1, 1993. The Group has the obligation to deliver the coal reserves to the customer in the future if the customer exercises its option. If the option is exercised, the Group intends to deliver coal from an unaffiliated mine and a mine in which the Group has a 50% interest. In the opinion of management, the Group has sufficient coal reserves to cover the above sales commitments.

The Group's coal sales contracts are with several electric utility and industrial companies. In the event that these customers do not fulfill contractual responsibilities, the Group would pursue the available legal remedies.

Telecommunications Revenues

MFS Communications Company, Inc. ("MFS") provides a variety of telecommunications services through a number of subsidiaries. MFS Telecom, Inc. provides dedicated circuits for critical telecommunications needs of large business and

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Telecommunications Revenues (continued)

government customers. MFS Intelenet, Inc. provides single source integrated local and long distance telecommunications services and facilities management, primarily for medium and small businesses. MFS Network Technologies, Inc. designs, engineers, develops and installs telecommunications networks and systems and also provides facilities management services. Telecommunications services revenue is recognized in the month the related service is provided. Network systems integration revenue is recognized on the percentage-of-completion method of accounting.

C-TEC Corporation's, ("C-TEC"), most significant operating groups are its local telephone service and cable system operations. C-TEC's telephone network access revenues are derived from net access charges, toll rates and settlement arrangements for traffic that originates or terminates within C-TEC's local telephone company. Revenues from basic and premium cable programming services are recorded in the month service is provided.

Concentration of credit risk with respect to accounts receivable are limited due to the dispersion of customer base among different industries and geographic areas and remedies provided by the terms of contracts and statutes.

Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization for the majority of the Group's property, plant and equipment are computed on accelerated and straight-line methods. Depletion of mineral properties is provided primarily on a unit-of-extraction basis determined in relation to estimated reserves.

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$232 million is depreciated based on the estimated remaining lives of the various classes of depreciable property and straight-line composite rates. At the time property is retired, the original cost, plus cost of removal, less salvage, is charged to accumulated depreciation.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets consist of amounts allocated upon purchase of existing operations and development costs. These assets are amortized on a straight-line basis over the expected period of benefit, which does not exceed 40 years.

The Group reviews the carrying amount of goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the goodwill to the net carrying value of the goodwill.

Pension Plans

The Group maintains defined benefit plans primarily for retired packaging employees. Benefits paid under the plans are based on years of service for hourly employees and years of service and rates of pay for salaried employees.

Substantially all of C-TEC's employees are included in a trustee noncontributory defined benefit plan. Upon retirement, employees are provided a monthly pension based on length of service and compensation.

The plans are funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Reserves for Reclamation

The Group follows the policy of providing an accrual for reclamation of mined properties, based on the estimated cost of restoration of such properties, in compliance with laws governing strip mining.

Foreign Currencies

The local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes. Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Revenue and expenses are translated

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Foreign Currencies (continued)

using average exchange rates prevailing during the year. Gains or losses resulting from currency translation are recorded as adjustments to stockholders' equity.

Subsidiary Stock Sales and Issuances

The Group recognizes gains and losses from the sales and issuances of stock by its subsidiaries.

Earnings Per Share

Primary earnings per share of Class D Stock have been computed using the weighted average number of shares outstanding during each year. The number of shares used in computing primary earnings per share was 20,438,806 in 1994, 19,941,885 in 1993 and 20,126,768 in 1992. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

Marketable Securities and Investments

On December 25, 1993, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries.

Income Taxes

At the beginning of 1992, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial and tax basis for assets

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. In 1992, the Group recorded expense of \$1 million, which represented the increase in the net deferred tax liabilities as a result of the accounting change. This amount has been reflected in the statements of earnings as a cumulative effect of a change in accounting principle.

Reclassifications

Where appropriate, items within the financial statements and notes thereto have been reclassified from previous years to conform to current year presentation.

Fiscal Year

The Group's fiscal year ends on the last Saturday in December. There were 53 weeks in the 1994 fiscal year and 52 weeks each in the fiscal years 1993 and 1992.

MFS and C-TEC's fiscal years end on December 31.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(3) Corporate Activities

Financial Structure

Cash, cash equivalents and marketable securities were allocated to the Group and the Construction & Mining Group based upon the desired capital structure of the two at December 28, 1991. Financial statement impacts of dividends paid to holders of Class D Stock and repurchases and issuances of Class D Stock in 1994, 1993 and 1992 were reflected in their entirety in the Diversified Group's financial statements.

The desired capital structure at December 28, 1991 for the Construction & Mining Group was stockholders' equity of \$400 million. It was determined by PKS management that this was the appropriate level of equity at December 28, 1991 necessary for the Construction & Mining Group to continue its traditional construction and mining service businesses, based upon certain factors such as contract volume, prequalification requirements to bid on projects, bonding requirements of its outside insurance company, and working capital requirements. The capital structure of the Group consisted of the remaining equity of PKS and provided equity and liquidity to allow the Group the opportunity to invest in capital intensive businesses, a primary objective of the Reorganization.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(3) Corporate Activities (continued)

Financial Structure

PKS has corporate assets, liabilities and related income and expense which are not separately identified with the ongoing operations of the Group or the Construction & Mining Group. The Group's 50% portion is as follows (in millions):

	1994	1993	
	<hr/>	<hr/>	
Cash and cash equivalents	\$ 25	\$ 47	
Marketable securities	15	11	
Property, plant and equipment, net	5	12	
Other assets	16	11	
	<hr/>	<hr/>	
Total Assets	\$ 61	\$ 81	
	====	====	
Accounts Payable	\$ 30	\$ 27	
Convertible debentures	1	2	
Notes to former stockholders	6	8	
Liability for stock appreciation rights	1	2	
Other liabilities	1	5	
	<hr/>	<hr/>	
Total Liabilities	\$ 39	\$ 44	
	====	====	
	1994	1993	1992
	<hr/>	<hr/>	<hr/>
Net investment income (expense)	\$ 1	\$ (1)	\$ 3
Other income (expense)	(2)	1	1

Corporate General and Administrative Costs

A portion of corporate general and administrative costs has been allocated to the Group based upon certain measures of business activities, such as employment, investments and sales, which method management believes to be reasonable. These allocations were \$8 million, \$10 million and \$13 million in 1994, 1993 and 1992.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(3) Corporate Activities (continued)

Income Taxes

All domestic members of the PKS affiliated group, with the exception of MFS and C-TEC, are included in the consolidated U.S. income tax return filed by PKS. Accordingly, the provision for income taxes and the related payments or refunds of tax are determined on a consolidated basis. The financial statement provision and actual cash tax payments have been reflected in the Group's and Construction & Mining Group's financial statements in accordance with PKS' tax allocation policy for such groups. In general, such policy provides that the consolidated tax provision and related cash flows and balance sheet amounts are allocated between the Group and the Construction & Mining Group, for group financial statement purposes, based principally upon the financial income, taxable income, credits, preferences and other amounts directly related to the respective groups. The provision for estimated United States income taxes for the Group does not differ materially from that which would have been determined on a separate return basis.

(4) Discontinued Operations

In 1990, the Group's management authorized the disposition of its packaging businesses. As a result, the financial statements reflect the packaging businesses as discontinued operations.

Discontinued Packaging Operations for the year ended December 26, 1992 reflect the equity earnings of the Group's investment in a plastics joint venture, net of tax at the Group's statutory rate.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(5) Acquisitions

During 1994 and 1993, the Group and its subsidiaries acquired the entities described below. The Group has accounted for the transactions as purchases and consolidated the operating results since the acquisition dates. Purchase prices in excess of the fair market values of net assets acquired have been recorded as goodwill.

On May 18, 1994, MFS acquired Centex Telemanagement, Inc. ("Centex") for \$273 million, comprised of \$202 million cash and \$71 million of assumed liabilities. Centex provides telecommunications management services for small and medium-sized businesses. Centex operations have been integrated into MFS' subsidiary MFS Intelenet.

On November 1, 1994, MFS acquired Cylix Communications Corporation ("Cylix") for \$14 million, comprised of \$2 million cash, \$6 million MFS stock and \$6 million of assumed liabilities. Cylix's data communications services provide connectivity from IBM compatible hosts to remote sites. Cylix operations have been integrated into MFS' subsidiary MFS Datanet.

On November 14, 1994, MFS acquired RealCom Office Communications, Inc. ("RealCom") for \$90 million, comprised of \$7 million cash, \$53 million MFS stock and \$30 million of assumed liabilities. RealCom, a provider of telecommunications services, including long distance, equipment, and outsourcing, has been integrated into MFS Intelenet.

Goodwill of \$188 million resulting from the above purchases is being amortized on a straight-line basis over a 40 year life.

In October 1993, the Group acquired 35% of the outstanding shares of C-TEC that have 57% of the available voting rights for \$208 million. In September of 1994, C-TEC sold certain cellular businesses for approximately \$190 million. At that time, the Group reallocated the original purchase price, assigning the cellular businesses a fair value equal to C-TEC's sale proceeds. The cellular results of operations for the period prior to the sale have been consolidated and are insignificant to the Group's operating results.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(5) Acquisitions (continued)

In December of 1994, through its participation in the C-TEC rights offering (\$153 million), the Group increased its ownership in C-TEC to 49% and 58% of the outstanding shares and voting rights. The difference between the investment and the increase in the Group's proportionate

share of C-TEC's equity has been recorded as goodwill.

The \$177 million of goodwill from the C-TEC purchases is being amortized on a straight-line basis over lives of 30-40 years.

The following unaudited pro forma information shows the results of the Group as though the C-TEC acquisition occurred at the beginning of 1992 and the MFS acquisitions occurred at the beginning of 1993. These results include certain adjustments, primarily increased amortization, and do not necessarily indicate future results, nor the results of historical operations had the acquisitions actually occurred on the assumed dates.

	1994	1993	1992
(in millions, except per share data)			
Revenue	\$ 956	\$ 903	\$ 609
Net earnings	16	147	93
Earnings per "D" share	0.78	7.37	4.63

(6) Gain on Subsidiary's Stock Transactions, net

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public in September 1993 at a price of \$50 per share for \$218 million, net of certain transaction costs. Substantially all of the net proceeds from the offerings funded MFS' growth.

In 1994, the Group settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Group, valued at current market prices, as payment of the obligation.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(6) Gain on Subsidiary's Stock Transactions, net

The above transactions, along with the Cylix, RealCom, and other MFS transactions (including issuances for employee stock options) reduced the Group's ownership in MFS to 67% and 71% at the end of 1994 and 1993. As a result, the Group recognized gains of \$54 million and \$211 million in 1994 and 1993 representing the increase in the Group's proportionate share of MFS equity. Deferred income taxes have been provided on these gains. The outside ownership has been included in minority interest.

(7) Disposal of Packaging Businesses

In July 1992, the Group sold its equity investment in a plastics joint venture to Ball Corporation for \$7 million. No significant gain or loss was recognized as a result of this transaction. The gain on disposal of discontinued operations in 1992 resulted from a \$19 million adjustment to prior year tax estimates and an \$8 million payment, net of tax, and a \$1 million accrual, net of tax, relating to additional sales proceeds from the sale of Continental PET Technologies, Inc. This gain was partially offset by miscellaneous sales adjustments related to the 1991 and 1990 sales of certain discontinued packaging operations.

(8) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to determine classification and fair values of financial instruments:

Cash and Cash Equivalents

Cash equivalents generally consist of highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(8) Disclosures about Fair Value of Financial Instruments (continued)

Marketable Securities and Non-current Investments

The Group has classified all marketable securities and non-current investments not accounted for under the equity method as available-for-sale. The amortized cost of the securities used in computing unrealized and realized holding gains and losses are determined by specific identification. Fair values are estimated based on quoted market prices for the securities on hand or for similar investments. Net unrealized holding gains and losses are reported as a separate component of stockholders' equity, net of tax.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(8) Disclosures about Fair Value of Financial Instruments (continued)

At December 31, 1994 and December 25, 1993 the cost, unrealized holding gains and losses and estimated fair values of marketable securities and noncurrent investments were as follows:

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1994:				
Kiewit Mutual Fund:				
Short-term government	\$ 42	\$ -	\$ 1	\$ 41
Intermediate term bond	202	-	4	198
Tax exempt	5	-	-	5
Equity securities	4	-	1	3
U.S. debt securities	275	-	3	272
Federal agency securities	77	-	-	77
Municipal debt securities	5	-	-	5
Corporate debt securities	145	-	2	143
Collateralized mortgage obligations	12	1	3	10
	<u>\$ 767</u>	<u>\$ 1</u>	<u>\$ 14</u>	<u>\$ 754</u>
	=====	=====	=====	=====
Non-current Investments:				
Equity securities	\$ 59	\$ 5	\$ 2	\$ 62
	=====	=====	=====	=====

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(8) Disclosures about Fair Value of Financial Instruments (continued)

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1993:				
Marketable securities:				
Equity securities	\$ 50	\$ 2	\$ 2	\$ 50
U.S. debt securities	496	-	-	496
Municipal debt securities	88	-	-	88
Foreign government debt securities	84	-	-	84
Corporate debt securities	155	-	-	155

Collateralized mortgage obligations and other	26	-	-	26
	<u>\$899</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$899</u>
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 80	\$ 13	\$ -	\$ 93
	=====	=====	=====	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were \$2 million and \$16 million in 1994 and \$29 million and \$39 million in 1993.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(8) Disclosures about Fair Value of Financial Instruments (continued)

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
	<u> </u>	<u> </u>
U.S. debt securities:		
less than 1 year	\$ 273	\$ 270
1-5 years	2	2
	<u>\$ 275</u>	<u>\$ 272</u>
	=====	=====
Federal agency securities:		
less than 1 year	\$ 77	\$ 77
	=====	=====
Municipal debt securities:		
1-5 years	\$ 4	\$ 4
over 10 years	1	1
	<u>\$ 5</u>	<u>\$ 5</u>
	=====	=====
Corporate debt securities:		
less than 1 year	\$ 117	\$ 116
1-5 years	23	22
5-10 years	1	1
over 10 years	4	4
	<u>\$ 145</u>	<u>\$ 143</u>
	=====	=====

Maturities for the mutual fund and collateralized mortgage obligations have not been presented as they do not have a single maturity date.

Note Receivable from Sale of Discontinued Operations:

The carrying amount approximates fair value due to the interest rate provided in the note.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(8) Disclosures about Fair Value of Financial Instruments (continued)

Long-term Debt

The fair value of debt was estimated using the incremental borrowing rates of the Group for debt of the same remaining maturities.

(9) Investments

During 1994, the Group purchased additional shares of California Energy Company, Inc. ("CECI") common stock for \$29 million. The purchases, along with stock repurchases by CECI, increased the Group's ownership to 29%. The cumulative investment in common stock, accounted for on the equity method, totals \$113 million, \$62 million in excess of the Group's proportionate share of CECI's equity. The excess investment is being amortized over 20 years. Equity earnings, net of goodwill amortization, were \$5 million, \$7 million and \$4 million in 1994, 1993 and 1992. CECI common stock is traded on the New York Stock Exchange. On December 31, 1994, the market value of the Group's investment in California Energy common stock was \$140 million.

In 1994, 1993, and 1992, the Group also recorded dividends in kind of \$5 million, \$5 million and \$4 million declared by CECI consisting of voting convertible preferred stock. The stock dividends brought the Group's total investment in convertible preferred stock to \$64 million at December, 31, 1994. On March 15, 1995 CECI exchanged the preferred stock for 9.5% convertible subordinated debentures (the "Debentures").

In addition to the Debentures, the Group has 5.8 million options to purchase additional CECI shares.

Investments also include equity securities classified as non-current and carried at the fair value of \$62 million.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(10) Intangible Assets

Intangible assets consist of the following at December 31, 1994 and December 25, 1993 (dollars in millions):

	1994	1993
	<hr/>	<hr/>
Goodwill	\$ 466	\$ 229
Franchise and subscriber lists	145	107
Noncompete agreements	15	11
Licenses and rights-of-ways	15	22
Deferred development costs	65	35
Toll road franchise costs	75	40
Deferred financing costs	19	-
	<hr/>	<hr/>
	800	444
Less accumulated amortization	(67)	(17)
	<hr/>	<hr/>
	\$ 733	\$ 427
	=====	=====

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements

At December 31, 1994 and December 25, 1993, long-term debt consisting of a portion of PKS' notes to former stockholders and convertible debentures which have been allocated to the Group and the Construction & Mining Group, and specifically attributed debt was as follows:

(dollars in millions) 1994 1993

Telecommunications:

MFS Long-term Debt (with recourse only to MFS):

9.375% Senior Discount Notes, Due 2004, with semi-annual interest payments 1999-2004	\$ 549	\$ -
Notes Payable, Due 1995, (Prime plus 1.5%)	16	-
C-TEC Long-term Debt (with recourse only to C-TEC):		
Credit Agreement - National Bank for Cooperatives (7.63% due 1999)	128	-
Mortgage notes payable to the United States of America -		
Rural Telephone Bank		
5% - 6.05%	-	64
6.5% - 7%	-	58
Federal Financing Bank		
7.69% - 8.36%	-	14
Senior Secured Notes -		
9.65%, with annual principal payments 1996 through 1999 (includes unamortized premium of \$6 and \$7 based on imputed rate of 6.12%)	156	157
9.52% (includes unamortized premium of \$4 based on imputed rate of 6.93%)	-	104

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements (continued)

(dollars in millions)	1994	1993
Revolving Credit Agreements and Other	4	30
	853	427
Other Long-term Debt:		
6.5% to 11.1% Notes to former stockholders due 1995-2001	6	8
6.25% to 10.5% Convertible debentures due 2000-2004	2	4
Construction loans & other	68	24
	929	463
Less current portion	(30)	(11)

\$ 899	\$ 452
=====	=====

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements (continued)

MFS issued the Senior Discount Notes ("Notes") in January of 1994. The Notes are accruing to the principal amount of \$788 million through January 1999. Commencing July 15, 1999 cash interest will be payable semi-annually.

On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. In addition, under certain conditions related to a change in control, MFS may be required to repurchase all or any part of the notes as stipulated in the note agreement. The notes are senior unsecured obligations of MFS and are subordinated to all current and future indebtedness of MFS' subsidiaries, including trade payables. The notes contain certain covenants which, among other things, restrict MFS' ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets to or merge with another company.

Notes payable consist of three notes assumed in 1994 MFS acquisitions. The notes accrue interest at prime plus 1.5% (10% at December 31, 1994) and mature in the first three months of 1995. The notes are collateralized by certain equipment of an MFS subsidiary.

In March 1994, C-TEC's Telephone Group entered into a \$135 million Credit Agreement with the National Bank for Cooperatives ("National"). The funds were used to prepay outstanding borrowings with the United States of America.

The Senior Secured notes are collateralized by pledges of the stock of C-TEC's cable group. The notes contain restrictive covenants which require, among other things, specific debt to cash flow ratios.

C-TEC's Revolving Credit agreements are collateralized by a pledge of the stock of C-TEC's cable group subsidiaries.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(11) Long-Term Debt and Unutilized Borrowing Arrangements (continued)

The convertible debentures are convertible during October of the fifth year preceding their maturity date. Each annual series may be redeemed in its entirety prior to the due date except during the conversion period. Debentures were converted into 12,594, 14,322 and 10,468 shares of Class D common stock in 1994, 1993 and 1992. At December 31, 1994, 69,010 shares of Class D common stock are reserved for future conversions.

Other long-term debt consists primarily of construction financing of a privately owned toll road which will be converted to term debt upon completion of the project. Variable interest rates on this debt ranged from 5% to 10% at December 31, 1994.

The Group capitalized \$7 million of interest in 1994.

With the exception of MFS, the fair value of debt approximates the carrying amount. MFS debt has a fair market value of \$496 million at December 31, 1994.

Scheduled maturities of long-term debt through 1999 are as follows (in millions): 1995 - \$30; 1996 - \$36; 1997 - \$55; 1998 - \$58 and \$58 in 1999.

The Group has the following unutilized borrowing arrangements at December 31, 1994:

C-TEC's telephone group's agreement with National provides for an additional \$7 million of borrowings. The agreement requires C-TEC to invest in Rural Telephone Bank stock for approximately 5% of the available amount.

C-TEC's Revolving Credit agreements provide for an additional \$22 million of borrowings collateralized by stock pledges from the cable group. The total commitments are reduced on a quarterly basis through maturity in September 1996.

C-TEC also has an unused line of credit for \$13 million under which unsecured borrowings may be made. Unused lines are cancelable at the option of the lenders.

KIEWIT DIVERSIFIED GROUP
Notes to Financial Statements

(12) Income Taxes

An analysis of the (benefit) provision for income taxes related to continuing operations before minority interest and cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Current:			
U.S. federal	\$ 21	\$ 24	\$ 15
Foreign	2	-	-
State	4	4	3
	<u>27</u>	<u>28</u>	<u>18</u>
Deferred:			
U.S. federal	(29)	45	8
Foreign	(4)	-	-
State	(6)	-	-
	<u>(39)</u>	<u>45</u>	<u>8</u>
	<u>\$ (12)</u>	<u>\$ 73</u>	<u>\$ 26</u>
	=====	=====	=====

The United States and foreign components of earnings (loss) for tax reporting purposes from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle follow:

(dollars in millions)	1994	1993	1992
United States	\$ (30)	\$ 251	\$ 105
Foreign	1	-	2
	<u>\$ (29)</u>	<u>\$ 251</u>	<u>\$ 107</u>
	=====	=====	=====

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(12) Income Taxes (continued)

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1994 and 1993, and 34% in 1992) to the earnings from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle for the three years ended December 31, 1994 follows:

(dollars in millions)	1994	1993	1992
Computed tax at statutory rate	\$ (10)	\$ 88	\$ 36
State income taxes	-	3	2
Depletion	(3)	(3)	(4)
Dividend exclusion	(2)	(3)	(3)
Tax exempt interest	(3)	-	-
Equity earnings	-	-	(2)
Prior year tax adjustments	(51)	(12)	-
Unutilized tax benefit due to net operating loss	50	-	-
Goodwill amortization	4	-	-
Other	3	-	(3)
	<u>\$ (12)</u>	<u>\$ 73</u>	<u>\$ 26</u>
	=====	=====	=====

PKS files a consolidated federal income tax return including its domestic subsidiaries as allowed by the Internal Revenue Code. Possible taxes, beyond those provided, on remittances of undistributed earnings of foreign subsidiaries are not expected to be material.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(12) Income Taxes (continued)

The components of the net deferred tax liabilities as of December 31, 1994 and December 25, 1993 were as follows:

(dollars in millions)	1994	1993
Deferred tax liabilities:		
Investments in joint ventures	\$ 83	\$ 92
Asset bases - accumulated depreciation	196	196
Investment in subsidiaries	101	84
Deferred coal sales	11	12
Other	24	38
	<hr/>	<hr/>
Total deferred tax liabilities	415	422
	<hr/>	<hr/>
Deferred tax assets:		
Compensation - retirement benefits	16	16
Net operating losses realizable by subsidiaries	84	52
Alternative minimum tax credits of subsidiary	13	11
Provision for estimated expenses	10	8
Insurance claims	10	(4)
Other	43	30
Valuation allowances	(52)	(17)
	<hr/>	<hr/>
Total deferred tax assets	124	96
	<hr/>	<hr/>
Net deferred tax liabilities	\$ 291	\$ 326
	=====	=====

The Group's subsidiaries have federal income tax net operating loss carryforwards of approximately \$225 million which begin to expire in 1997.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(13) Employee Benefit Plans

The Group's defined benefit pension plans cover primarily packaging employees who retired prior to the disposition of the packaging operations. The expense related to these plans was approximately \$1 million in 1994, \$7 million in 1993 and \$1 million in 1992.

C-TEC maintains a separate defined benefit plan for substantially all of its employees. The prepaid cost and income related to this plan is not significant at December 31, 1994 or December 25, 1993.

Substantially all employees of the Group, with the exception of stockholders and MFS and C-TEC employees, are covered under the Group's profit sharing plans. The expense related to these plans was \$1 million in each of the last three years.

(14) Postretirement Benefits

In addition to providing pension and other supplemental benefits, the Group provides certain health care and life insurance benefits primarily for packaging employees who retired prior to the disposition of certain packaging operations and C-TEC employees. Employees become eligible for these benefits if they meet minimum age and service requirements or if they agree to contribute a portion of the cost. These benefits have not been funded.

The net periodic costs for health care benefits were \$1 million in 1994 and \$4 million in 1993 and 1992. The net periodic costs for life insurance benefits were \$1 million, \$2 million, and \$2 million in 1994, 1993 and 1992. In all years, the costs related primarily to interest on accumulated benefits.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(14) Postretirement Benefits (continued)

The accrued postretirement benefit liability as of December 31, 1994 was as follows:

(dollars in millions)

	Health Insurance	Life Insurance
Retirees	\$ 31	\$ 15
Fully eligible active plan participants	-	-
Other active plan participants	1	-
Total accumulated postretirement benefit obligation	32	15
Unrecognized prior service cost	21	1
Unrecognized net loss	(5)	(1)
Accrued postretirement benefit liability	\$ 48	\$ 15
	=====	=====

The unrecognized prior service cost resulted from certain modifications to the postretirement benefit plan which reduced the accumulated postretirement benefit obligation. The Group may make additional modifications in the future.

An 7.7% increase in the cost of covered health care benefits was assumed for fiscal 1994. This rate is assumed to gradually decline to 6.2% in the year 2020 and remain at that level thereafter. A 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation ("APBO") by less than \$1 million at year-end 1994. The weighted average discount rate used in determining the APBO was 8.0%.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(15) Stockholders' Equity

PKS is generally committed to purchase all Class D Stock in accordance with the Restated Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 31, 1994 were as follows:

D

	Stock
Shares issued in 1992	1,019,553
Shares repurchased in 1992	1,693,353
Shares issued in 1993	748,026
Shares repurchased in 1993	841,808
Shares issued in 1994	777,556
Shares repurchased in 1994	396,684

(16) Investment Income, net

Investment income includes interest income of \$57 million, \$41 million, and \$57 million in 1994, 1993 and 1992; gains and losses on the sale of securities; equity earnings; and dividend income. Net losses on the sales of securities and permanent writedown of certain derivative and other securities of \$14 million, \$35 million, and \$13 million partially offset interest income in 1994, 1993, and 1992.

(17) Other, net

Other, net in 1994 includes \$6 million of losses on the early extinguishment of debt by C-TEC.

(18) Industry and Geographic Data

The Diversified Group's continuing operations are conducted domestically in two reportable business segments: mining and telecommunications.

In 1994 Commonwealth Edison Company accounted for 14% of the Group's revenues.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(18) Industry and Geographic Data (continued)

In 1993, Commonwealth Edison Company, Detroit Edison Company and the Department of General Services - State of Iowa accounted for 29%, 10%, and 11%, respectively, of revenue. In 1992, these same entities accounted for 26%, 11%, and 13% of revenue.

The information below summarizes the Diversified Group's operations in different industries:

Industry Data (dollars in millions)	1994	1993	1992
Revenue:			
Mining	\$ 225	\$ 210	\$ 234
Telecommunications	578	189	109
Other	18	9	9
	<u>\$ 821</u>	<u>\$ 408</u>	<u>\$ 352</u>
	=====	=====	=====
Operating earnings (loss):			
Mining	\$ 76	\$ 75	\$ 76
Telecommunications	(109)	(24)	(11)
Other	(25)	(40)	(33)
	<u>\$ (58)</u>	<u>\$ 11</u>	<u>\$ 32</u>
	=====	=====	=====

Identifiable assets:			
Mining	\$ 136	\$ 146	\$ 159
Telecommunications	2,575	1,682	1,682
Other	111	68	31
Corporate (1)	727	863	1,156
	<u>\$ 3,549</u>	<u>\$ 2,759</u>	<u>\$ 2,809</u>
	=====	=====	=====
Capital Expenditures:			
Mining	\$ 3	\$ 5	\$ 8
Telecommunications	426	127	80
Other	16	3	-
Corporate	5	4	1
	<u>\$ 450</u>	<u>\$ 139</u>	<u>\$ 89</u>
	=====	=====	=====

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(18) Industry and Geographic Data (continued)

Industry Data (dollars in millions)	1994	1993	1992
<hr/>			
Depreciation, depletion and amortization:			
Mining	\$ 11	\$ 12	\$ 12
Telecommunications	149	35	21
Other	4	3	4
Corporate	1	1	2
	<u>\$ 165</u>	<u>\$ 51</u>	<u>\$ 39</u>
	=====	=====	=====
<hr/>			

(1) Principally cash, cash equivalents, marketable securities, notes receivable from sales of discontinued operations and investments in all years.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(19) Related Party Transaction

The Group receives certain mining services from the Construction & Mining Group. The expense for these services was \$29 million for each of the last three years.

(20) Other Matters

PKS's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off"). PKS's management intends to propose a plan (the "Plan") to implement the Spin-off to PKS's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, PKS could complete the Spin-off as early as the third quarter of 1995.

The Spin-off might not occur. For example, PKS might not receive the Ruling or the Board might not adopt the plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and PKS would not be able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if PKS's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit PKS to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to KDG in exchange for the transfer by KDG to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by KDG. KDG anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Financial Statements

(20) Other Matters (continued)

conditions at the time that the MFS Preferred Stock is issued,

(iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, PKS would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by KDG. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to KDG.

The Plan would provide for an exchange offer (the "Exchange Offer") by PKS for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to be completed before the next conversion permitted by the Certificate of Incorporation. If an Exchange Offer could not be completed prior to the next conversion under the Certificate of Incorporation, PKS probably would defer any Spin-off until the first quarter of 1996.

The Group is involved in various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability, beyond that provided, should not materially affect the Group's financial position or results of operations.

In many pending proceedings, the Group is one of numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited in landfills or other sites. The Group has established reserves to cover its probable liabilities for environmental cases and believes that any additional liabilities will not materially affect the Group's financial condition or results of operations.

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(20) Other Matters (continued)

In 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, KDG and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Defendants expect that a trial will be held in summer 1995. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease agreement with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying approximately a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMCRA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Whitney and Kiewit filed an action now titled Whitney Benefits, Inc. and Peter Kiewit Sons', Co. v. The United States, in the U.S. Court of Federal Claims ("Claims Court") alleging that the enactment of SMCRA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit Court affirmed the decision of the claims court. In 1991, the U.S. Supreme Court denied certiorari. In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgement would bear interest compounded annually from 1977 until payment. Interest for the 1977-1994 period is \$249 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. Any payments received by Kiewit will be the property of Peter Kiewit Sons'

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(20) Other Matters (continued)

Co., a subsidiary of KDG.

The government filed two-post trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the value of the property. The government also filed a motion to reopen and set aside the 1989 judgement as void and to dismiss plaintiff's complaint for lack of jurisdiction. In May 1994, the Claims Court entered an order denying both motions. The government appealed that order, as well as the order regarding compound interest. A hearing on these appeals was held February 10, 1995. It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment of that amount will occur.

A subsidiary of the Group, Continental Holdings Inc., remains contingently liable as a guarantor of \$103 million of debt relating to various businesses which have been sold.

The Group leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during next 11 years aggregate \$227 million.

It is customary in the Group's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Group in accordance with specified terms and conditions. As of December 31, 1994, the Group had outstanding letters of credit of approximately \$40 million.

(21) Subsequent Event

In February 1995, CECI completed the purchase of Magma Power Company. The cash transaction, valued at \$950 million was partially financed by the sale of 17 million shares of common stock at \$17 per share. As part of this transaction, the Group purchased 1.5 million shares, effectively reducing its ownership percentage of common stock in CECI to 22%.

C-TEC entered into a merger agreement with Twin County Trans Video, Inc. ("Twin County") and its shareholders. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. The transaction, subject to regulatory

KIEWIT DIVERSIFIED GROUP

Notes to Financial Statements

(21) Subsequent Event (continued)

approval and other conditions, is expected to close in the second quarter of 1995. In consideration for all the capital stock of Twin County, C-TEC will pay \$48 million in cash, issue a \$4 million note and issue \$52 million in exchangeable preferred stock of its subsidiary, C-TEC Cable Systems, Inc. The preferred stock will be exchangeable in C-TEC common stock under certain conditions.

In January 1995, C-TEC entered into an agreement to purchase Buffalo Valley Telephone Company. The aggregate consideration for the purchase (\$55 million) will be a combination of cash and convertible preferred stock in the Telephone Group. The transaction is expected to close in the third quarter of 1995. Buffalo Valley Telephone Company provides local telephone service to 17,300 access lines in central Pennsylvania.

Also in January 1995, C-TEC purchased, for \$84 million in cash, a forty percent equity position in Megacable, S.A. De C.V., Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. The purchase price is subject to adjustments based on fourth quarter 1995 exchange rates.

In March 1995 the Group settled its liability with respect to certain postretirement life insurance benefits. The Group has purchased insurance coverage from a third party insurance company for approximately \$14 million to be paid over the next seven years.

The postretirement life insurance benefits were provided for packaging employees who retired prior to the disposition of certain packaging operations. The settlement will not have a material impact on the Group's financial position or results of operations.

SCHEDULE II

KIEWIT DIVERSIFIED GROUP

Valuation and Qualifying Accounts and Reserves

	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other	Balance End of Period
<hr/>					
Year ended December 31, 1994					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 1	\$ (1)	\$ -	\$ 2
Reserves:					
Retirement benefits	\$ 71	\$ 2	\$ (6)	\$ -	\$ 67
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 5	\$ 1	\$ (4)	\$ -	\$ 2
Reserves:					
Retirement benefits	74	12	(17)	2	71
Year ended December 26, 1992					
<hr/>					
Allowance for doubtful trade accounts	\$ 5	\$ -	\$ -	\$ -	\$ 5
Reserves:					
Retirement					

benefits 58 8 (8) 16(a) 74

(a) In 1992, adjustment made in accordance with SFAS No. 109 to adjust remaining retirement benefits, acquired in prior business acquisitions, recorded net of tax, to their pre-tax amounts.

KIEWIT DIVERSIFIED GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial statements of the Diversified Group ("the Group") include the financial position, results of operations and cash flows for the businesses of PKS other than its construction business and certain mining service businesses, and include a portion of the corporate assets and liabilities and related transactions which are not separately identified with ongoing operations of the Group or the Construction & Mining Group. The Group's share of corporate assets and liabilities and related transactions includes amounts to reflect certain financial activities, corporate general and administrative costs, common stock transactions and income taxes. See Notes 1 and 3 to the Group's financial statements.

Results of Operations 1994 vs. 1993

Mining

Mining revenue rose 7% in 1994 primarily due to an increase in spot sales. Mining gross profits were 47% in 1994 and 50% 1993.

Alternate source coal sales by Black Butte in 1994 were consistent with 1993. Alternate source coal consists of coal purchased from unaffiliated mines located in the Powder River Basin area of Wyoming and from the Company's 50% owned Decker mine in Montana. In 1994, alternate source coal sales accounted for 33% of revenues and 50% of gross profits compared to 34% and 54% in 1993.

See "Legal Proceedings" with respect to the Whitney Benefits case.

Telecommunications

In 1994 telecommunications revenues increased 205% from 1993. MFS and C-TEC each generated 50% of the revenues and were responsible for 38% and 62% of the increase.

Telecommunications services revenue for MFS increased 227% from \$70 million in 1993 to \$229 million in 1994. Over 70% of the increase relates to the acquisitions of Centex, RealCom and Cylux during 1994. The remaining increase resulted from additional market penetration in all other telecommunication services.

KIEWIT DIVERSIFIED GROUP

Results of Operations 1994 vs. 1993 (continued)

Telecommunications (continued)

MFS' network systems integration services group refocused its attention in 1994 to the design and construction of MFS' own networks. The completion of the Iowa job and increased emphasis on affiliated work contributed to a decline in third party revenues to \$58 million in 1994 from \$71 million in 1993. Had the group been allowed to recognize the MFS network construction revenues, total revenues would have been \$156 million and \$116 million in 1994 and 1993.

C-TEC generated revenues for the Company of \$291 million and \$48 million in 1994 and 1993. The 1993 figure represents activity since the acquisition date. C-TEC's Telephone group, Cable group and Long Distance group had revenues of \$122 million, \$95 million and \$30 million in 1994. The cellular group, sold in 1994, and communications services group generated the balance.

Telecommunications cost of revenue increased 202% in 1994. Of the total increase in costs, MFS accounted for 59% of the increase and incurred 64% of the costs while C-TEC accounted for 41% of the increase and incurred 36% of the total costs.

Costs associated with the MFS' telecommunications revenues totaled \$294 million and \$80 million in 1994 and 1993. In addition to the acquisitions, higher costs associated with the expansion of Intelenet, Datanet and international businesses and the direct costs associated with operating additional networks were responsible for the increase. Also contributing to the increase was additional depreciation of the MFS' networks and the amortization of goodwill resulting from the acquisitions.

Network systems integration services operating expenses decreased from \$55 million in 1993 to \$48 million in 1994. The change is primarily due to a decrease in the level of services provided to third parties, particularly the State of Iowa.

The cost of revenue for C-TEC included in the Company's results was \$189 million and \$42 million in 1994 and 1993. The costs in 1994 are primarily attributable to the Telephone group - \$57 million, the Cable group - \$71 million and the Long Distance group - \$23 million.

KIEWIT DIVERSIFIED GROUP

Results of Operations 1994 vs. 1993 (continued)

General and Administrative Expenses

General and administrative expenses doubled in 1994. The telecommunications segment generated the entire increase.

The inclusion of a full year of operations is responsible for C-TEC's increase. Overall, C-TEC's general and administrative expenses remained fairly consistent in 1994. The increase in MFS is primarily due to their acquisitions in 1994 and higher costs associated with expanding domestic and international operations. MFS expects to incur significant expenses in 1995 to further develop its integrated, single source telecommunications, high-speed data communications and international services.

Gain on Subsidiary's Stock Transactions, net

In 1994, the Group settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Group, valued at market prices, as payment of the obligation. This transaction, along with the MFS issuance of stock for the Cylix and RealCom acquisitions and MFS employee stock options, resulted in a \$54 million pre-tax gain to the Group. Deferred taxes have been provided on these gains.

Investment Income, net

The improvement in investment income is directly attributable to a decline of \$21 million in losses from the sale and writedown of derivative and other securities, and a \$16 million increase in interest income. Developmental expenses of \$4 million associated with the international energy projects being jointly developed by the Company and CECI partially offset the above improvements.

Interest Expense, net

Interest expense increased significantly in 1994. The \$41 million interest expense associated with the \$500 million debt issuance by MFS in early 1994 and a full year of interest on C-TEC debt, \$33 million, are primarily responsible for the increase.

KIEWIT DIVERSIFIED GROUP

Results of Operations 1994 vs. 1993 (continued)

Other, net

Debt prepayment penalties incurred by C-TEC (\$6 million) and 1993 income from miscellaneous price adjustments on packaging sales (\$5 million) are primarily responsible for the decline in Other.

Income Taxes

The effective income tax rate for earnings (loss) from continuing operations is 41% in 1994 and 29% in 1993. Adjustments to prior year tax provisions offset unutilized tax benefits due to net operating losses incurred by MFS.

Results of Operations - 1993 vs. 1992

Mining

Mining revenue decreased 10% in 1993. The renegotiation of agreements with Commonwealth Edison Company ("Commonwealth"), ceased sales of undivided interests in coal reserves. Such sales accounted for approximately \$40 million or 17% of the total mining revenue recognized in 1992. The absence of the sale of undivided interests to Commonwealth in 1993, was partially offset by a rise in tonnage shipped and an approximate \$4 increase in average price per ton of coal shipped.

Alternate source coal sales by the Black Butte mine produced the increase in the average price per ton of coal shipped. Alternate source coal consists of coal purchased from two unaffiliated mines located in the Powder River Basin area of Wyoming and from a mine in which the Group has a 50% interest. The purchased coal is sold to Commonwealth under terms of the renegotiated agreements. Alternate source coal sales in 1993 comprised 34% of 1993 mining revenue.

The gross margin on mining revenue increased to 50% in 1993 from 44% in 1992. Alternate source coal sales, which result in larger margins than mined coal, led to the increase.

KIEWIT DIVERSIFIED GROUP

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of Operations - 1993 vs. 1992 (continued)

Telecommunications

In 1993, the components of telecommunications revenue were as follows: 37% - MFS Communications Company, Inc. ("MFS") telecommunications services; 38% - MFS network systems integration and facilities management services; and 25% - C-TEC operations. In 1992, revenue was comprised of 44% telecommunications services and 56% network systems integration and facilities management services.

MFS telecommunications revenue increased from \$48 million to \$70 million, an increase of 46%. The majority of the increase resulted from sales of additional services to existing customers and, to a lesser extent, further market penetration. The growth of services in New York City, the expansion of networks in Boston, Chicago and the Washington, D.C. metropolitan area, and new services provided by MFS Datanet and MFS Intelnet also contributed to the revenue increase.

Third party revenue from services offered by the Company's network systems integration and facilities management segment increased from \$61 million in 1992 to \$71 million in 1993, a 16% increase. The increase primarily resulted from network system integration projects in the United Kingdom and for the State of Iowa. MFS purchased the other 50% interest in a partnership providing network systems integration services to customers in the United Kingdom, thereby increasing revenue from that country. The network system integration and facilities management services segment had third party backlog of \$110 million at December 31, 1993.

Two months of C-TEC activity accounted for \$48 million of telecommunications revenues. The telephone and cable television groups generated the majority of the revenues.

Telecommunications operating expenses increased 78% in 1993. Components of 1993 operating expenses were: 45% - MFS telecommunications services; 32% - MFS network systems integration and facilities management services; and 23% - C-TEC operating expenses. In 1992, operating expenses were 51% MFS telecommunications services and 49% MFS network systems integration and facilities management services.

KIEWIT DIVERSIFIED GROUP

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of Operations - 1993 vs. 1992 (continued)

Telecommunications (continued)

MFS telecommunications operating expenses increased from \$48 million to \$80 million in 1993, a 67% increase. The increase reflects operating costs associated with MFS Datanet and MFS Intelnet services and higher costs associated with the new and expanded networks. Increased depreciation of existing networks accounts for nearly 41% of the increase.

MFS network systems integration and facilities management services operating expenses increased from \$49 million to \$55 million in 1993, a 12% increase. The increase directly relates to increased activity on several network systems integration projects, primarily direct costs associated with the projects in the United Kingdom and for the State of Iowa.

Two months of C-TEC activity accounted for \$42 million of telecommunications expenses. The telephone and cable television groups generated the majority of these costs.

Progress on the network systems integration project for the State of Iowa was delayed in June and July 1993 by significant rainfall and flooding. The additional cost resulting from the floods did not materially impact the Group's telecommunications operations.

General and Administrative Expenses

General and administrative expenses increased 21% in 1993. Costs incurred in developing MFS Datanet and MFS Intelnet account for a large portion of the increase. MFS expects to incur significant expense developing the high-speed data communications and integrated, single-source telecommunication services in 1994. Increased legal costs, primarily reserves established for environmental matters (See "Legal Proceedings"), also contributed to the increase.

KIEWIT DIVERSIFIED GROUP

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of Operations - 1993 vs. 1992 (continued)

Gain on Subsidiary's Stock Issuances, net

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public in September 1993 at price of \$50 per share for \$218 million, net of certain transaction costs. These transactions reduced the Group's ownership interest in MFS to 71% at December 25, 1993. Substantially all of the net proceeds from the offerings funded MFS' growth. Prior to the initial public offering, MFS was a wholly-owned subsidiary of the Group.

As a result of the above transactions, the Group recognized a pre-tax gain of \$211 million representing the increase in the Group's equity in the underlying net assets of MFS. Deferred income taxes have been provided on this gain.

Investment Income, net

Investment income decreased \$51 million or 65% in 1993. The decline primarily relates to a \$21 million increase in realized losses and permanent valuation adjustments on marketable securities, including certain derivatives. Interest income declined by \$16 million due to lower interest rates and to a change in portfolio mix. Dividend income decreased by \$10 million due to dividends accrued in 1992 on an investment in United States Can Company preferred stock redeemed in March of 1993. Slight increases in equity earnings and miscellaneous income partially offset the declines noted above.

Interest Expense

Interest expense increased by \$2 million or 22% in 1993. The increase is due to the C-TEC debt assumed in the acquisition. Interest on C-TEC debt during the last two months approximated \$6 million. The extinguishment of significant debt in 1992 partially offset the additions of C-TEC interest.

Other, net

Other income increased in 1993 due to \$5 million of miscellaneous price adjustments on packaging sales.

KIEWIT DIVERSIFIED GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - 1993 vs. 1992 (continued)

Income Taxes

The effective income tax rate for earnings from continuing operations is 29% in 1993 and 24% in 1992. An adjustment to prior year tax provisions significantly impacted the effective rate in 1993. The increase in effective rates from 1992 to 1993 is due to dividend exclusions, mineral depletion expenses, and equity earnings being a larger percentage of taxable income in the prior year. The 1993 Federal Income tax rate change did not have a material impact on the Group's financial results.

KIEWIT DIVERSIFIED GROUP

Financial Condition - December 31, 1994

The Group's working capital decreased \$24 million or 2% during 1994.

Cash used in investing activities includes \$450 million of capital expenditures (82% for MFS networks), \$207 for MFS acquisitions, \$35 million for deferred toll road franchise costs and \$29 million for the purchase of CECI stock. Partially offsetting these uses were \$182 million of proceeds from the sale of C-TEC's cellular properties and \$137 million of net proceeds from marketable securities activity.

Net financing activities generated \$478 million during 1994, the majority of which related to MFS and C-TEC. MFS' debt issuance resulted in net proceeds of \$482 million and C-TEC borrowings, primarily for refinancing, totalled \$148 million. C-TEC also raised \$217 million, \$153 from the Group, in a December rights offering. Long-term debt paid off by C-TEC totalled \$284 million.

Stock transactions also contributed significant cash in 1994. The exchange of B & C stock for D stock netted \$42 million which exceeded stock repurchases of \$20 million.

In addition to the C-TEC and MFS activities described below, the Group anticipates making significant investments in its energy businesses - including its joint venture agreement with California Energy covering international power project development activities - - - and searching for opportunities to acquire capital intensive businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchases of common stock. The Group's current financial condition and borrowing capacity should be sufficient for these cash requirements and investing activities.

The funds generated from the rights issuance and the cellular sale enabled C-TEC to fund the Megacable acquisition, pursue the Twin County and Buffalo Valley purchases, prepay certain indebtedness and meet its current working capital requirements. C-TEC intends to utilize its available cash balance to develop full service networks using certain existing cable and telephone systems, and pursue additional acquisitions, joint ventures or similar strategic investments in the telecommunications industry.

MFS requires significant capital to fund future building expansion and acquisition of communications networks in major metropolitan areas. As part of a 3-5 year \$1 billion expansion plan announced in 1993, MFS intends to invest up to \$400 million for network construction & equipment purchases in 1995.

KIEWIT DIVERSIFIED GROUP

Financial Condition - December 31, 1994 (continued)

To continue the funding of the 1993 expansion plan, MFS expects to finalize arrangements for a \$250 million secured revolving credit facility ("Credit Facility") with a syndicate of commercial banks in the second quarter of 1995. MFS anticipates that the Credit Facility, together with cash on hand and internally generated funds, will be sufficient to fund its anticipated operating losses, working capital needs and the remaining capital spending requirements necessary to complete its expansion. MFS may, however, obtain vendor financing as an alternative to utilization of all or a portion of the Credit Facility.

MFS intends to issue approximately \$250 million of mandatorily convertible preferred stock in the second quarter of 1995 to provide the capital necessary to fund additional expansion opportunities arising from recent regulatory, legislative, and competitive developments. MFS will continue to consider other opportunities to sell equity or debt securities in the public or private markets to maintain the financial flexibility to react to opportunities while cost-effectively funding the capital investments required to implement its expansion plan.

MFS, from time to time, evaluates acquisitions in pursuit of its business strategy, either as an alternative to constructing networks or introducing services that complement existing and/or planned services. Such acquisitions may be significant in size and could use a substantial portion of MFS' available cash. As discussed above, MFS may fund future activity through additional debt or equity financing.

MFS has also had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving acquisitions, combinations and equity investments in MFS or one of its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

PKS's management has asked the Internal Revenue Service to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to PKS's Class D stockholders (the "Spin-off"). PKS's management intends to propose a plan (the "Plan") to implement the Spin-off to PKS's Board of Directors during the second quarter of 1995. If the Board of Directors approves the Plan, and the Internal Revenue Service issues the Ruling, PKS could complete the Spin-off as early as the third quarter of 1995.

KIEWIT DIVERSIFIED GROUP

Financial Condition - December 31, 1994 (continued)

The Spin-off might not occur. For example, PKS might not receive the Ruling or the Board might not adopt the plan. In addition, the issuance of the MFS Preferred Stock necessary to obtain the Ruling (as described below), would require a favorable vote from a majority of the minority common stockholders of MFS, other than KDG, present and voting in person or by proxy at a special MFS stockholders meeting. If the favorable vote is not received, MFS would not be able to issue the MFS preferred stock and PKS would not be able to complete the spin-off. Also, the spin-off is subject to receipt of certain other approvals, some of which might not be received. Finally, if PKS's Board of Directors adopts the plan, it would reserve the right to abandon, defer or modify the spin-off at any time.

MFS has agreed in principle to issue KDG a special class of high-vote convertible preferred stock (the "MFS Preferred Stock") designed to permit PKS to satisfy certain requirements for receiving the Ruling. MFS would issue the Preferred Stock to KDG in exchange for the transfer by KDG to MFS of approximately 3.0-3.5 million of the shares of MFS common stock currently held by the KDG. PKS anticipates that the MFS Preferred Stock (i) would have a face value of approximately \$15-25 million, (ii) would be convertible into MFS common stock at any time after the first anniversary of the date the MFS Preferred Stock is issued, (iii) would have dividend rate and a conversion premium determined by market conditions at the time that the MFS Preferred Stock is issued, (iv) would be redeemable at par six years after the date of issuance, and (v) would be non transferable for six years after the date of issuance except under certain limited circumstances. At the option of MFS, dividends on the MFS Preferred Stock could be paid either in cash or in shares of MFS Common Stock. Each share of MFS Preferred Stock would have approximately five votes per share in any election of MFS directors. If the Spin-off occurs, PKS would distribute to Class D stockholders both the MFS Preferred Stock and all of the common stock of MFS then held by KDG. If the Spin-off does not occur, MFS would not issue the MFS Preferred Stock to KDG.

The Plan would provide for an exchange offer (the "Exchange Offer") by PKS for Class C Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class C Stock on terms similar to those upon which Class C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. As a result, Class C Stockholders wanting to convert Class C Stock to Class D Stock would not be disadvantaged if the Spin-off were to

KIEWIT DIVERSIFIED GROUP

Financial Condition - December 31, 1994 (continued)

be completed before the next conversion permitted by the Certificate of Incorporation. If an Exchange Offer could not be completed prior to the next conversion under the Certificate of Incorporation, PKS probably would defer any Spin-off until the

first quarter of 1996.

End of Filing

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