

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-K (Annual Report)

Filed 03/29/96 for the Period Ending 12/30/95

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

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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 30, 1995 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 15, 1996, the number of outstanding shares of each class of the Company's common stock was:

Class B -263,468 Class C -9,957,413 Class D -23,222,259

Portions of the Company's definitive Proxy Statement for the 1996 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") is one of the largest construction contractors in North America and also owns energy, telecommunications, and infrastructure businesses. The Company pursues these activities through two subsidiaries, Kiewit Construction Group Inc. ("KCG") and Kiewit Diversified Group Inc. ("KDG"). The organizational structure is shown by the following chart.

Peter Kiewit Sons', Inc.  
Kiewit Construction Group Inc.  
Kiewit Construction company  
Construction Operations  
Kiewit Mining Group Inc.

Kiewit Diversified Group Inc.  
PKS Information Services, Inc.  
Kiewit Energy Group Inc.  
Kiewit Coal Properties Inc.  
CalEnergy Company, Inc. (24%) Energy Projects  
Infrastructure Projects  
RCN Corporation  
C-TEC Corporation (58%)

The Company has two principal classes of common stock, Class C Construction & Mining Group stock and Class D Diversified Group stock. The value of each class is linked to the separate operations of each Group, under terms of the Company's charter (see Item 5 below). All Class C shares and most Class D shares are owned by current employees of the Company; almost all of the remaining shares are owned by former employees and family members. The Company was incorporated in Delaware 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. Through subsidiaries, the Company owns 58% of the voting stock of a telecommunications company, C-TEC Corporation ("C-TEC"), and now owns 24% of the voting stock of CalEnergy Company, Inc. ("CE"). C-TEC and CE are publicly traded companies and more detailed information about each of them is contained in their separate Forms 10-K.

MFS Spin-off. On September 30, 1995, the Company made a tax- free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS") to its Class D stockholders. the Company distributed 40.1 million shares of MFS common stock and 15 million shares of MFS Series B Convertible Preferred Stock ("Preferred Stock"). For each Class D share, holders received 1.741 shares of MFS common stock and .651 share of MFS Preferred Stock.

The Company completed an exchange offer before the Spin-off. Four million Class B and Class C shares were exchanged for 1,666,384 Class D shares, following principles derived from the Company's certificate of incorporation concerning annual stock conversion rights (see Item 5 below). The exchange ratio was calculated using relative stock formula values. Each share of Class B stock or Class C stock (\$25.10) was exchanged for .416598 share of Class D stock (\$60.25).

Segment information. The Company reports financial information about three business segments: construction, mining, and telecommunications. Additional financial information about the Company's business segments, including operating earnings, identifiable assets, capital expenditures and depreciation, depletion and amortization, as well as foreign operations information, is contained in Note 16 to the Company's consolidated financial statements.

## CONSTRUCTION

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc. (collectively, "KCG"). KCG and its joint ventures perform construction services for a broad range of public and private customers primarily in the United States and Canada. New contract awards during 1995 were distributed among the following construction markets: transportation, including highways, bridges, and airports (54%), marine (10%), sewer and waste disposal (9%), water supply systems (7%), residential (4%), mining (4%), dams and reservoirs (3%), oil and gas (3%), and commercial buildings (2%).

A general contractor is 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.

Contract Types. KCG's government contracts generally provide for the payment of a fixed price for the work performed. Profit is realized on 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. Construction 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's private contracts are generally "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. KCG also performs "guaranteed maximum" contracts, under which the contractor and owner share in savings if costs are less than the maximum price.

Government Contracts. Public contracts accounted for 67% of the combined prices of contracts awarded to KCG during 1995. Most of these contracts were awarded by government and quasi-government units under fixed price contracts 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.

**Backlog.** At the end of 1995, KCG had backlog (anticipated revenue from uncompleted contracts) of \$2.0 billion, a decline from \$2.2 billion at the end of 1994. Of current backlog, \$300 million is not expected to be completed during 1996. In 1995 KCG was low bidder on 229 jobs with total contract prices of \$1.5 billion, an average price of \$6.7 million per job. There were 16 new projects with contract prices over \$25 million, accounting for 58% of the successful bid volume.

**Competition.** A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, timeliness, experience, and financial strength. The construction industry is highly competitive and lacks firms with dominant market power. In 1995, Engineering News Record, a construction trade publication, ranked KCG as the 9th largest U.S. contractor in terms of 1994 revenue and 13th largest in terms of 1994 new contract awards. It ranked KCG 2nd in the transportation market by 1994 revenue. The U.S. Department of Commerce reports that the total value of construction put in place in 1995 was \$527 billion. KCG's U.S. revenues for the same period were \$2.0 billion, or 0.4% of the total domestic market.

**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 expenses, the other venturers may be required to pay those costs. KCG prefers to act as the sponsor of its joint ventures. The sponsor generally provides the project manager, the majority of venturer-provided personnel, and accounting and other administrative support services. The joint venture generally reimburses the sponsor for such personnel and services on a negotiated basis. The sponsor is generally allocated a majority of the venture's profits and losses and usually has a controlling vote in joint venture decision making. In 1995 KCG derived 83% of its joint venture revenue from sponsored joint ventures and 17% from non-sponsored ventures. KCG's share of joint venture revenue accounted for 30% of its 1995 total revenue.

**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. 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.

**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. At the end of 1995, KCG had current projects in 30 states and 5 provinces. Internationally, KCG participates in the construction of a tunnel under Denmark's Great Belt Channel and a geothermal power plant in the Philippines.

**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. KCP also owns two smaller coal mines. KMG manages all the coal mines, as well as KCG's construction aggregate quarries. In 1995, KMG exchanged its interests in a Nevada precious minerals mine for publicly traded stock of Kinross Gold Corporation.

**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 94% of sales are made under long-term contracts, and the remainder are made on the spot market. Approximately 80%, 71%, and 84% of KCP's revenues in 1995, 1994, and 1993, 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 2 to 33 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.

Decker has a sales contract with Detroit Edison Company which provides for the delivery of a minimum of 47 million tons of low sulphur coal during the period 1996 through 2005, with annual shipments ranging from 5.2 million tons in 1996 to 1.7 million tons in 2005.

KCP and its mining ventures have entered into various agreements with Commonwealth Edison Company ("Commonwealth") which stipulate delivery and payment terms for the sale of coal. The agreements as amended provide for delivery of 103 million tons during the period 1996 through 2015, with annual shipments ranging from 1.6 million tons to 10 million tons. These deliveries include 15 million tons of coal reserves previously sold to Commonwealth. Since 1993, the amended contract between Commonwealth and Black Butte provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte mine, but with coal purchased from three unaffiliated mines in the Powder River Basin of Wyoming and Decker. The contract amendment allows Black Butte to purchase alternate source coal at a price below its production costs, and to pass the cost savings through to Commonwealth while maintaining the profit margins available under the original contract.

The contract between Walnut Creek Coal Company and Texas-New Mexico Power Company provides for delivery of between 42 and 90 million tons of coal during the period 1989 through 2017. The actual tons provided will depend on the number of power units constructed and operated by TNP. The maximum amount KCP is expecting to ship in any one year is between 1.6 and 3.2 million tons.

KCP also has other sales commitments, including those with Sierra Pacific, Idaho Power, Solvay Minerals, and Pacific Power & Light, that provide for the delivery of approximately 9 million tons through 2005.

**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 1995 at the Decker, Black Butte, and Walnut Creek mines was 5.2, 0.5, and 1.0 million tons, respectively.

**Revenue.** KCP's total revenue in 1995 was \$216 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities was \$109 million, \$90 million, and \$17 million, respectively.

**Backlog.** At the end of 1995, the backlog of coal sold under KCP's long-term contracts was approximately \$1.6 billion, based on December 1995 market prices. Of this amount, \$205 million is expected to be sold in 1996.

**Reserves.** At the end of 1995, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 124, 49, and 33 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 57.3, 3.8, and 20.4 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 1994, KCP's production represented 1.4% 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 minable coal) than the Black Butte and Decker mines, often resulting in lower comparative costs of production. As a result, KCP's production costs per ton of coal at the Black Butte and Decker mines can be as much as four and five times greater than production costs of certain competitors. KCP's production cost disadvantage has contributed to its agreement to amend its long-term contract with Commonwealth Edison Company to provide for delivery of coal from alternate source mines rather than from Black Butte. Because of these cost disadvantages, KCP does not expect that it will be able to enter into long-term coal purchase contracts for Black Butte and Decker production as the current long-term contracts expire. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

**Environmental Regulation.** The Company 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 1995 was \$5.7 million. KCP's share of accrued estimated reclamation costs

was \$100 million at the end of 1995. The Company does not expect to make significant capital expenditures for environmental compliance in 1996. The Company 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.

Intergroup Transactions. KCP, an indirect subsidiary of KDG, contains the coal mining joint ventures and related long-term coal contracts, mining properties, and equipment. KMG, an indirect subsidiary of KCG, is the employer of senior management involved in mining operations. KMG manages the coal mines for KCP. KCP pays KMG an annual coal mining management fee equal to 30% of KCP's adjusted operating income. The fee in 1995 was \$30 million. The financial results of KCP are reflected in the formula value of Class D Diversified Group common stock, while the financial results of KMG are reflected in the formula value of the Class B&C Construction and Mining Group common stock.

## **TELECOMMUNICATIONS**

### **C-TEC CORPORATION**

C-TEC Corporation. In 1993 the Company purchased a controlling interest in C-TEC Corporation ("C-TEC"). Through its subsidiary, RCN Corporation ("RCN"), the Company 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 is a Pennsylvania corporation and traces its origin to 1897 with the founding of Commonwealth Telephone Company. C-TEC has its executive offices in Princeton, New Jersey. In 1995 C-TEC had revenue of \$325 million, net income of \$23 million, total assets of \$952 million, long-term debt of \$263 million, and stockholders' equity of \$370 million. The four operating groups of C-TEC and their 1995 revenues are: telephone (\$129 million), cable (\$127 million), long distance (\$39 million), and communications services (\$29 million).

Telephone Group. 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 226,000 main access lines, of which 174,000 are residential and 52,000 are business related. In addition to providing local telephone service, this Group provides network access and long distance services to interexchange carriers. Revenue is also derived from equipment sales and internet access services.

Cable Group. The Cable Group is a cable television operator with cable television systems located in New York, New Jersey, Michigan, and Pennsylvania. The Cable Group owns and operates cable television systems serving approximately 334,000 customers and manages cable television systems with an additional 39,000 customers, ranking it among the top 20 multiple system operators in the United States.

The Cable Group made several acquisitions in 1995. In January, the Cable Group purchased the assets of Higgins Lake Cable, Inc., which provides cable television service to approximately 3,200 subscribers in northern Michigan. Also in January, 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 Cable Group acquired Twin County Trans Video, Inc., which provides cable television service to approximately 74,000 subscribers in eastern Pennsylvania. As a result of a stock rights offering in August 1995, the Group now owns 62% (an increase from 43%) of the voting stock of Mercom, Inc., which provides cable television service in Michigan and Florida.

The Cable Group must periodically seek renewal of franchise agreements from local government authorities. To date, all of the Group's franchises have been renewed or extended, generally at or prior to their stated expirations and on acceptable terms. Competition for the Cable Group's services traditionally has come from providers of broadcast television, video rentals, and direct broadcast satellite received on home dishes. Future competition is expected from telephone companies.

Long Distance Group. The Long Distance Group principally operates in Pennsylvania. The Group began operations in 1990 by servicing the local service area of the Telephone Group. In 1992 and 1993, sales offices were opened in other areas of Pennsylvania. The Long Distance Group provides switched services, is a reseller of several types of services, and employs the networks of several long distance providers on a wholesale basis.

Communications Services Group. The Communications Services Group provides telecommunications-related engineering and technical services in the northeastern U.S.

Regulation. Effective in February, the Federal Telecommunications Act of 1996 established a framework for deregulation of the communications industry. The Federal Communications Commission ("FCC") and state regulators must work out the specific implementation process. The Act should foster competition by telephone companies in the cable television business and cable companies in the telephone business. The Company's local exchange telephone subsidiary, Commonwealth Telephone Company ("CTCo"), is subject to a rate-making process regulated by the Pennsylvania Public Utility Commission ("PPUC"). Consequently, the ability of the Telephone Group to generate increased income is largely dependent on its ability to increase its subscriber base, obtain higher message volumes and control its expenses.

The Cable Group is subject to the Federal Cable Television Consumer Protection and Competition Act of 1992, which regulated certain subscriber rates, mandatory carriage of local broadcast stations, and retransmission consent. The most significant provision of the Act requires the FCC to establish rules to ensure that rates for basic services are reasonable for subscribers in areas without effective competition. Few

municipalities served by C-TEC are subject to effective competition. The overall effect of the Act's provisions on Cable Group's operations is not yet determinable.

**Restructuring.** In November 1995, C-TEC announced that it had engaged an investment banker to assist with evaluating strategic alternatives for its various business units with a view toward enhancing shareholder value. C-TEC is now planning to distribute to its shareholders in a tax-free spin-off the Telephone Group, the Communications Services Group, and certain other assets. Following the spin-off, C-TEC plans to combine its remaining businesses, which will consist of its domestic Cable Group, with a third party pursuant to a tax-free, stock-for-stock transaction. C-TEC has received a number of inquiries regarding its domestic Cable Group and is holding discussions with interested parties.

**Subsequent Event -- Sale of Certain Businesses to RCN.** Under the terms of an agreement dated March 27, 1996, RCN will pay C-TEC approximately \$123 million for certain of C-TEC's assets, including the Long Distance Group, C-TEC International, which holds the 40% interest in Megacable, S.A. de C.V., and Residential Communications Network, a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. RCN will purchase Residential Communications Network for cash in a transaction expected to close in April 1996. RCN's purchase of the other businesses for cash or C-TEC stock, at RCN's option, is expected to close in the second half of 1996. The transactions are subject to certain conditions including the receipt of all necessary regulatory approvals. The agreement with RCN contains a repurchase option under which C-TEC can reacquire the businesses if a restructuring of C-TEC's main businesses does not occur. Additionally, C-TEC retains a warrant to reacquire a six percent stake in Residential Communications Network. The agreement with RCN was approved by a special committee of the board of directors of C-TEC, composed of directors unaffiliated with either RCN or the Company.

## **RCN CORPORATION**

On February 20, 1996, RCN entered into an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an 80% interest in certain private cable systems in New York City and selected areas of New Jersey. These cable systems provide subscription television services using microwave frequencies. RCN paid the sellers \$27 million on the closing date, March 6, 1996. In addition, RCN delivered a \$15 million note that it expects to pay in full during 1996.

## **OTHER OPERATIONS**

### **CALENERGY COMPANY, INC.**

CalEnergy Company, Inc. ("CE"), formerly named California Energy Company, Inc., develops, constructs, and operates electric power production facilities, primarily utilizing geothermal resources, in the western United States, the Philippines, and Indonesia. CE is a Delaware corporation formed in 1971 and has its headquarters in Omaha, Nebraska. CE common stock is traded on the New York, Pacific, and London Stock Exchanges. In 1995, CE had revenue of \$399 million, net income of \$63 million, before preferred dividends, total assets of \$2,654 million, long-term debt of \$1,294 million, and stockholders' equity of \$544 million.

Kiewit Energy Company ("KEC") currently owns 24% (12.3 million shares, including 1.5 million shares purchased in February 1996) of CE's outstanding common stock. KEC has options to purchase 3.3 million common shares at \$12 per share and 1 million common shares at \$11.625. KEC holds \$64,850,000 of debentures paying 9.5% interest, convertible into 3.5 million common shares at a conversion price of \$18.375 per share. If KEC were to exercise all its options and convert its debentures, it would own approximately 34% of CE's common shares. A 1991 agreement entitles KEC to have three members on CE's board of directors. KEC accounts for its investment in CE common shares by the equity method, i.e. the amount included in KEC's net earnings is CE's net earnings multiplied by the percentage of CE's common shares owned by KEC, adjusted for income taxes and goodwill and amortization.

Following its acquisition of Magma Power Company in early 1995, CE became the largest independent geothermal power producer in the world. Power production facilities are measured in terms of megawatts (MW) of net electric generating capacity. Most of CE's facilities are co-owned and CE's fractional ownership interest can be expressed in terms of MWs. CE's has projects in three stages: operational (and managed by CE), under construction (and financed), and developmental (with executed and awarded power sales contracts). CE owns 358 MW of operating facilities having 575 MW of aggregate capacity; most of the operating facilities are in Southern California. Under construction are four geothermal power projects in the Philippines with aggregate capacity of 540 MW; CE owns 449 MW in the four projects; and KEC owns 74 MW in one project. Also under construction in the Philippines is a 150 MW hydroelectric power project, in which CE and KEC own 52 MW each. In the development stage are seven projects in Indonesia, the Philippines, and the United States with potential aggregate capacity of 1,478 MW; CE expects to own 786 MW in the developmental projects; and KEC expects to own 508 MW in the Indonesian projects only.

In 1993, KDG and KCG (together "Kiewit") and CE signed a joint venture agreement concerning their international activities, which provides that if both Kiewit and CE agree to participate in a project, they will share all development costs equally. Kiewit and CE will each provide 50% of the equity required for financing a project developed by the joint venture and CE will operate and manage such project. The agreement creates a joint development structure under which, on a project by project basis, CE 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 Company participates in the Mahanagdong project in the Philippines in three ways: through KCG, the lead member of the construction consortium, through KEC as a direct equity investor, and indirectly through KEC's ownership interest in CE. In the Casecnan project in the



Philippines, KCG does not participate in construction, but KEC participates as both a direct equity investor and indirectly as an equity investor through its CE ownership. KEC also owns \$20 million of bonds issued in connection with the project. Kiewit expects to be a co-developer and an equal equity participant with CE in the Dieng, Patuha, and Bali projects in Indonesia.

Geothermal power production process. First, the developer locates suitable geothermal resources, drills test wells, secures permits, negotiates long-term power contracts with an electric utility, and arranges financing. Second, the project is constructed. Third, the facility is operated and maintained. Project revenues from the sale of electricity are applied to operating costs, rent or royalties, and principal and interest payments on debt incurred for acquisition and construction costs. Geothermal resources suitable for commercial extraction require an underground water reservoir heated to high temperatures. Production wells are drilled to release the heated fluid under high pressure. Wells are usually located within one or two miles of the power plant. From well heads, fluid flows through pipelines to a series of separators where it is separated into water, brine, and steam. The steam is passed through a turbine which drives a generator to generate electricity. Once the steam has passed through the turbine, it is then cooled and condensed back into water which is reinjected through wells back into the geothermal reservoir. Under proper conditions, the geothermal power is renewable energy source, with minimal emissions compared to fossil fuel power plants. The utilization of geothermal power is preferred by certain governments in order to minimize the import (e.g., the Philippines), or maximize the export (e.g., Indonesia) of hydrocarbons. Geothermal power facilities also enjoy federal tax benefits and favorable utility regulatory treatment in the United States.

Operations/United States. Most of CE's operating revenues come from geothermal power plants in Southern California, three in the Coso area and seven in the Imperial Valley. These operations have certain common features. Each plant involves a partnership or joint venture in which CE has an approximately one-half interest and is the operator of the plant. Each plant has long-term contract to supply electric power to Southern California Edison Company ("Edison"). The agreements provide for both capacity payments and energy payments for a term of between 20 and 30 years. During the first ten years, energy payments are based on a pre-set schedule. Thereafter, while the basis for the capacity payment remains the same, the required energy payment is Edison's then- current published "avoided cost of energy" as determined by the California Public Utility Commission. The initial ten-year periods expire beginning in 1996 for the first plant and in 2000 for the tenth plant. CE cannot predict the likely level of Edison's avoided cost of energy prices at the expiration of the fixed-price periods, but it is currently substantially below the current energy prices under CE's contracts. For 1995, the time period-weighted average of Edison's avoided cost of energy was 2.1 cents per kWh, compared to CE's comparable selling price for energy of 11.34 cents per kWh. Thus, the revenue generated by each of CE's ten facilities is likely to decline significantly after the expiration of the fixed-price period.

The Coso projects were refinanced through the sale of notes in a 1992 private placement. The outstanding balance of the notes at the end of 1995 was \$203 million. Assets of the Coso projects are pledged to satisfy repayment of the notes, but the obligations are non-recourse to CE. Six of the seven Imperial Valley projects are subject to financing agreements. The combined outstanding balances of the notes at the end of 1995 was \$507 million. All of the obligations are non-recourse to CE.

CE has five other operating plants, one each in Arizona, Utah, and Nevada, and two in California. An expansion to an Imperial Valley plant is under construction. In addition, two projects are in the development stage.

Construction Stage/Philippines. CE has four projects in the Philippines under construction.

Mahanagdong. In 1994 construction began on the Mahanagdong Project, a 180 gross MW geothermal project on the Philippine island of Leyte. The Mahanagdong Project will be built, owned and operated by CE Luzon Geothermal Power Company, Inc. ("CE Luzon"), a Philippine corporation that during construction is indirectly owned 50% by CE and 50% by KEC. Up to a 10% financial interest in CE Luzon may be sold at completion to another industrial company at the option of such company. The Mahanagdong Project will sell 100% of its capacity on a "take-or-pay" basis (described below) to PNOC- Energy Development Corporation ("EDC"), which will in turn sell the power to the National Power Corporation of the Philippines ("NPC"), for distribution to the island of Luzon. NPC is the government- owned and controlled corporation that is the primary supplier of electricity in the Philippines.

Mahanagdong has a total project cost of \$320 million, including interest during construction, project contingency costs and a debt service reserve fund. The capital structure consists of a project financing construction and term loan of \$240 million provided by the Overseas Private Investment Corporation ("OPIC"), the Export-Import Bank of the United States ("Exim Bank"), and a consortium of international banks, and approximately \$80 million in equity contributions. Political risk insurance from Exim Bank has been obtained for the commercial lenders. KEC and CE will each make an equity investment in the Mahanagdong Project of approximately \$40 million. KEC and CE have arranged for political risk insurance on their equity investments through OPIC. The financing is collateralized by all the assets of the project.

The Mahanagdong Project is being constructed by subsidiaries of KCG and CE under fixed-price, date-certain, turnkey supply and construction contracts. KCG and CE subsidiaries have 80% and 20% interests, respectively, in the contracts.

Under the terms of an energy conversion agreement, executed on September 18, 1993 (the "Mahanagdong ECA"), CE Luzon will build, own and operate the Mahanagdong Project during the estimated three- year construction period and a ten-year cooperation period. At the end of the cooperation period, the facility will be transferred to EDC at no cost. The Mahanagdong Project will be located on land provided by EDC at no cost. It will take geothermal steam and fluid, also provided by EDC at no cost, and convert its thermal energy into electrical energy to be sold to EDC on a "take-or-pay" basis. Specifically, EDC will be obligated to pay for the electric capacity that is nominated each year by CE Luzon, irrespective of whether EDC is willing or able to accept delivery of such capacity. EDC will pay to CE Luzon a fee (the "Capacity Fee") based on the plant capacity nominated to EDC in any year (which, at the plant's design capacity, is approximately 97% of total contract revenues) and a fee (the "Energy Fee") based on the electricity actually delivered to EDC (approximately 3% of total contract revenues). The Capacity Fee

serves to recover the capital costs of the project, to recover fixed operating costs and to cover return on investment. The Energy Fee is designed to cover all variable operating and maintenance costs of the power plant. Payments under the Mahanagdong ECA will be denominated in U.S. dollars, or computed in U.S. dollars and paid in Philippine pesos at the then- current exchange rate, except for the Energy Fee, which will be used to pay Philippine peso-denominated expenses. The convertibility of Philippine peso receipts into U.S. dollars is insured by OPIC. Significant portions of the Capacity Fee and Energy Fee will be indexed to U.S. and Philippine inflation rates, respectively. EDC's payment requirements, and its other obligations under the Mahanagdong ECA, are supported by the Government of the Philippines through a performance undertaking.

Upper Mahiao. In 1994 construction began on the Upper Mahiao Project, a 128 gross MW geothermal project on Leyte. The Upper Mahiao Project will be built, owned and operated by CE Cebu Geothermal Power Company, Inc. ("CE Cebu"), a Philippine corporation that is approximately 100% indirectly owned by CE. It will sell 100% of its capacity on a "take-or-pay" basis to EDC, on substantially the same terms as described above for the Mahanagdong Project, which will in turn sell the power to NPC for distribution to the island of Cebu, located about 40 miles west of Leyte. The Upper Mahiao Project will have a total project cost of \$218 million. A consortium of international banks has committed to provide \$162 million in a project-financed construction loan. The largest portion of the term loan for the project will also be provided by Exim Bank. CE's equity contribution to the Upper Mahiao Project is \$56 million.

Malitbog. In 1994 construction began on the Malitbog Project, a 231 gross MW geothermal project on Leyte. The Malitbog Project will be built, owned and operated by Visayas Geothermal Power Company ("VGPC"), a Philippine general partnership that is wholly owned, indirectly, by CE. VGPC will sell 100% of its capacity, on substantially the same terms as described above for the Mahanagdong Project, to EDC, which will in turn sell the power to NPC. The Malitbog Project has a total project cost of \$280 million. A consortium of international banks and OPIC have provided a total of \$210 million of construction and term loan facilities. CE's equity contribution was \$70 million.

Casecnan. In November 1995 CE closed the financing and started construction on the combined irrigation and hydroelectric power generation project (the "Casecnan Project"), a 150 gross MW hydroelectric power project located in the central part of the island of Luzon. The Casecnan Project will include diversion structures in the Casecnan and Denip Rivers that will divert water into a 14 mile long tunnel. The tunnel will transfer the water from the Casecnan and Denip Rivers into the Pantabangan Reservoir for irrigation and hydroelectric use in the Central Luzon area. An underground powerhouse at the end of the water tunnel will house a power plant with 150 MW capacity.

CE Casecnan Water and Energy Company, Inc., a Philippine corporation ("CE Casecnan") is developing the Casecnan Project under the terms of the project agreement between CE Casecnan and the National Irrigation Administration ("NIA"). CE and KEC have minimum and maximum ownership interests in CE Casecnan of 35% to 50% each. Two other shareholders, who have no financial commitments and will not participate in construction or operations, may receive interests of as much as 15% each, depending on projected returns from the project. Under the project agreement, CE Casecnan will develop, finance and construct the Casecnan Project over an estimated four-year construction period, and thereafter own and operate the Casecnan Project for a 20 year cooperation period. During the cooperation period, NIA is obligated to accept all deliveries of water and energy, and so long as the Casecnan Project is physically capable of operating, NIA will pay the CE Casecnan a guaranteed fee for the delivery of water and a guaranteed fee for the delivery of electricity, regardless of the amount of water or electricity actually delivered. In addition, NIA will pay a fee for all electricity delivered in excess of a threshold amount up to a specified amount. NIA will sell the electric energy it purchases to NPC, although NIA's obligations to CE Casecnan under the Project Agreement are not dependent on NPC's purchase of the electricity from NIA. All fees to be paid by NIA to CE Casecnan are payable in U.S. dollars. The guaranteed fees for the delivery of water and energy are expected to provide approximately 70% of CE Casecnan's revenues. At the end of the cooperation period, the Casecnan Project will be transferred to NIA and NPC for no additional consideration on an "as is" basis. The Republic of the Philippines has provided a performance undertaking under which NIA's obligations under the Project Agreement are guaranteed by the full faith and credit of the Republic of the Philippines. The total cost of the Casecnan Project, including development, construction, testing and startup, is estimated to be approximately \$495 million.

### **Construction Stage/Indonesia**

Dieng. In December 1994, Himpurnia California Energy Ltd. ("HCE") executed a joint operation contract (the "Dieng JOC") for the development of the geothermal steam field and geothermal power facilities at the Dieng geothermal field, located in Central Java (the "Dieng Project") with Pertamina, the Indonesian national oil company, and executed a "take-or-pay" energy sales contract (the "Dieng ESC") with both Pertamina and PLN, the Indonesian national electric utility. HCE was formed with an Indonesian partner to develop the Dieng Project (the "Dieng JV"). CE, KEC, and the Indonesian partner have 47%, 47%, and 6% interests, respectively, in the Dieng JV.

Pursuant to the Dieng JOC and ESC, Pertamina will grant to the Dieng JV the geothermal field and wells and other facilities presently located thereon and the Dieng JV will build, own and operate power production units with an aggregate capacity of up to 400 MW. HCE will accept the field operation responsibility for developing and supplying the geothermal steam and fluids required to operate the plants. The Dieng JOC is structured as a build-own- transfer agreement and will expire (subject to extension by mutual agreement) on the date which is the later of (i) 42 years following effectiveness of the Dieng JOC and (ii) 30 years following the date of commencement of commercial generation of the final unit completed. Upon the expiration of the proposed Dieng JOC, all facilities will be transferred to Pertamina at no cost. The Dieng JV is required to pay Pertamina a production allowance equal to three percent of Dieng JV's net operating income from the Dieng Project, plus a further amount based upon the negotiated value of existing Pertamina geothermal production facilities that are expected to be made available by Pertamina.

Pursuant to the Dieng ESC, PLN agreed to purchase and pay for all of the Project's capacity and energy output on a "take-or-pay" basis regardless of PLN's ability to accept such energy made available from the Dieng Project for a term equal to that of the Dieng JOC. The price

paid for electricity includes a base energy price per kWh multiplied by the number of kWhs the plants deliver or are "capable of delivering," whichever is greater. Energy price payments are also subject to adjustment for inflation. PLN will also pay a capacity payment based on plant capacity. All such payments are payable in U.S. dollars.

Construction of an initial 55 MW unit is expected to begin in the second quarter of 1996. A consortium consisting of KCG and CE will construct the Dieng Project and provide all related design, engineering and supply work pursuant to fixed price, date certain, turnkey construction and supply contracts. HCE will be responsible for operating and managing the Dieng Project. CE and KEC presently intend to proceed on a modular basis with construction of three additional units to follow Dieng Unit I, resulting in an aggregate first phase net capacity at this site of 220 MW. The total project cost of these units is estimated to be \$450 million. The next phase is expected to expand the total capacity to 400 MW. The cost of the full Dieng Project is estimated to be approximately \$1 billion. It is anticipated that most of the capital needed to construct and operate the Dieng projects and the development stage projects described below will be raised by project-financed debt, i.e. the loans will be repaid from revenues generated by the output of the plants.

### **Development Stage Projects.**

Patuha. CE and KEC are co-developing a geothermal power plant at the Patuha geothermal field in Java, Indonesia. They intend to proceed on a modular basis similar to the Dieng Project, with an aggregate capacity of up to 400 MW. The total cost is estimated to be \$1 billion. Construction of the first unit is expected to begin in 1996. Bali. CE and KEC are co-developing geothermal resources on the island of Bali, Indonesia. They intend to proceed on a modular basis similar to the Dieng Project, with an aggregate capacity of up to 400 MW. The total cost of the Bali project is estimated to be \$1 billion. Construction of the first unit is expected to begin in 1997. Alto Peak. CE is developing a 70 net MW geothermal project on the Philippine island of Leyte. KEC is not a participant in this project.

### **INFORMATION SERVICES**

PKS Information Services, Inc. ("PKSIS"), provides computer outsourcing and systems integration services to customers on a nationwide basis. PKSIS provides its outsourcing 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. Systems integration services help customers define, develop, and implement cost-effective information systems. PKSIS manages a wide-area network (WAN) on a nationwide basis and is engaged in the design, installation, and maintenance of high- performance local area networks (LANs) and multi-tiered distributed architectures that utilize the latest hardware and software technologies. PKSIS develops a unified architecture of hardware, software, and communications technologies in order to meet the customer's specific design, operational, and management objectives. Better service and better value are the result of a total focus on integrating capital, technology, and expert people on a scale basis. PKSIS' operations and computing equipment are located in an 89,000 square foot computer center in Omaha, Nebraska. The PKSIS computer center was engineered to: (i) ensure fault tolerance, and (ii) enable scale economies in hardware, software, and people. The first point ensures non-stop operation for the customers. The second promises more cost-effective computing services than most organizations can deliver themselves. In 1995, 83 percent of PKSIS' revenue was from external customers and the remainder was from affiliates.

### **ENERGY PROJECTS**

Kiewit Fuels. Kiewit Fuels Inc., an 80% owned KDG subsidiary, has acquired a patented, low-cost process to produce additives known as renewable ethers (EtBE and MtBE) to make cleaner burning gasoline. Kiewit Fuels is investigating opportunities to utilize the process.

### **INFRASTRUCTURE PROJECTS**

California Private Transportation Company. KDG has invested \$12 million in California Private Transportation Company, which developed, arranged financing, constructed, and now operates the SR91 tollroad in Orange County. The tollroad opened for traffic in December 1995.

United Infrastructure Company. KDG is investigating North American infrastructure privatization opportunities through United Infrastructure Company, an equal partnership with Bechtel Infrastructure Enterprises, Inc.

### **KIEWIT MUTUAL FUND**

Kiewit Mutual Fund, a registered investment company, was formed in 1994. Initially formed to manage the Company's internal investments, shares in Kiewit Mutual Fund are now available for purchase by the general public. The Fund's investors currently include individuals and unrelated companies, as well as Kiewit- affiliated joint ventures, pension plans, and subsidiaries. Kiewit Mutual Fund has five series: Money Market Portfolio, Short-Term Government Portfolio, Intermediate-Term Bond Portfolio, Tax-Exempt Portfolio, and the Equity Portfolio. The registered investment adviser of Kiewit Mutual Fund is Kiewit Investment Management Corp., a subsidiary of KDG (60%) and KCG (40%).

### **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 1995, the Company and its majority-owned subsidiaries employed approximately 14,300 people -- 10,400 in Construction, 2,000 in Mining, 1,400 in Telecommunications, 200 in Information Services, and 300 in 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 segment are described as part of the general business description of that segment in Item 1 above. The properties of the telecommunications segment include those of C- TEC's Telephone Group (switching centers, cables and wires connecting the telephone company to its customers, and other telephone instruments and equipment), C-TEC's Cable Group (head- end, distribution and subscriber equipment), and various office and storage buildings. 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, future results of operations, or future cash flows.

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, future results of operations, or future cash flows.

Whitney Litigation. In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposits and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a KDG subsidiary, received approximately \$135 million in June 1995.

MFS Litigation. In March 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 have vigorously contested this lawsuit. Defendants expect that a trial will be held in 1996. 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 pursuant to the indemnification agreement.

## 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 1995.

## EXECUTIVE OFFICERS OF THE REGISTRANT.

The table below shows information as of March 15, 1996 about each executive officer of the Company, including his business experience during the past five years (1991-1996). 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 10, 1995 to serve until his successor is elected and qualified or until his death, resignation or removal.

Name	Business Experience (1991-1996)	Age
Walter Scott, Jr.	Chairman of the Board and President	64
William L. Grewcock	Vice Chairman	70
Robert E. Julian	Executive Vice President; Chief Financial Officer (1991-1995); Treasurer (1991-1993)	56
Kenneth E. Stinson	Executive Vice President	53
Richard Geary	Executive Vice President, KCG; President, Kiewit Pacific Co.	61
Leonard W. Kearney	Vice President, KCG; President, Kiewit Construction Company and Kiewit Western Co.	55

Richard R. Jaros	Executive Vice President (since 1993); Chief Financial Officer (since 1995); Vice President (1991-1992); President and COO of CE (1992-3)	44
George B. Toll, Jr.	Executive Vice President, KCG (since 1994); Vice President, Kiewit Pacific Co. (1991-1994)	59
Richard W. Colf	Vice President, Kiewit Pacific Co.	52
Bruce E. Grewcock	President (since 1992), Sr. Vice President (1991-1992), Vice President (1991) of Kiewit Mining Group Inc.	42

Tait P. Johnson President, Gilbert Southern Corp. 46

## 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. However, the Company is generally required to repurchase shares at a formula price upon demand.

**Company repurchase duty.** Under the Company's Certificate of Incorporation effective January 1992, the Company 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"). Class B and Class C ("Class B&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&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.

**Formula values.** The formula price of the Class D shares 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. The formula price of the Class B&C shares is based on the book value of Kiewit Construction Group Inc. ("KCG") and its subsidiaries, including Kiewit Mining Group Inc. ("KMG"), plus one-half of the book value of the unconsolidated parent company. A significant element of the Class B&C formula price is the subtraction of the book value of property, plant and equipment used in construction activities (\$110 million in 1995). A significant annual intercompany transaction reduces the value of the Class D shares and increases the value of the Class B&C shares. 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 \$30 million to KMG in 1995.

**Conversion.** Class C shares are convertible into Class D shares at the end of each year. Between October 15 and December 15 of each year a Class C stockholder may elect to convert some or all of his or her shares. Conversion occurs on the following January

1. The conversion ratio is the relative formula prices of Class C and Class D shares determined as of the last Saturday in December, i.e. the last day in the Company's fiscal year. Class D shares may be converted into Class C shares only as part of an annual offering of Class C shares to employees. Instead of purchasing the offered shares for cash, an employee owning Class D shares may convert such shares into Class C shares at the applicable conversion ratio.

**Restrictions.** Ownership of Class C shares is generally restricted to active Company employees. Upon retirement, termination of employment, or death, Class C shares must be resold to the Company at the applicable formula price, but may be converted into Class D shares if the terminating event occurs during the annual conversion period. Class D shares are not subject to ownership or transfer restrictions.

**Dividends and Prices.** During 1994 and 1995 the Company declared or paid the following dividends on its common stock. The table also shows the stock price after each dividend payment or other valuation event.

Dividend Declared	Dividend Paid	Dividend Per Share	Class	Price Adjusted	Stock Price
Oct. 29, 1993	Jan. 6, 1994	\$ 0.40	B&C	Dec. 25, 1993	\$22.35
Apr. 22, 1994	May 1, 1994	0.45	B&C	May 1, 1994	21.90
Oct. 21, 1994	Jan. 5, 1995	0.45	B&C	Dec. 31, 1994	25.55
Apr. 28, 1994	May 1, 1995	0.45	B&C	May 1, 1995	25.10
Oct. 27, 1995	Jan. 5, 1996	0.60	B&C	Dec. 30, 1995	32.40
			D	Dec. 25, 1993	59.40
			D	Dec. 31, 1994	60.25

Sep. 25, 1995*	Sep. 30, 1995*	19.85*	D	Sep. 30, 1995	40.40
Oct. 27, 1995	Jan. 5, 1996	0.50	D	Dec. 30, 1995	49.50

\* MFS Spin-off (see p. 2)

Although the Board of Directors announced in August 1993 that the Company did not intend to pay regular dividends on Class D shares in the foreseeable future, on October 27, 1995, the Board declared a special dividend of \$0.50 per share on Class D shares payable on January 5, 1996 to stockholders of record on that date.

Stockholders. On March 15, 1996, the Company had the following numbers of stockholders and outstanding shares for each class of its common stock:

Class	Stockholders	Shares Outstanding
B	4	263,468
C	1,140	9,957,413
D	1,723	23,222,259

## 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 four 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, Fiscal Year Ended except per share amounts) 1995 1994 1993 1992 1991

#### Results of Operations:

Revenue (1) \$ 2,902 \$ 2,704 \$ 2,050 \$ 1,918 \$ 2,049 Earnings from continuing

operations	244	110	261	162	49
Net earnings (2)	244	110	261	181	441

#### Financial Position:

Total assets (1)	3,463	4,492	3,634	2,549	2,632
Current portion of long-term debt (1)	42	33	15	3	15
Long-term debt, less current portion (1)	370	908	462	30	110

Stockholders' equity (3) 1,607 1,736 1,671 1,458 1,396

(1) In September 1995, the Company dividdened its investment in MFS to Class D Shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1994-1991 balance sheets.

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 1995 and 1994, additional MFS stock transactions resulted in \$2 million and \$35 million after-tax gains to the Company and reduced its ownership in MFS to 66% and 67%.

(3) The aggregate redemption value of common stock at December 30, 1995 was \$1.5 billion.

### KIEWIT CONSTRUCTION & MINING GROUP SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1991 to 1995 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)	1995	1994	Fiscal Year Ended		
			1993	1992	1991
Results of Operations:					
Revenue	\$ 2,330	\$ 2,175	\$ 1,783	\$ 1,675	\$ 1,834
Net earnings	104	77	80	82	23
Per Common Share (1):					
Net earnings	7.78	4.92	4.63	4.48	1.12
Dividends (2)	1.05	0.90	0.70	0.70	0.30
Stock price (3)	32.40	25.55	22.35	18.70	14.40
Book value	42.90	31.39	27.43	23.31	19.25
Financial Position:					
Total assets	987	963	889	862	849
Current portion of long-term debt	2	3	4	2	7
Long-term debt, less current portion	9	9	10	12	13

Stockholders' equity (4) 467 505 480 437 400

### KIEWIT CONSTRUCTION & MINING GROUP SELECTED FINANCIAL DATA (continued)

(1) In connection with the January 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 1991 is 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 1995, 1994 and 1993 dividends include \$.60, \$.45 and \$.40 for dividends declared in 1995, 1994 and 1993, respectively, but paid in January of the subsequent year. 1991 reflects 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 the preceding year.

Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in that year 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 calculation is 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 30, 1995 was \$359 million.

### KIEWIT DIVERSIFIED GROUP SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1991 to 1995 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)	1995	1994	Fiscal Year Ended		
			1993	1992	1991
Results of Operations:					
Revenue (1)	\$ 580	\$ 537	\$ 267	\$ 243	\$ 215
Earnings from continuing operations	140	33	181	80	26
Net earnings (2)	140	33	181	99	418

Per Common Share (3):					
Earnings from continuing operations	6.45	1.63	9.08	3.95	1.26
Net earnings	6.45	1.63	9.08	4.92	20.30
Dividends (4)	.50	-	.50	1.95	0.70
Stock price (5)	49.50	60.25	59.40	50.65	47.85
Book value	49.49	60.36	59.52	50.75	47.93

Financial Position:

Total assets (1)	2,490	3,537	2,759	1,709	1,801
Current portion of long-term debt (1)	40	30	11	1	8
Long-term debt, less current portion (1)	361	899	452	18	97
Stockholders' equity (6)	1,140	1,231	1,191	1,021	996

**KIEWIT DIVERSIFIED GROUP  
SELECTED FINANCIAL DATA**  
(continued)

(1) In September 1995, the Group dividdened its investment in MFS to Class D Shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1994- 1991 balance sheets.

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 issued \$500 million of 9.375% Senior Discount Notes.

(2) In 1993, through two public offerings, the Group sold 29% of MFS, resulting in a \$137 million after-tax gain. In 1995 and 1994, additional MFS stock transactions resulted in \$2 million and \$35 million after-tax gains to the Group and reduced its ownership in MFS to 66% and 67%.

(3) In connection with the January 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 1991 is 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 1995 and 1992 dividends include \$.50 for dividends declared in 1995 and 1992 but paid in January of the subsequent year. 1991 reflects 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 the preceding year. Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in that year 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 calculation is computed annually at the end of the fiscal year.

(6) Unless Class D Stock becomes publicly 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 30, 1995 was \$1,151 million.

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

This item contains information about Peter Kiewit Son's, Inc. (the "Company") as a whole. Separate reports containing 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 Form 10-K. The Company will furnish a copy of such exhibits without charge upon the written request of a stockholder addressed to: Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131.

The following discussion of Results of Operations should be read in conjunction with the Consolidated Financial Statements.

### Results of Operations 1995 vs. 1994

Construction. Construction revenue increased by \$154 million or 7% in 1995. Contributing to the increase were joint venture revenues and the inclusion of two additional months of materials revenue generated by the APAC-Arizona ("APAC")

companies which were acquired on February 28, 1994. The Company's share of joint venture revenue rose by 32% in 1995 and



in 1994. The San Joaquin Toll Road Joint Venture ("San Joaquin") in southern California contributed \$225 million and \$111 million to revenue in 1995 and 1994. Contract backlog at December 30, 1995 was \$2 billion, of which 10% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 36% of the total backlog which includes San Joaquin backlog of \$133 million. San Joaquin is scheduled for completion in 1997.

In 1995, gross margins rose 16% from \$170 million in 1994 to \$197 million in 1995. The growing materials market had a significant effect on margins. Increased operational efficiencies, as well as joint ventures, including substantial claim settlements, also impacted margins.

**Mining.** Mining revenue in 1995 increased slightly from 1994. Spot sales were lower in 1995 due to reduced demand in the Company's spot market area because of a mild winter and high hydro-electricity generation in the Western United States. Sales of precious metals were greater in 1995 when compared to 1994 as a result of the liquidation of essentially all of the precious metal inventory. Alternate source coal sales were also higher in 1995 due to the acceleration of coal shipments to the current year from future years and the shifting of certain coal shipments from mined coal to alternate source coal.

Direct costs, as a percentage of revenue, declined 2% in 1995 as a result of the additional alternate source coal sales. Lower margin metal sales and renegotiated coal contracts partially offset the higher margins on additional alternate source coal sales.

**Telecommunications.** With the spin-off of MFS, the Telecommunications segment now consists solely of C-TEC Corporation ("C-TEC"). C-TEC's primary operations are telephone and cable. In 1995 telecommunication revenue increased 12% over 1994. Sales of the telephone group increased \$7 million to \$129 million, a 6% increase over 1994. Increases in access lines for local network service and rate increases for intrastate access traffic were primarily responsible for the improvement. Sales for the cable group increased 34% to \$127 million in 1995. The acquisition of Twin County Trans Video, Inc. and the consolidation of Mercom, Inc.'s results since August contributed \$18 million and \$6 million to C-TEC's revenue in 1995. In addition, subscriber increases of approximately 16,000 over 1994 and rate increases effective in April 1995 account for an \$8 million increase in cable revenue. Revenues from other operating groups increased \$17 million or 32% compared to 1994 primarily due to the resale of long distance telephone services to another long distance reseller, improvements in switched business, 800 service sales and third party revenues from C-TEC's communication services business. The arrangement with the third party reseller terminated in the second quarter of 1995. Partially offsetting C-TEC's increase in revenue was the sale of the mobile services group in 1994 which contributed \$23 million in revenue that year.

C-TEC's direct costs increased \$30 million or 15% in 1995. The telephone group's costs of revenue increased primarily because of higher payroll expenses and higher depreciation expense. The acquisitions of Mercom and Twin County led to a 37% increase in direct costs for the cable group. In addition, higher basic programming costs resulting from increased subscribers, channel additions and rate increases contributed to the increase. Direct expenses for C-TEC's other operating groups increased because of costs associated with the resale of long distance services and communication services work performed for third parties. Partially offsetting these increases was the elimination of direct costs associated with the mobile services group which was sold in 1994.

**General and Administrative Expenses.** General and administrative expenses increased 18% in 1995. An increase in expenses for environmental and legal matters was partially offset by lower payroll expenses and an overall decline in C-TEC's general and administrative costs.

**Gain on Subsidiary's Stock Transactions, net.** The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Company in 1995. In 1994 the Company settled a contingent purchase price obligation 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 issuances of stock for acquisitions and employee stock options, resulted in a \$28 million net gain before taxes. The Company has recognized gains and losses from sales and issuances of stock by MFS on the statement of earnings. With the Spin-off of MFS, these types of gains will no longer be recognized for MFS transactions.

**Investment Income, net.** Investment income increased 84% to \$79 million in 1995. Improvements in interest income and equity earnings, primarily from CalEnergy Company, Inc. ("CE"), and declines in losses on the sales of securities and international energy project development expenses all contributed to the increase in investment income. Proceeds from the C-TEC rights offering and the sale of its mobile services group, along with the Whitney Benefits settlement contributed to a higher average portfolio balance and increased interest income. The Company also recognized equity earnings, net of goodwill amortization, from CE of \$10 million in 1995 compared to \$5 million in 1994. This increase is primarily attributable to the successful merger of Magma Energy operations into CE in 1995. In 1995, losses on the sale of securities declined 87% from 1994 primarily due to the reallocation of the Company's investment portfolio from fixed rate securities to mutual funds portfolios with differing investment objectives. Developmental expenses declined 75% in 1995 primarily due to the reimbursement of prior year expenses and the capitalization of current year amounts.

**Interest Expense, net.** Interest expense in 1995 decreased 33% compared to 1994. The decline is primarily due to C-TEC's prepayment of senior secured notes in December 1994.

**Other, net.** In 1995, other income primarily includes a \$21 million gain on the exchange of the Company's gold operations in Nevada for the common stock of Kinross Gold Corporation and settlement proceeds of \$135 million from the Whitney Benefits litigation. Other income also

includes gains and losses from the disposition of property, plant and equipment and other assets in 1995 and 1994.

**Equity Loss in MFS.** MFS is a leading provider of communication services to business. Through its operating subsidiaries, MFS provides a wide range of high quality voice, data, network system integration and other enhanced services. The Company's losses associated with MFS continued to increase, primarily because of the accelerated expansion activities announced in 1993 and 1995. These expansion activities require significant initial development and roll out expenses in advance of anticipated revenues and continue to negatively effect the operating results of MFS. After September 30, 1995, the date of the Spin-off, the Company no longer includes MFS' results in its financial statements.

**Income Tax Benefit (Provision).** The effective income tax rate for 1995 differs from the statutory rate of 35% due primarily to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities originally recognized on gains from previous MFS stock transactions that are no longer required due to the tax-free spin-off of MFS and adjustments of prior year tax provisions. In 1994, the rate is lower than 35% primarily due to adjustments to prior year tax provisions.

#### 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 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% was attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast accounted for 40% of the total backlog.

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 was 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.

**Telecommunications.** C-TEC generated telecommunications revenue 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 and cable group had revenue of \$122 million and \$95 million. The cellular group, sold in 1994, the long distance group and communications services group generated the balance. Overall, C-TEC's revenues increased 5% in 1994. Increases in interstate access revenues for the telephone group, 9,300 additional subscribers for the cable group and increased business and residential market penetration for the long distance group all contributed to the increase in revenue.

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 and the cable group - \$71 million. C-TEC's cost of revenue increased at a higher rate than revenue in 1994. The costs associated with developing the long distance business, primarily the opening of four new sales offices in late 1993, advertising expenses and promotional and discount campaigns designed to obtain a greater market share were the reasons for the increase.

**General and Administrative Expenses.** General and administrative expenses in 1994 exceeded those of 1993 by 46%. The inclusion of a full year of C-TEC's operations is responsible for the majority of the increase. Overall, C-TEC's general and administrative expenses remained fairly consistent in 1994. The remaining increase in general and administrative expenses was attributable to an increase in payroll expenses partially offset by lower professional fees.

**Gain on Subsidiary's Stock Transactions, net.** In 1994, the Company settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of 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 were provided on these gains.

**Investment Income, net.** The improvement in investment income was directly attributable to a decline of \$38 million in losses from the sale and writedown of derivative and other securities. Partially offsetting the decline in losses was a \$5 million decrease in interest and dividend income, and the recognition of \$4 million of developmental expenses associated with the international energy projects being jointly developed by the Company and CE.

Interest Expense, net. Interest expense increased significantly in 1994. The interest on the debt assumed in the C-TEC acquisition, \$33 million, was primarily responsible for the increase.

Other, net. Debt prepayment penalties incurred by C-TEC were primarily responsible for the decline.

Income Tax Benefit (Provision). The effective income tax rate for 1994 and 1993 differed from the statutory rate of 35% due primarily to adjustments of prior year tax provisions. Dividend exclusions and mineral depletion deductions also contributed to the lower effective rate in 1993.

### **Financial Condition - December 30, 1995**

The Company's working capital, exclusive of MFS, decreased \$19 million or 2% during 1995. The decrease was mainly due to cash used to fund investing activities. The decrease was partially offset by cash flows from operations, including the receipt of the Whitney settlement of \$135 million.

Investing activities include \$161 million of capital expenditures, \$260 million of investments and \$36 million of deferred development costs. The investments primarily include C-TEC's \$84 million outlay for 40% of Megacable and \$37 million outlay for Twin County, KDG's \$85 million investment in two Philippine power projects, \$29 million purchase of CE stock, \$8 million investment in geothermal power plants in Indonesia and \$6 million for a 19% interest in a healthcare software development company. These outlays were partially offset by \$29 million of proceeds from the sale of property, plant and equipment and other investments.

Financing sources include \$30 million of long-term debt borrowing for the construction financing of a privately owned toll road, \$45 million of short-term borrowings and \$25 million from the sale of the Company's common stock. Financing uses consisted of C-TEC's \$27 million outlay for the net payment of long-term debt, \$6 million of payments on stockholders' notes, \$6 million for stock repurchases and \$13 million of Class B&C Stock dividends.

In 1995, the Company received the final payment (\$29 million) for the sale of certain discontinued packaging operations.

In addition to the telecommunications activities described below, the Company anticipates investing between \$45 and \$85 million annually in its construction and mining businesses, including opportunities to acquire additional materials businesses. The Company also anticipates making significant investments in its infrastructure and energy businesses - including its joint venture agreement with CE 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 repurchasing the Company's stock. The Company's current financial condition and borrowing capacity should be sufficient for future operating and investing activities.

In October 1995, the PKS Board of Directors declared dividends of \$.60 and \$.50 per share for Class B&C and Class D Stock, respectively, payable in January 1996.

In November 1995, C-TEC announced that it had engaged an investment banker to assist with evaluating strategic alternatives for its various business units with a view toward enhancing shareholder value. C-TEC is now planning to distribute to its shareholders in a tax-free spin-off the Telephone Group, the Communications Services Group, and certain other assets. Following the spin-off, C-TEC plans to combine its remaining businesses, which will consist of its domestic Cable Group, with a third party pursuant to a tax-free, stock-for-stock transaction. C-TEC has received a number of inquiries regarding its domestic Cable Group and is holding discussions with interested parties.

In March, under the terms of an agreement, RCN Corporation ("RCN") will pay C-TEC approximately \$123 million for certain of C-TEC's assets, including the Long Distance Group, C-TEC International, which holds the 40% interest in Megacable, S.A. de C.V., and Residential Communications Network, a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. RCN will purchase Residential Communications Network for cash in a transaction expected to close in April 1996. RCN's purchase of the other businesses for cash or C-TEC stock, at RCN's option, is expected to close in the second half of 1996. The transactions are subject to certain conditions including the receipt of all necessary regulatory approvals. The agreement with RCN contains a repurchase option under which C-TEC can reacquire the businesses if a restructuring of C-TEC's main businesses does not occur. Additionally, C-TEC retains a warrant to reacquire a six percent stake in Residential Communications Network. The agreement with RCN was approved by a special committee of the board of directors of C-TEC, composed of directors unaffiliated with either RCN or the Company.

Also in March, RCN entered into an asset purchase agreement, along with other ancillary agreement, with Liberty Cable Company, Inc. ("Liberty") to purchase an 80 percent interest in certain private cable systems in New York City and selected areas of New Jersey. The transaction closed on March 6, 1996. The cable systems provide subscription television services using microwave frequencies. RCN deposited \$27 million in an escrow account which was released on the closing date. In addition, RCN issued a \$15 million promissory note that is expected to be paid in 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 a copy of such exhibits without charge 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 8, 1996. 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).
21	List of subsidiaries of the Company.
27	Financial data schedules.
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)	No Form 8-K was filed during the fourth quarter of 1995.

**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 29th day of March, 1996.

**PETER KIEWIT SONS', INC.**

*By: /s/ Richard R. Jaros*

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 29th day of March, 1996.

LIST OF SUBSIDIARIES  
OF  
PETER KIEWIT SONS', INC.  
DECEMBER 30, 1995

Peter Kiewit Sons' Co. (Nebraska) RCN Corporation (90%) (Delaware) C-TEC Corporation (50%) (Pennsylvania) Commonwealth Telephone Company

(Pennsylvania)

**C-TEC Cable Systems, Inc. (Delaware)**

The subsidiaries listed above include "significant" subsidiaries as defined in Rule 1-02(w) of Regulation S-X, and certain other subsidiaries.

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

Index to Financial Statements

and Financial Statement Schedule

**Report of Independent Accountants**

Consolidated Financial Statements as  
of December 30, 1995 and December 31, 1994 and for the three years ended December 30, 1995:

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 30, 1995:

**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 the 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 present fairly, in all material respects, the consolidated financial position of Peter Kiewit Sons', Inc. and Subsidiaries as of December 30, 1995 and December 31, 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 30, 1995 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.

**COOPERS & LYBRAND L.L.P.**

Omaha, Nebraska  
March 19, 1996

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

Consolidated Statements of Earnings

For the three years ended December 30, 1995

(dollars in millions, except per share data)	1995	1994	1993
Revenue	\$ 2,902	\$ 2,704	\$ 2,050
Cost of Revenue	(2,474)	(2,314)	(1,742)
	-----	-----	-----
	428	390	308
General and Administrative Expenses	(266)	(225)	(154)
	-----	-----	-----
Operating Earnings	162	165	154
Other Income (Expense):			
Gain on Subsidiary's Stock Transactions, net	3	54	211
Investment Income, net	79	43	17
Interest Expense, net	(25)	(38)	(14)
Other, net	157	16	24
	-----	-----	-----
	214	75	238
Equity Loss in MFS	(131)	(102)	(13)
	-----	-----	-----
Earnings Before Income Taxes and Minority Interest	245	138	379
Income Tax Benefit (Provision)	11	(29)	(118)
Minority Interest in Net (Income) Loss of Subsidiaries	(12)	1	-
	-----	-----	-----
Net Earnings	\$ 244	\$ 110	\$ 261
	=====	=====	=====
Net Earnings Attributable to Class B&C Stock	\$ 104	\$ 77	\$ 80
	=====	=====	=====
Net Earnings Attributable to Class D Stock	\$ 140	\$ 33	\$ 181
	=====	=====	=====
Net Earnings Per Common and Common Equivalent Share:			
Class B&C	\$ 7.78	\$4.92	\$4.63
	=====	=====	=====
Class D	\$ 6.45	\$1.63	\$9.08
	=====	=====	=====

See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Consolidated Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions, except per share data)	1995	1994
Assets		
Current Assets:		
Cash and cash equivalents	\$ 457	\$ 400
Marketable securities	604	910
Receivables, less allowance of \$12 and \$9	329	414
Note receivable from sale of discontinued operations	-	29
Costs and earnings in excess of billings on uncompleted contracts	78	126
Investment in construction joint ventures	73	69
Deferred income taxes	66	74
Other	59	81
	-----	-----
Total Current Assets	1,666	2,103
Property, Plant and Equipment, at cost:		

Land	33	30
Buildings	98	206
Equipment	1,246	1,739
	-----	-----
	1,377	1,975
Less accumulated depreciation and amortization	(710)	(731)
	-----	-----
Net Property, Plant and Equipment	667	1,244
Investments	538	313
Intangible Assets, net	515	749
Other Assets	77	83
	-----	-----
	\$ 3,463	\$ 4,492
	=====	=====

See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Consolidated Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions, except per share data)	1995	1994
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 240	\$ 344
Short-term borrowings	45	-
Current portion of long-term debt:		
Telecommunications	36	26
Other	6	7
Accrued costs and billings in excess of revenue on uncompleted contracts	121	143
Accrued insurance costs	79	75
Other	139	206
	-----	-----
Total Current Liabilities	666	801
Long-Term Debt, less current portion:		
Telecommunications	264	827
Other	106	81
Deferred Income Taxes	236	302
Retirement Benefits	54	67
Accrued Reclamation Costs	100	103
Other Liabilities	216	127
Minority Interest	214	448
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares:		
no shares outstanding in 1995 and 1994	-	-
Common stock, \$.0625 par value, \$1.5 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 263,468 outstanding in 1995 and 1,000,400 outstanding in 1994	-	-
Class C, authorized 125,000,000 shares: 10,616,901 outstanding in 1995 and 15,087,028 outstanding in 1994	1	1
Class D, authorized 50,000,000 shares: 23,024,974 outstanding in 1995 and 20,391,568 outstanding in 1994	1	1
Additional paid-in capital	210	182
Foreign currency adjustment	(6)	(7)
Net unrealized holding gain (loss)	17	(8)
Retained earnings	1,384	1,567
	-----	-----
Total Stockholders' Equity	1,607	1,736



-----	-----
\$ 3,463	\$ 4,492
=====	=====

See accompanying notes to consolidated financial statements

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

## **Consolidated Statements of Cash Flows**

For the three years ended December 30, 1995

(dollars in millions)	1995	1994	1993
Cash flows from continuing operations:			
Net Earnings	\$ 244	\$ 110	\$ 261
Adjustments to reconcile net earnings to net cash provided by continuing operations:			
Depreciation, depletion and amortization	152	217	99
(Gain) loss on sale of property, plant and equipment, and other investments	(40)	5	23
Gain on subsidiary's stock transactions, net	(3)	(54)	(211)
Equity (earnings) loss	116	(10)	(10)
Noncash interest expense	-	40	-
Minority interest in subsidiaries	12	(50)	(3)
Decline in market value of investments	-	-	21
Retirement benefits paid	(2)	(6)	(17)
Deferred income taxes	(147)	(40)	57
Change in working capital items:			
Receivables	3	(49)	9
Other current assets	19	(67)	(48)
Payables	-	42	47
Other liabilities	80	19	13
Other	-	8	45
Net cash provided by continuing operations	434	165	286
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	605	1,876	4,927
Purchases of marketable securities	(613)	(1,718)	(5,231)
Acquisitions, excluding cash acquired	(231)	(254)	(146)
Proceeds from sale of cellular properties	-	182	-
Proceeds from sale of property, plant and equipment, and other investments	29	20	38
Capital expenditures	(161)	(513)	(192)
Investments in affiliates	(29)	(34)	(14)
Acquisition of minority interest	-	(6)	(2)
Deferred development costs and other	(38)	(49)	(35)
Net cash used in investing activities	\$ (438)	\$ (496)	\$ (655)

See accompanying notes to consolidated financial statements.

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

## **Consolidated Statements of Cash Flows**

For the three years ended December 30, 1995

(continued)

(dollars in millions)	1995	1994	1993
Cash flows from financing activities:			
Long-term debt borrowings	\$ 52	\$ 693	\$ 21
Payments on long-term debt, including current portion	(52)	(309)	(8)
Net change in short-term borrowings	45	-	(80)
Issuances of common stock	25	21	24

Issuances of subsidiaries' stock	-	70	458
Repurchases of common stock	(6)	(31)	(54)
Dividends paid	(13)	(13)	(27)
	-----	-----	-----
Net cash provided by financing activities	51	431	334
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	29	5	110
Other cash provided by discontinued packaging operations	-	-	20
	-----	-----	-----
Net cash provided by discontinued packaging operations	29	5	130
Cash and cash equivalents of MFS at beginning of year	(22)	-	-
Effect of exchange rates on cash	3	(1)	(2)
	-----	-----	-----
Net increase in cash and cash equivalents	57	104	93
Cash and cash equivalents at beginning of year	400	296	203
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 457	\$ 400	\$ 296
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Taxes	\$ 201	\$ 115	\$ 83
Interest	35	41	7
Noncash investing and financing activities:			
Dividend of investment in MFS	\$399	\$ -	\$ -
Issuance of C-TEC redeemable preferred stock for acquisition	39	-	-
Disposition of gold operations in exchange of Kinross common stock	21	-	-
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 30, 1995

Class Class Net B & C D Additional Foreign Unrealized Common Common Paid-in Currency Holding Retained

	Stock	Stock	Capital	Adjustment	Gain (Loss)	Earnings	Total
(dollars in millions)							
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: (a) 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
Issuances of stock	-	-	21	-	-	-	21
Repurchases of stock	-	-	(3)	-	-	(28)	(31)
Foreign currency adjustment	-	-	-	(4)	-	-	(4)
Net unrealized holding (loss)	-	-	-	-	(17)	-	(17)
Net earnings	-	-	-	-	-	110	110
Dividends: (b) Class B&C (\$.90 per common share)	-	-	-	-	-	(14)	(14)
	-----	-----	-----	-----	-----	-----	-----
Balance at December							

31, 1994 \$ 1 \$ 1 \$ 182 \$ (7) \$ (8) \$ 1,567 \$ 1,736

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 30, 1995

(continued)

Class Class Net B & C D Additional Foreign Unrealized Common Common Paid-in Currency Holding Retained Stock Stock Capital  
Adjustment Gain (Loss) Earnings Total

Balance at December 31, 1994	\$ 1	\$ 1	\$ 182	\$ (7)	\$ (8)	\$ 1,567	\$1,736
Issuances of stock	-	-	29	-	-	-	29
Repurchases of stock	-	-	(1)	-	-	(5)	(6)
Foreign currency adjustment	-	-	-	1	-	-	1
Net unrealized holding gain	-	-	-	-	25	-	25
Net earnings	-	-	-	-	-	244	244
Dividends: (c) Class B&C							

(\$1.05 per common share)	-	-	-	-	-	(12)	(12)
Class D (\$ .50 per common share)	-	-	-	-	-	(11)	(11)
MFS Dividend	-	-	-	-	-	(399)	(399)
Balance at December							

30, 1995 \$ 1 \$ 1 \$ 210 \$ (6) \$ 17 \$1,384 \$ 1,607

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

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

(c)Includes \$.60 and \$.50 per share for dividends on Class B&C Stock and Class D Stock, respectively, declared in 1995 but paid in January 1996.

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 and telecommunications. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. 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. In addition, the Company accounts for its investments in international energy projects using 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. All significant intercompany accounts and transactions have been eliminated.

##### **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 construction industry is highly competitive and lacks firms with dominant market power. A substantial portion of the Company's business involves construction contracts obtained through competitive bidding. The volume and profitability of the Company's construction work depends to a significant extent upon the general state of the economies in which it operates and the volume of work available to contractors. The Company's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or other governmental action.

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. It is at least reasonably possible that engineering estimates of the work performed on individual contracts will be revised in the near term.

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 other current assets and liabilities.

## **PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Financial Statements**

#### **Coal Sales Contracts**

The Company's coal is sold primarily under long-term contracts with electric utilities, which burn coal in order to generate steam to produce electricity. A substantial portion of the Company's coal sales were made under long-term contracts during 1995, 1994 and 1993. The remainder of the Company's sales are made on the spot market where prices are substantially lower than those in the long-term contracts. As the long-term contracts expire, a higher proportion of the Company's sales will occur on the spot market.

The coal industry is highly competitive. The Company competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than the Company, but also with alternative methods of generating electricity and alternative energy sources. Many of the Company's competitors are served by two railroads and, due to the competition, often benefit from lower transportation costs than the Company which is served by a single railroad. Additionally, many competitors have lower stripping ratios than the Company, often resulting in lower comparative costs of production.

The Company is also required to comply with various federal, state and local laws concerning protection of the environment. The Company believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors are similarly affected by such laws.

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**

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 telephone services and basic and premium cable programming services are recorded in the month the service is provided.

The telecommunications industry is subject to local, state and federal regulation. Consequently, the ability of the telephone and cable groups to generate increased volume and profits is largely

**PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Financial Statements**

dependent upon regulatory approval to expand customer bases, increase prices and limit expenses.

Competition for the cable group's services traditionally has come from broadcast television, video rentals and direct broadcast satellite received on home dishes. Future competition is expected from telephone companies.

Concentration of credit risk with respect to accounts receivable are limited due to the dispersion of customer base among 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 an units-of-extraction basis determined in relation to estimated reserves.

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$233 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 primarily include amounts allocated upon purchase of existing operations, franchise and subscriber lists 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 Company reviews the carrying amount of intangible assets 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 asset to the net carrying value of the asset.

## **Pension Plans**

The Company maintains defined benefit plans primarily for packaging employees who retired prior to the disposition of the packaging operations. 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.

## **PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Financial Statements**

#### **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. It is at least reasonably possible that the estimated cost of restoration will be revised in the near-term.

#### **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.

#### **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 were as follows:

	1995	1994	1993
Class B & C	13,384,434	15,697,724	17,290,971
Class D	21,718,792	20,438,806	19,941,885

Income Taxes

Deferred income taxes are provided for the differences

between the financial reporting and tax basis of the Company's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# **PETER KIEWIT SONS', INC.**

## **Notes to Consolidated Financial Statements**

### **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 52 weeks in fiscal years 1995 and 1993 and 53 weeks in the fiscal year 1994.

C-TEC has a calendar fiscal year.

### **(2) MFS Spin-off**

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

The Spin-off was completed after PKS and Kiewit Diversified Group, Inc., a wholly owned first tier subsidiary of PKS ("KDG"), agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were subsequently distributed to the Class D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 4,000,000 shares of Class B Stock and Class C Stock (Class B&C") were exchanged for 1,666,384 shares of Class D Stock on terms similar to those under which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided for in the Company's Certificate of Incorporation. The conversion ratio used in the exchange was calculated using final 1994 stock prices adjusted for 1995 dividends.

After the recapitalization of MFS and the exchange offer discussed above, shares were distributed on the basis of approximately 1.741 shares of MFS Common Stock and approximately .651 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

The net investment in MFS distributed on September 30, 1995 was approximately \$399 million.

The results of operations of MFS have been classified as a single line item on the statements of earnings for the three years ended December 30, 1995. MFS is consolidated in the 1994 balance sheet and the 1994 and 1993 statements of cash flows.

# **PETER KIEWIT SONS', INC.**

## **Notes to Consolidated Financial Statements**

Operating results of MFS through September 30, 1995 and for fiscal years 1994 and 1993 are summarized as follows:

(dollars in millions)	1995	1994	1993
Revenue	\$ 412	\$ 287	\$ 141
Loss from operations	(176)	(136)	(31)
Net loss	(196)	(151)	(16)
PKS' share of loss in MFS	(131)	(102)	(13)

Included in the income tax benefit on the consolidated statement of earnings for the year ended December 30, 1995, is \$93 million of tax benefits from the reversal of certain deferred tax liabilities, recognized on gains from previous MFS stock transactions, that will not be taxed due to the Spin-off.

### **(3) Acquisitions**

During 1995, 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 of net assets acquired have been recorded as goodwill, in intangible assets.

C-TEC completed the first step of an acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. In consideration for 40% of the capital stock of Twin County, C-TEC paid \$26 million in cash and issued a \$4 million note of its subsidiary, C-TEC Cable Systems, Inc. In addition, C-TEC paid \$11 million in consideration of a noncompete agreement. The remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for \$52 million stated value redeemable preferred stock of C-TEC. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The fair value of the preferred stock, as determined by an independent appraiser, is \$39 million and is recorded in other liabilities. Goodwill of \$18 million is being amortized over 10 years.

Pursuant to a stock rights offering in August 1995, C-TEC acquired majority voting control of Mercom, Inc. ("Mercom") through the exercise of stock rights and over subscription privileges. Immediately prior to the rights offering, C-TEC owned 43% of the outstanding common stock of Mercom and accounted for it under the equity method. For the aggregate consideration of approximately \$7 million, C-TEC increased its ownership interest to 62% and accordingly consolidated Mercom in its financial statements. C-TEC's total investment exceeded the underlying equity of Mercom by \$11 million which is amortized over 15 years.

## **PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Financial Statements**

The following unaudited pro forma information shows the results of the Company as though the C-TEC acquisitions occurred at the beginning of 1995 and 1994. 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)	1995	1994
Revenue	\$ 2,920	\$ 2,741
Net Earnings	239	102
Earnings Per Share of Class D Stock	6.23	1.26

#### **(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.

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 stock issuances by MFS for acquisitions and employee stock options, reduced the Company's ownership in MFS to 71%, 67% and 66% at the end of 1993, 1994 and at September 30, 1995. As a result, the Company recognized gains of \$211 million, \$54 million and \$3 million in 1993, 1994 and 1995 representing the increase in its proportionate share of MFS equity. Deferred income taxes had been established on these gains prior to the Spin-off.

#### **(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.

## **PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Financial Statements**

#### **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 is 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**

The following summarizes the cost, unrealized holding gains and losses, and estimated fair values of marketable securities and non-current investments at December 30, 1995 and December 31, 1994.

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1995				
Kiewit Mutual Fund:				
Short-term government	\$ 121	\$ 2	\$ -	\$ 123
Intermediate term bond	90	5	-	95
Tax exempt	138	4	-	142
Equity	10	2	-	12
Equity securities	8	3	-	11
U.S. debt securities	58	-	-	58
Federal agency securities	8	-	-	8
Municipal debt securities	14	-	-	14
Corporate debt securities	134	-	-	134
Collateralized mortgage obligations	-	2	-	2
Certificates of deposit	5	-	-	5
	-----	-----	-----	-----
	\$ 586	\$ 18	\$ -	\$ 604
	=====	=====	=====	=====
Non-current Investments:				
Equity securities	\$ 68	\$ 10	\$ -	\$ 78
	=====	=====	=====	=====
1994				
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
	-----	-----	-----	-----
	\$ 925	\$ 1	\$ 16	\$ 910
	=====	=====	=====	=====
Non-current Investments:				
Equity securities	\$ 59	\$ 5	\$ 2	\$ 62
	=====	=====	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were \$1 million and \$3 million in 1995, \$2 million and \$18 million in 1994 and \$31 million and \$64 million in 1993.

At December 30, 1995 the contractual maturities of the debt securities are as follows:

(dollars in millions)	Amortized Cost	Fair Value
U.S. debt securities:		
Less than 1 year	\$ 42	\$ 42
1-5 years	16	16
	-----	-----
	\$ 58	\$ 58
	=====	=====

Federal agency securities:

Less than 1 year	\$ 8	\$ 8
	=====	=====
Municipal debt securities:		
1-5 years	\$ 11	\$ 11
5-10 years	-	-
Over 10 years	3	3
	-----	-----
	\$ 14	\$ 14
	=====	=====
Corporate debt securities:		
Less than 1 year	\$ 33	\$ 33
1-5 years	81	81
5-10 years	20	20
	-----	-----
	\$ 134	\$ 134
	=====	=====
Certificates of deposit:		
Less than 1 year	\$ 4	\$ 4
1-5 years	1	1
	-----	-----
	\$ 5	\$ 5
	=====	=====

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

### Short-term Borrowings.

Short-term borrowings approximate fair value due to the short period of time to maturity.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

#### 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. With the exception of C-TEC, the fair value of debt approximates the carrying amount. C-TEC's Senior Secured Notes and the Credit Agreement with National Bank for Cooperatives have an aggregate fair value of \$253 million.

#### (6) Retainage on Construction Contracts

Marketable securities at December 30, 1995 and December 31, 1994 include approximately \$62 million and \$61 million of investments which are being held by the owners of various construction projects in lieu of retainage.

Receivables at December 30, 1995 and December 31, 1994 include approximately \$50 million and \$48 million of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

#### (7) 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.

Summary joint venture financial information follows:

Financial Position (dollars in millions)	1995	1994
Total Joint Ventures		
Current assets	\$ 655	\$ 563
Other assets (principally construction equipment)	52	50
	-----	-----
	707	613
Current liabilities	(584)	(503)
	-----	-----

Net assets	\$ 123	\$ 110
	=====	=====
Company's Share		
Equity in net assets	\$ 67	\$ 67
Receivable from joint ventures	6	2
	-----	-----
Investment in construction joint ventures	\$ 73	\$ 69
	=====	=====

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

Operations (dollars in millions)	1995	1994	1993
Total Joint Ventures			
Revenue	\$ 1,211	\$ 1,034	\$ 906
Costs	1,108	937	841
	-----	-----	-----
Operating income	\$ 103	\$ 97	\$ 65
	=====	=====	=====
Company's Share			
Revenue	\$ 691	\$ 523	\$ 430
Costs	622	473	372
	-----	-----	-----
Operating income	\$ 69	\$ 50	\$ 58
	=====	=====	=====

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 1995 estimates, management believes that the resolution of the uncertainties in completing the tunnel should not materially affect the Company's financial position, future results of operations or future cash flows.

#### (8) Investments

In February 1995, CalEnergy Company, Inc. ("CE"), formerly named California Energy Company Inc., an equity method investee, 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 CE common stock at \$17 per share. As part of this offering, the Company purchased 1.5 million shares. In addition, during the second quarter of 1995, the Company purchased an additional 200,000 common shares of CE. At December 30, 1995, the Company owns 21% of CE's outstanding common stock and has a cumulative investment in CE common stock of \$153 million, \$37 million in excess of the Company's proportionate share of CE's equity. The excess investment is being amortized over 20 years. Equity earnings, net of goodwill amortization, were \$10 million, \$5 million and \$7 million in 1995, 1994 and 1993. CE common stock is traded on the New York Stock Exchange. On December 30, 1995, the market value of the Company's investment in CE common stock was \$211 million.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

In 1995, 1994 and 1993, the Company also recorded dividends in kind of \$1 million, \$5 million and \$5 million declared by CE consisting of voting convertible preferred stock. The stock dividends brought the Company's total investment in convertible preferred stock to \$65 million. In March 1995, CE exchanged the preferred stock for 9.5% Convertible Subordinated Debentures (the "Debentures") that pay interest semi-annually. The Debentures mature in December 2003 and are convertible into CE common stock at a conversion price of \$18.375 per share any time prior to maturity. CE may prepay the Debentures if the share price of CE stock is at least 150% of the conversion price for any 20 trading days out of any 30 consecutive trading days.

On February 20, 1996 the Company exercised 1.5 million CE options at a price of \$9 per share. The transaction increased the Company's ownership interest in CE to 24%. In addition, the Company has 4.3 million options to purchase additional CE stock at prices of \$11.625 - \$12 per share

The following is summarized financial information of CalEnergy Company Inc.:

Financial Position (dollars in millions)	1995	1994
--	------	------

Current assets	\$ 418	\$ 518
Other assets	2,236	613
	-----	-----
Total assets	2,654	1,131
Current liabilities	564	309
Other liabilities	1,546	578
Redeemable preferred stock	-	64
	-----	-----
Total liabilities	2,110	951
	-----	-----
Net assets	\$ 544	\$ 180
	=====	=====

Operations (dollars in millions)	1995	1994	1993
Revenue	\$ 399	\$ 186	\$ 132
	=====	=====	=====
Net income available to common stockholders	\$ 62	\$ 32	\$ 43
	=====	=====	=====

In 1995, a \$3 million purchase increased the Company's interest in an electrical contracting business to 49%. The cumulative investment in common stock, accounted for on the equity method, totals \$26 million, \$3 million in excess of the Company's share of equity. The excess investment is being amortized over 15 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.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

In January 1995, C-TEC purchased, for \$84 million in cash, a 40% equity position in Megacable, S.A. De C.V. ("Megacable"), Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. C-TEC accounts for its investment using the equity method. The excess cost over the underlying net assets of Megacable, approximately \$94 million, is being amortized on a straight line basis over 15 years. C-TEC's share of Megacable's earnings, net of goodwill amortization was a \$3 million loss in 1995.

Pursuant to a joint venture agreement with CE, the Company is an equity investor in the Mahanagdong geothermal power project and the Casecan power/irrigation project in the Philippines. Both projects are under construction. To date the Company has invested \$89 million in the Philippine projects. The Company also expects to be an equity investor with CE in additional geothermal projects in Indonesia. To date investments in these projects total \$9 million.

Investments also include equity securities classified as non-current and carried at the fair value of \$78 million.

#### (9) Intangible Assets

Intangible assets consist of the following at December 30, 1995 and December 31, 1994:

(dollars in million)	1995	1994
Goodwill	\$ 216	\$ 483
Franchise and subscriber lists	224	145
Licenses and right-of-way	-	15
Noncompete agreements	86	15
Deferred development costs	47	65
Toll road franchise costs	109	75
Other	4	19
	----	-----
	686	817
Less accumulated amortization	(171)	(68)
	-----	-----
	\$ 515	\$ 749
	=====	=====

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

#### (10) Short-Term Borrowings

The Company has established lines of credit with Union Bank of Switzerland for \$35 million, Bank of America for \$50 million and Banque de Nationale de Paris for \$30 million. Under these agreements the Company had \$45 million outstanding at December 30, 1995 at a weighted average interest rate of 5.78%.

(11) Long-Term Debt At December 30, 1995 and December 31, 1994, long-term debt was as follows:

(dollars in millions)	1995	1994
Telecommunications:		
C-TEC Long-term Debt (with recourse only to C-TEC):		
Credit Agreement - National Bank for Cooperatives		
(7.51% due 2009)	\$ 119	\$ 128
Senior Secured Notes -		
( 9.65% due 1999)		
(includes unamortized premium of \$5 and \$6 based on		
imputed rate of 6.12%)	150	156
Term Credit Agreement - Morgan Guaranty Trust Company		
(7% due 2002)	19	-
Promissory Note - Twin County Acquisition		
(5% due 2003)	4	-
Revolving Credit Agreements and Other	8	4
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
	-----	-----
	300	853
Other PKS Long-term Debt:		
9.5% to 11.1% Notes to former stockholders due 1996-2001	6	12
6.25% to 8.75% Convertible debentures due 2002-2005	8	8
Construction loans and other	98	68
	----	----
	112	88
	----	----
	412	941
Less current portion	(42)	(33)
	-----	-----
	\$ 370	\$ 908
	=====	=====

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

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. Substantially all the assets of C-TEC's telephone group are subject to liens under this Credit Agreement. In addition, the telephone group is restricted from paying dividends in excess of the prior year net income.

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.

Mercom, a consolidated subsidiary of C-TEC, has pledged the common stock of its operating subsidiaries as collateral for the Term Credit Agreement ("Agreement") with Morgan Guaranty Trust Company ("Morgan"). In addition, a first lien on certain material assets of Mercom and its subsidiaries has been granted to Morgan. The Agreement contains a restrictive covenant which requires Mercom to maintain a specified debt to cash flow ratio.

In connection with the acquisition of Twin County Trans Video, Inc., C-TEC Cable Systems, Inc., a wholly owned subsidiary of C-TEC, issued a \$4 million 5% promissory note. The note is unsecured.

C-TEC's cable group has Revolving Credit agreements which are collateralized by a pledge of the stock of the cable group subsidiaries. At December 30, 1995 the borrowings available under the agreement total \$12 million. The commitments are reduced on a quarterly basis through maturity in September 1996. The cable group had borrowings of \$7 million (6.7% weighted average interest rate) as of December 1995.

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 59,935, 12,594 and 14,322 shares of Class C common stock and 69,022, 12,594 and 14,322 shares of Class D common stock in 1995, 1994 and 1993. As part of the exchange offer completed prior to the MFS Spin-off, all holders of 1990 and 1991 debentures and 1993 D debentures converted their debentures into Class C and Class D common stock. At December 30, 1995, 360,453 shares of Class C 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 7% to 10% at December 30, 1995. The Company capitalized \$7 million of interest in 1995.

Scheduled maturities of long-term debt through 2000 are as follows (in millions): 1996 - \$42; 1997 - \$57; 1998 - \$63; 1999 - \$64 and \$17 in 2000.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

#### (12) Income Taxes

An analysis of the income tax benefit (provision) before minority interest for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Current:			
U.S. federal	\$ (127)	\$ (54)	\$ (52)
Foreign	-	(10)	(2)
State	(9)	(5)	(7)
	-----	-----	-----
	(136)	(69)	(61)
Deferred:			
U.S. federal	146	27	(59)
Foreign	(4)	5	1
State	5	8	1
	-----	-----	-----
	147	40	(57)
	-----	-----	-----
	\$ 11	\$ (29)	\$ (118)
	=====	=====	=====

The United States and foreign components of earnings, for tax reporting purposes, before equity loss in MFS (recorded net of tax), minority interest and income taxes follow:

(dollars in millions)	1995	1994	1993
United States	\$ 370	\$ 224	\$ 385
Foreign	6	16	7
	-----	-----	-----
	\$ 376	\$ 240	\$ 392
	=====	=====	=====

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the earnings before equity loss in MFS (recorded net of tax), minority interest and income taxes for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Computed tax at statutory rate	\$ (132)	\$ (84)	\$ (137)
State income taxes	(8)	(3)	(4)
Depletion	3	4	4
Dividend exclusion	-	3	4
Tax exempt interest	3	4	-
Prior year tax adjustments	56	54	13
MFS deferred tax	93	-	-
Goodwill amortization	(4)	(2)	1
Other	-	(5)	1
	-----	-----	-----
	\$ 11	\$ (29)	\$ (118)
	=====	=====	=====

## Notes to Consolidated Financial Statements

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.

The components of the net deferred tax liabilities for the years ended December 30, 1995 and December 31, 1994 were as follows:

(dollars in millions)	1995	1994
Deferred tax liabilities:		
Investments in securities	\$ 15	\$ (5)
Investments in joint ventures	8	69
Investments in subsidiaries	10	99
Asset bases - accumulated depreciation	194	200
Deferred coal sales	39	11
Other	26	32
	-----	-----
Total deferred tax liabilities	292	406
Deferred tax assets:		
Construction accounts	3	12
Insurance claims	37	39
Compensation - retirement benefits	28	21
Provision for estimated expenses	24	10
Net operating losses of subsidiaries	5	84
Alternative minimum tax credits of subsidiary	5	13
Other	26	51
Valuation allowance	(6)	(52)
	-----	-----
Total deferred tax assets	122	178
	-----	-----
Net deferred tax liabilities	\$ 170	\$ 228
	=====	=====

### (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 \$7 million, \$1 million and \$7 million in 1995, 1994 and 1993.

C-TEC maintains a separate defined benefit plan for substantially all of its employees. The prepaid pension cost and expense related to this plan is not significant at December 30, 1995 and December 31, 1994, and for the three years ended December 30, 1995.

## PETER KIEWIT SONS', INC.

## Notes to Consolidated Financial Statements

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

Substantially all employees of the Company, with the exception of C-TEC employees, are covered under the Company's profit sharing plans. The expense related to these plans was \$3 million, \$2 million and \$2 million in 1995, 1994 and 1993.

### (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 who retired prior to 1993. 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.

In March 1995, the Company settled its liability with respect to certain postretirement life insurance benefits. The Company purchased insurance coverage from a third party insurance company for approximately \$14 million to be paid over seven years. The settlement did not have a material impact on the Company's financial position, results of operations or cash flows.

The net periodic costs for health care benefits were less than \$1 million in 1995, \$1 million in 1994 and \$4 million in 1993. In all years, the costs related primarily to interest on accumulated benefits.

The accrued postretirement benefit liability as of December 30, 1995 was as follows:

(dollars in millions)	Health Insurance
Retirees	\$ 31
Fully eligible active plan participants	-
Other active plan participants	-
	-----
Total accumulated postretirement benefit obligation	31
Unrecognized prior service cost	19
Unrecognized net loss	(7)
	-----
Accrued postretirement benefit liability	\$ 43
	=====

The unrecognized prior service cost resulted from certain

modifications to the postretirement benefit plan for packaging employees which reduced the accumulated postretirement benefit obligation. The Company may make additional modifications in the future.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

A 7.7% increase in the cost of covered health care benefits was assumed for fiscal 1995. 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 1995. The weighted average discount rate used in determining the APBO was 6.75%.

#### (15) Stockholders' Equity

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.

For the three years ended December 30, 1995, 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 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
Shares issued in 1995	-	1,021,875	2,675,553
Shares repurchased in 1995	736,932	5,492,002	42,147

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

#### (16) Industry and Geographic Data

The Company operates primarily in three reportable segments: construction, mining and telecommunications. MFS' results have been classified as a single line item on the statements of earnings and consolidated on the balance sheet in 1994 and 1993.

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



Geographic Data (dollars in millions)	1995	1994	1993
Revenue:			
United States	\$ 2,535	\$ 2,425	\$ 1,823
Canada	281	233	175
Other	86	46	52
	-----	-----	-----
	\$ 2,902	\$ 2,704	\$ 2,050
	=====	=====	=====
Operating earnings:			
United States	\$ 145	\$ 151	\$ 129
Canada	7	14	3
Other	10	-	22
	-----	-----	-----
	\$ 162	\$ 165	\$ 154
	=====	=====	=====
Identifiable assets:			
United States	\$ 2,521	\$ 3,832	\$ 2,901
Canada	90	102	82
Other	116	27	29
Corporate (1)	736	531	622
	-----	-----	-----
	\$ 3,463	\$ 4,492	\$ 3,634
	=====	=====	=====

(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

Industry Data (dollars in millions)	1995	1994	1993
Revenue:			
Construction	\$ 2,297	\$ 2,143	\$ 1,757
Mining	247	246	230
Telecommunications	325	291	48
Other	33	24	15
	-----	-----	-----
	\$ 2,902	\$ 2,704	\$ 2,050
	=====	=====	=====
Operating earnings:			
Construction	\$ 81	\$ 55	\$ 85
Mining	107	106	98
Telecommunications	37	27	6
Other	(63)	(23)	(35)
	-----	-----	-----
	\$ 162	\$ 165	\$ 154
	=====	=====	=====
Identifiable assets:			
Construction	\$ 910	\$ 896	\$ 816
Mining	415	396	440
Telecommunications	1,141	2,551	1,682
Other	261	118	74
Corporate (1)	736	531	622
	-----	-----	-----
	\$ 3,463	\$ 4,492	\$ 3,634
	=====	=====	=====
Capital expenditures:			
Construction	\$ 79	\$ 61	\$ 48
Mining	4	3	5
Telecommunications	72	426	127
Other	6	12	5
Corporate	-	11	7
	-----	-----	-----
	\$ 161	\$ 513	\$ 192
	=====	=====	=====
Depreciation, depletion and amortization:			
Construction	\$ 56	\$ 49	\$ 43
Mining	7	11	13
Telecommunications	81	149	35
Other	5	6	6

	3	2	2
	-----	-----	-----
\$	152	\$ 217	\$ 99
	=====	=====	=====

(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

#### (17) 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 C-TEC, a minority interest in CE 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.

(dollars in millions except per share)	1995	1994	1993
Construction & Mining Group:			
Results of Operations:			
Revenue	\$ 2,330	\$ 2,175	\$ 1,783
	=====	=====	=====
Net Earnings	\$ 104	\$ 77	\$ 80
	=====	=====	=====
Earnings Per Share	\$ 7.78	\$ 4.92	\$ 4.63
	=====	=====	=====
Working capital	\$ 248	\$ 333	\$ 372
Total assets	987	963	889
Long-term debt, less current portion	9	9	10
Stockholders' equity	467	505	480

Included within the results of operations is mine management income from the Diversified Group of \$19 million, after-tax, in 1995, 1994 and 1993.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Financial Statements

(dollars in millions except share data)	1995	1994	1993
Diversified Group:			
Results of Operations:			
Revenue	\$ 580	\$ 537	\$ 267
	=====	=====	=====
Net Earnings	\$ 140	\$ 33	\$ 181
	=====	=====	=====
Earnings per Share	\$ 6.45	\$1.63	\$9.08
	=====	=====	=====
Financial Position:			
Working capital	\$ 752	\$ 969	\$ 993
Total assets	2,490	3,537	2,759
Long-term debt, less current portion	361	899	452
Stockholders' equity	1,140	1,231	1,191

Included within results of operations is mine management fees paid to the Construction & Mining Group of \$19 million, after-tax, in 1995, 1994 and 1993.

#### (18) Other Matters

In June 1995, the Company exchanged its interest in a wholly-owned subsidiary involved in gold mining activities for 4,000,000 common shares of Kinross Gold Corporation ("Kinross"), a publicly traded corporation. The Company recognized a \$21 million pre-tax gain on the exchange based on the difference between the book value of the subsidiary and the fair market value of the Kinross stock on the date of the transaction. This gain is included in other income in the consolidated statements of earnings.

In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposits and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a KDG subsidiary, received approximately \$135 million in June 1995 and recorded it in other income on the consolidated statement of earnings.

In 1994, several former stockholders of a 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 1996. 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.

### **PETER KIEWIT SONS', INC.**

#### **Notes to Consolidated Financial Statements**

The Company is involved in various other 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, future results of operations or future cash flows.

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, future results of operations or future cash flows.

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 Company in accordance with specified terms and conditions. As of December 30, 1995, the Company had outstanding letters of credit of approximately \$140 million.

A subsidiary of the Company, Continental Holdings Inc., remains contingently liable as a guarantor of \$53 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 29 years aggregate \$88 million.

In November 1995, C-TEC announced that it had engaged an investment banker to assist with evaluating strategic alternatives for its various business units with a view toward enhancing shareholder value. C-TEC is now planning to distribute to its shareholders in a tax-free spin-off the Telephone Group, the Communications Services Group, and certain other assets. Following the spin-off, C-TEC plans to combine its remaining businesses, which will consist of its domestic Cable Group, with a third party pursuant to a tax-free, stock-for-stock transaction. C-TEC has received a number of inquiries regarding its domestic Cable Group and is holding discussions with interest parties.

#### (19) Subsequent Events

In March 1996, RCN Corporation ("RCN") a subsidiary of KDG, entered into an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an 80 percent interest in certain private cable systems in New York City and selected areas of New Jersey. The transaction closed on March 6, 1996. The cable systems provide subscription television services using microwave frequencies. RCN deposited \$27 million in an escrow account which was released on the closing date. In addition, RCN issued a \$15 million promissory note that is expected to be paid during 1996.

In March, under the terms of an agreement, RCN will pay C-TEC approximately \$123 million for certain of C-TEC's assets, including Long Distance Group, C-TEC International, which holds the 40% interest in Megacable, S.A. de C.V., and Residential Communications Network, a

start-up joint effort with RCN which plans to provide telecommunications services to the residential market. RCN will purchase Residential Communications Network for cash in a transaction expected to close in April 1996. RCN's purchase of the other business for cash or C-TEC stock, at RCN's option, is expected to close in the second half of 1996. The transactions are subject to certain conditions including the receipt of all necessary regulatory approvals. The agreement with RCN contains a repurchase option under which C-TEC can reacquire the businesses if a restructuring of C-TEC's main businesses does not occur. Additionally, C-TEC retains a warrant to reacquire a six percent stake in Residential Communications Network. The agreement with RCN was approved by a special committee of the board of directors of C-TEC, composed of directors unaffiliated with either RCN or the Company.

## 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
Year ended December 30, 1995					
Allowance for doubtful trade accounts	\$ 9	\$ 5	\$ (2)	\$ -	\$ 12
Reserves:					
Insurance claims	75	18	(14)	-	79

Retirement benefits 67 3 (2) (14) (a) 54

#### Year ended December 31, 1994

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

Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (6)	\$ 1	\$ 7
Reserves:					
Insurance claims	66	14	(13)	-	67
Retirement benefits	74	12	(17)	2	71

(a) The Company settled its liability with respect to certain postretirement life insurance benefits by purchasing insurance coverage from a third party insurance company.

## ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-K for the period ending December 30, 1995 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 30 1995
PERIOD END	DEC 30 1995
CASH	457
SECURITIES	604
RECEIVABLES	341
ALLOWANCES	12
INVENTORY	18
CURRENT ASSETS	1,666
PP&E	1,377
DEPRECIATION	710
TOTAL ASSETS	3,463
CURRENT LIABILITIES	666
BONDS	370
COMMON	2
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	1,605
TOTAL LIABILITY AND EQUITY	3,463
SALES	2,547
TOTAL REVENUES	2,902
CGS	2,230
TOTAL COSTS	2,474
OTHER EXPENSES	266
LOSS PROVISION	0
INTEREST EXPENSE	25
INCOME PRETAX	245
INCOME TAX	(11)
INCOME CONTINUING	244
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	244
EPS PRIMARY	\$7.78 <sup>1</sup>
EPS DILUTED	\$7.78 <sup>1</sup>

<sup>1</sup> \$7.78 represents Class C Stock earnings per share, Class D Stock earnings per share \$6.45.

## EXHIBIT 99.A

### KIEWIT CONSTRUCTION & MINING GROUP

#### Index to Financial Statements

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

#### Report of Independent Accountants

Financial Statements as of December 30, 1995 and December 31, 1994 and for the three years ended December 30, 1995:

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 30, 1995:

#### 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 30, 1995 and December 31, 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 1995 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.

#### COOPERS & LYBRAND L.L.P.

Omaha, Nebraska  
March 19, 1996

#### KIEWIT CONSTRUCTION & MINING GROUP

#### Statements of Earnings

For the three years ended December 30, 1995

(dollars in millions, except per share data)      1995      1994      1993

Revenue	\$ 2,330	\$ 2,175	\$ 1,783
Cost of Revenue	(2,127)	(1,995)	(1,588)
	-----	-----	-----
	203	180	195
General and Administrative Expenses	(116)	(121)	(113)
	-----	-----	-----
Operating Earnings	87	59	82
Other Income (Expense):			
Investment Income (Loss)	17	13	(1)
Interest Expense	(2)	(2)	(3)
Other, net	62	46	40
	-----	-----	-----
	77	57	36
	-----	-----	-----
Earnings Before Income Taxes	164	116	118
Provision for Income Taxes	(60)	(39)	(38)
	-----	-----	-----
Net Earnings	\$ 104	\$ 77	\$ 80
	=====	=====	=====
Net Earnings Per Common and Common Equivalent Share	\$ 7.78	\$ 4.92	\$ 4.63
	=====	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions)	1995	1994
Assets		
Current Assets:		
Cash and cash equivalents	\$ 94	\$ 70
Marketable securities	120	156
Receivables, less allowance of \$10 and \$7	258	260
Costs and earnings in excess of billings on uncompleted construction contracts	78	101
Investment in construction joint ventures	73	69
Deferred income taxes	61	59
Other	23	23
	-----	-----
Total Current Assets	707	738
Property, Plant and Equipment, at cost:		
Land	16	15
Buildings	38	36
Equipment	528	484
	-----	-----
	582	535
Less accumulated depreciation and amortization	(421)	(395)
	-----	-----
Net Property, Plant and Equipment	161	140
Other Assets	119	85
	-----	-----
	\$ 987	\$ 963
	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions)	1995	1994
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$42 and \$41	\$ 179	\$ 179
Short-Term borrowings	45	-
Current portion of long-term debt	2	3
Accrued construction costs and billings in excess of revenue on uncompleted contracts	111	106
Accrued insurance costs	79	73
Other	43	44
	-----	-----
Total Current Liabilities	459	405
Long-Term Debt, less current portion	9	9
Other Liabilities	52	44
Stockholders' Equity (Redeemable Common Stock, \$359 million aggregate redemption value)		
Common equity	471	513
Foreign currency adjustment	(5)	(7)
Unrealized holding gain (loss)	1	(1)
	-----	-----
Total Stockholders' Equity	467	505
	-----	-----
	\$ 987	\$ 963
	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Cash Flows

For the three years ended December 30, 1995

(dollars in millions)	1995	1994	1993
Cash flows from operations:			
Net earnings	\$ 104	\$ 77	\$ 80
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	56	52	48
(Gain) loss on sale of property, plant and equipment and other investments	(33)	(11)	15
Change in other noncurrent liabilities	6	5	7
Deferred income taxes	-	(3)	4
Change in working capital items:			
Receivables	1	(21)	5
Costs and earnings in excess of billings on uncompleted construction contracts	23	(26)	(22)
Investment in construction joint ventures	(4)	12	(33)
Other current assets	(3)	(5)	7
Accounts payable	3	19	(9)
Accrued construction costs and billings in excess of revenue on uncompleted contracts	5	19	(8)
Other liabilities	4	(3)	3
Other	(9)	(19)	(10)
	-----	-----	-----
Net cash provided by operations	153	96	87
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	197	266	773
Purchases of marketable securities	(158)	(245)	(741)
Proceeds from sale of property, plant and equipment	15	26	14
Capital expenditures	(79)	(76)	(54)
APAC-Arizona, Inc. acquisition	-	(47)	-



Investment in affiliates	(2)	(1)	(9)
Other	-	-	(3)
	-----	-----	-----
Net cash used in investing activities	\$ (27)	\$ (77)	\$ (20)

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Cash Flows

For the three years ended December 30, 1995

(continued)

(dollars in millions)	1995	1994	1993
Cash flows from financing activities:			
Long-term debt borrowings	\$ 3	\$ 2	\$ 2
Short-term debt borrowings	45	-	-
Payments on long-term debt, including current portion	(4)	(4)	(2)
Issuances of common stock	24	20	16
Repurchases of common stock	(3)	(11)	(14)
Dividends paid	(13)	(13)	(10)
Exchange of Class B&C Stock for Class D Stock, net	(155)	(42)	(26)
Other	-	1	-
	-----	-----	-----
Net cash used in financing activities	(103)	(47)	(34)
Effect of exchange rates on cash	1	(1)	(2)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	24	(29)	31
Cash and cash equivalents at beginning of year	70	99	68
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 94	\$ 70	\$ 99
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Taxes	\$ 69	\$ 49	\$ 54
Interest	2	2	3
Noncash investing activity:			
Disposition of gold operations in exchange for Kinross common stock, net	\$ 21	\$ -	\$ -

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Changes in Stockholders' Equity For the three years ended December 30, 1995

(dollars in millions, except per share data)	1995	1994	1993
Common equity:			
Balance at beginning of year	\$ 513	\$ 483	\$ 438
Issuances of stock	24	20	16
Repurchases of stock	(3)	(11)	(14)
Exchange of Class B&C Stock for Class D Stock, net	(155)	(42)	(26)
Net earnings	104	77	80
Dividends (per share: \$ 1.05 in 1995, \$.90 in			

1994, and \$.70 in 1993) (a)	(12)	(14)	(11)
	-----	-----	-----
Balance at end of year	\$ 471	\$ 513	\$ 483
Other equity adjustments:			
Balance at beginning of year	\$ (8)	\$ (3)	\$ (1)
Foreign currency adjustment	2	(4)	(2)
Unrealized holding gain (loss)	2	(1)	-
	-----	-----	-----
Balance at end of year	\$ (4)	\$ (8)	\$ (3)
	-----	-----	-----
Total stockholders' equity	\$ 467	\$ 505	\$ 480
	=====	=====	=====

(a) Dividends include \$.60, \$.45, and \$.40 for dividends declared in 1995, 1994 and 1993 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 its wholly-owned subsidiary, Kiewit Construction Group Inc., 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.

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.

#### (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.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

#### 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 construction industry is highly competitive and lacks firms with dominant market power. A substantial portion of the Group's business involves construction contracts obtained through competitive bidding. The volume and profitability of the Group's construction work depends to a significant extent upon the general state of the economies in which it operates and the volume of work available to contractors. The Group's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or other governmental action.

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. It is at least reasonably possible that engineering estimates of the work performed on individual contracts will be revised in the near term.

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 other current assets and liabilities.

### **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.

## **KIEWIT CONSTRUCTION & MINING GROUP**

### **Notes to Financial Statements**

#### **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 13,384,434 in 1995, 15,697,724 in 1994 and 17,290,971 in 1993. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

#### **Income Taxes**

Deferred income taxes are provided for the differences between the financial reporting basis and tax basis of the Group's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **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 52 weeks in fiscal years 1995 and 1993 and 53 weeks in the fiscal 1994.

## **KIEWIT CONSTRUCTION & MINING GROUP**

### **Notes to Financial Statements**

## 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 1995, 1994 and 1993 were reflected in their entirety in the Group's financial statements.

PKS, in addition to specifically attributable items, 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 items attributable to the Group and the Group's 50% portion of PKS is as follows:

(dollars in millions)	1995	1994	
Cash and cash equivalents	\$ 4	\$ 7	
Marketable securities	10	15	
Accounts receivable	1	61	
Property, plant and equipment, net	5	5	
Other assets	3	8	
	-----	-----	
Total Assets	\$ 23	\$ 96	
	=====	=====	
Accounts payable	\$ 10	\$ 39	
Long term debt including current portion	11	12	
Other liabilities	-	2	
	-----	-----	
Total Liabilities	\$ 21	\$ 53	
	=====	=====	
	1995	1994	1993
Net investment income (expense)	\$ -	\$ 6	\$ 4
Other income (expense)	-	(1)	1

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

#### 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 \$1 million, \$21 million, and \$26 million in 1995, 1994 and 1993. Due to a realignment of the corporate overhead departments, substantially all of the administrative functions and personnel previously allocated to the Group are now located at the Group.

#### 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) 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 CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### Marketable Securities and Non-current Investment

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 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.

The following summarizes the cost, unrealized holding gains and losses, and estimated fair values of marketable securities and non-current investments at December 30, 1995

and December 31, 1994.

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1995				
Kiewit Mutual Fund:				
Short-term government	\$ 22	\$ -	\$ -	\$ 22
Intermediate term bond	13	1	-	14
Tax exempt	8	1	-	9
U.S. debt securities	57	-	-	57
Municipal debt securities	13	-	-	13
Certificates of deposit	5	-	-	5
	-----	-----	-----	-----
	\$ 118	\$ 2	\$ -	\$ 120
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 30	\$ -	\$ -	\$ 30
	=====	=====	=====	=====
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
	-----	-----	-----	-----
	\$ 158	\$ -	\$ 2	\$ 156
	=====	=====	=====	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were each less than \$1 million in 1995, \$1 million and \$2 million in 1994 and \$2 million and \$25 million in 1993.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
U.S. debt securities:		
less than 1 year	\$ 41	\$ 41
1-5 years	16	16
	-----	-----
	\$ 57	\$ 57
	=====	=====
Municipal debt securities:		
less than 1 year	\$ 4	\$ 4
1-5 years	7	7
5-10 years	-	-
over 10 years	2	2
	-----	-----
	\$ 13	\$ 13
	=====	=====
Certificates of deposit:		
less than 1 year	\$ 4	\$ 4

1-5 years

1	1
-----	-----
\$ 5	\$ 5
=====	=====

Maturities for the mutual fund and equity securities have not been presented as they do not have a single maturity date.

### Short-term Borrowing

Short-term borrowings approximate fair value due to the short period of time to maturity.

### 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.

### (5) Retainage on Construction Contracts

Marketable securities at December 30, 1995 and December 31, 1994 include approximately \$62 million and \$61 million, respectively of investments which are being held by the owners of various construction projects in lieu of retainage.

Receivables at December 30, 1995 and December 31, 1994 include approximately \$50 million and \$48 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

### (6) 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.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

Summary joint venture financial information follows:

Financial Position (dollars in millions)	1995	1994	
Total Joint Ventures			
Current assets	\$ 655	\$ 563	
Other assets (principally construction equipment)	52	50	
	-----	-----	
	707	613	
Current liabilities	(584)	(503)	
	-----	-----	
Net assets	\$ 123	\$ 110	
	=====	=====	
Group's Share			
Equity in net assets	\$ 67	\$ 67	
Receivable from joint ventures	6	2	
	-----	-----	
Investment in construction joint ventures	\$ 73	\$ 69	
	=====	=====	
Operations (dollars in millions)	1995	1994	1993
Total Joint Ventures			
Revenue	\$ 1,211	\$ 1,034	\$ 906
Costs	1,108	937	841
	-----	-----	-----
Operating income	\$ 103	\$ 97	\$ 65
	-----	-----	-----

Group's Share

Revenue	\$ 691	\$ 523	\$ 430
Costs	625	473	372
	-----	-----	-----
Operating income	\$ 66	\$ 50	\$ 58
	=====	=====	=====

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 1995 estimates, management believes that the resolution of the uncertainties in completing the tunnel should not materially affect the Group's financial position, future results of operations or future cash flows.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

#### (7) Other Assets

Other assets includes the Group's equity method investments, equity securities classified as non-current, investment in partnerships and the net goodwill recognized in the APAC acquisition. In 1995, a \$3 million purchase increased the Group's interest in an electrical contracting business to 49%. The cumulative investment in common stock, accounted for on the equity method, totals \$26 million, \$3 million in excess of the Group's share of equity. The excess investment is being amortized over 15 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. Other assets also include securities classified as non-current and carried at the fair value of \$30 million.

#### (8) Short-Term Borrowings

The Group has established lines of credit with Union Bank of Switzerland for \$35 million, Bank of America for \$50 million, and Banque de Nationale de Paris for \$30 million. Under these credit agreements the Group had \$45 million outstanding on December 30, 1995 at a weighted average interest rate of 5.78%.

#### (9) Long-Term Debt

At December 30, 1995 and December 31, 1994, 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 as follows:

(dollars in millions)	1995	1994
9.5%-11.1% Notes to former stockholders, 1996-2001	\$ 3	\$ 6
6.25%-8.75% Convertible debentures, 2002-2005	8	6
	-----	-----
	11	12
Less current portion	(2)	(3)
	-----	-----
	\$ 9	\$ 9
	=====	=====

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 59,935, 12,594 and 14,322 shares of Class C common stock in 1995, 1994, and 1993, respectively. As part of the exchange offer completed prior to the MFS Spin-off (See Note 15), all holders of 1990 and 1991 debentures converted their debentures into Class C and Class D common stock. At December 30, 1995, 360,453 shares of Class C common stock are reserved for future conversions.

Scheduled maturities of long-term through 2000 are as follows (in millions): 1996 - \$2; 1997 - \$1; 1998 - \$1; 1999 - \$3 and \$4 in 2000.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

#### (10) Income Taxes

An analysis of the provision for income taxes relating to earnings for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Current:			
U.S. federal	\$ (58)	\$ (33)	\$ (28)
Foreign	4	(8)	(2)
State	(6)	(1)	(4)
	-----	-----	-----
	(60)	(42)	(34)
Deferred:			
U.S. federal	6	-	(4)
Foreign	(7)	1	(1)
State	1	2	1
	-----	-----	-----
	-	3	(4)
	-----	-----	-----
	\$ (60)	\$ (39)	\$ (38)
	=====	=====	=====

The United States and foreign components of earnings, for tax reporting purposes, before income taxes follow:

(dollars in millions)	1995	1994	1993
United States	\$ 159	\$ 101	\$ 111
Foreign	5	15	7
	-----	-----	-----
	\$ 164	\$ 116	\$ 118
	=====	=====	=====

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35%) to the earnings before income taxes for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Computed tax at statutory rate	\$ (57)	\$ (41)	\$ (41)
State income taxes	(8)	(3)	(1)
Prior year tax adjustments	5	3	-
Other	-	2	2
Effect of federal income tax rate change	-	-	2
	-----	-----	-----
	\$ (60)	\$ (39)	\$ (38)
	=====	=====	=====

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

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

The components of the net deferred tax assets as of December 30, 1995 and December 31, 1994 were as follows:

(dollars in millions)	1995	1994
Deferred tax assets:		
Construction accounts	\$ 3	\$ 12
Investments in construction joint ventures	28	14
Insurance claims	32	29
Compensation - retirement benefits	4	6
Other	7	14
	-----	-----
Total deferred tax assets	74	75
Deferred tax liabilities:		
Investments in securities	8	-
Other	7	12
	-----	-----
Total deferred tax liabilities	15	12
	-----	-----
Net deferred tax assets	\$ 59	\$ 63
	=====	=====

No valuation allowance has been recorded relating to the deferred tax assets because they are realizable under the tax sharing policy of PKS.



## (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 had a long-term incentive plan, stock appreciation rights, for certain employees. The plan concluded in 1994. The expense related to this plan was \$1 million in 1994 and \$2 million in 1993. Substantially all employees of the Group are covered under the Group's profit sharing plans. The expense related to these plans was \$3 million in 1995 and \$1 million in 1994 and 1993.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

## (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 30, 1995 were as follows:

### B&C

	Stock
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
Shares issued in 1995	1,021,875
Shares repurchased in 1995	6,228,934

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

## (13) 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)	1995	1994	1993
Revenue:			
United States	\$ 1,963	\$ 1,896	\$ 1,556
Canada	281	233	175
Other	86	46	52
	-----	-----	-----
	\$ 2,330	\$ 2,175	\$ 1,783
	=====	=====	=====
Operating earnings:			
United States	\$ 70	\$ 45	\$ 57
Canada	7	14	3
Other	10	-	22
	-----	-----	-----
	\$ 87	\$ 59	\$ 82
	=====	=====	=====
Identifiable assets:			
United States	\$ 878	\$ 847	\$ 794
Canada	90	102	82
Other	19	14	13
	-----	-----	-----
	\$ 987	\$ 963	\$ 889
	=====	=====	=====

#### (14) Related Party Transaction

The Group performs certain mine management services for the Diversified Group. The income from these services was \$30 million in 1995 and \$29 million in 1994 and 1993.

### KIEWIT CONSTRUCTION & MINING GROUP

#### Notes to Financial Statements

#### (15) Other Matters

In June 1995, the Group exchanged its interest in a wholly-owned subsidiary involved in gold mining activities for 4,000,000 common shares of Kinross Gold Corporation ("Kinross"), a publicly traded corporation. The Group recognized a \$21 million pre-tax gain on the exchange based on the difference between the book value of the subsidiary and the fair market value of the Kinross stock on the date of the transaction.

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

The Spin-off was completed after PKS and Kiewit Diversified Group Inc. ("KDG"), a wholly owned first tier subsidiary of PKS, agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were subsequently distributed to the D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 4,000,000 shares of Class B&C Stock were exchanged for 1,666,384 shares of Class D Stock on terms similar to those upon which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided for in PKS' Certificate of Incorporation. The conversion ratio used in the exchange was calculated using final 1994 stock prices adjusted for 1995 dividends.

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, future results of operations or future cash flows.

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 29 years aggregate \$12 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 30, 1995, the Group had outstanding letters of credit of approximately \$105 million.

### SCHEDULE II

#### KIEWIT CONSTRUCTION & MINING GROUP

##### Valuation and Qualifying Accounts and Reserves

Additions Amounts  
Balance Charged to Charged Balance  
Beginning Costs and to End of

(dollars in millions) of Period Expenses Reserves Other Period

Year ended December  
30, 1995

Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (2)	\$ -	\$ 10
--	------	------	--------	------	-------

Reserves:					
Insurance claims	73	18	(14)	2	79

Year ended December  
31, 1994

Allowance for doubtful trade accounts	\$ 5	\$ 4	\$ (2)	\$ -	\$ 7
--	------	------	--------	------	------

Reserves:					
Insurance claims	65	19	(11)	-	73
Year ended December					
25, 1993					
Allowance for doubtful					
trade accounts	\$ 2	\$ 4	\$ (1)	\$ -	\$ 5
Reserves:					
Insurance claims	66	13	(13)	(1)	65

## 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):

	1995	1994	1993
Construction	\$ 2,299	\$ 2,148	\$ 1,757
Other	31	27	26
	-----	-----	-----
	\$ 2,330	\$ 2,175	\$ 1,783
	=====	=====	=====

#### Results of Operations - 1995 vs. 1994

**Construction.** Construction revenue increased by \$151 million or 7% in 1995. Contributing to the increase were joint venture revenues and the inclusion of two additional months of materials revenue generated by the APAC-Arizona ("APAC") companies which were acquired on February 28, 1994. The Group's share of joint venture revenue rose by 32% in 1995 and accounted for 30% of total construction revenue in 1995 and 24% in 1994. The San Joaquin Toll Road Joint Venture ("San Joaquin") in southern California contributed \$225 million and \$111 million to revenue in 1995 and 1994. Contract backlog at December 30, 1995 was \$2 billion, of which 10% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 36% of the total backlog which includes San Joaquin backlog of \$133 million. San Joaquin is scheduled for completion in 1997.

In 1995, gross margins rose 16% from \$170 million in 1994 to \$197 million in 1995. The growing materials market had a significant effect on margins. Increased operational efficiencies, as well as joint ventures, including substantial claim settlements, also impacted margins.

**General and Administrative Expenses.** General and administrative expenses decreased 4% in 1995. Declines in payroll, computer operations and depreciation expense were partially offset by higher insurance and professional service fees.

**Investment Income.** Slight improvements in interest income, earnings from equity investments and fewer losses on the sale of securities contributed to the increase in investment income.

**Other, net.** In 1995 the exchange of the Group's gold operations in Nevada for 4,000,000 shares of common stock of the Kinross Gold Corporation led to a \$21 million gain for the Group. The gain was the difference between the Group's basis in the gold operations and the market value of the Kinross shares at the time of the exchange. Other income is also primarily comprised of mine management fees from the Diversified Group, \$30 million and \$29 million in 1995 and 1994, and gains on the disposition of property, plant and equipment and other assets.

## KIEWIT CONSTRUCTION & MINING GROUP

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

**Income Taxes.** The effective income tax rate for the Group was 37% and 34% in 1995 and 1994. In 1995 the effective rate was higher than the statutory rate primarily because of state income taxes.

#### 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 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.

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

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. 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 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 rate for the Group was 34% and 32% in 1994 and 1993. In 1993, the effective rate is lower than the expected statutory rate due to the effect of the Federal income tax rate change on deferred tax assets.

## **KIEWIT CONSTRUCTION & MINING GROUP**

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

#### **Financial Condition - December 30, 1995**

The Group's working capital decreased \$85 million or 26% during 1995. The decline was primarily due to the conversion and repurchase of 6.2 million shares of Class B&C stock totaling \$158 million and dividend payments of \$13 million. These financing activities were partially offset by \$24 million in proceeds from the sale of stock and \$45 million of short-term borrowings. In addition to the cash used in financing activities, the Group had capital expenditures, net of sales proceeds, of \$64 million. Partially funding these outflows was \$153 million of cash provided by operations and \$39 million of net proceeds on the sale and maturity of marketable securities.

The Group anticipates investing between \$40 and \$75 million annually in its construction business, including opportunities to acquire additional materials businesses and purchasing additional shares of an electrical contractor - the Group is committed to 80% ownership in 1997. Other long term liquidity uses include the payment of income taxes and repurchases and conversions of common stock. The Group's current financial condition and borrowing capacity together with anticipated cash flows from operations should be sufficient for immediate cash requirements and future investing activities.

In October 1995, the PKS Board of Directors declared a \$.60 per share dividend on Class B&C Stock payable in January 1996.

## **EXHIBIT 99.B**

### **KIEWIT DIVERSIFIED GROUP**

#### Index to Financial Statements

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

#### **Report of Independent Accountants**

Financial Statements as of December 30, 1995 and December 31, 1994 and for the three years ended December 30, 1995:

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 30, 1995:

#### **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 30, 1995 and December 31, 1994 and the results of its operations and its cash flows for each of the three years in the period ended December 30, 1995 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.

#### **COOPERS & LYBRAND L.L.P.**

Omaha, Nebraska  
March 19, 1996, March 19, 1996,  
except for Note 18, as to  
which the date is March 27, 1996.

### **KIEWIT DIVERSIFIED GROUP**

#### Statements of Earnings

For the three years ended December 30, 1995

(dollars in millions, except per share data)	1995	1994	1993
Revenue	\$ 580	\$ 537	\$ 267
Cost of Revenue	(358)	(327)	(154)
	-----	-----	-----
	222	210	113
General and Administrative Expenses	(180)	(133)	(70)
	-----	-----	-----
Operating Earnings	42	77	43
Other Income (Expense):			
Gain on Subsidiary's Stock Transactions, net	3	54	211
Investment Income, net	62	30	18
Interest Expense, net	(23)	(36)	(11)
Other, net	128	(1)	13
	-----	-----	-----
	170	47	231
Equity Loss in MFS	(131)	(102)	(13)
	-----	-----	-----
Earnings Before Income Taxes and Minority Interest	81	22	261
Income Tax Benefit (Provision)	71	10	(80)
Minority Interest in Net (Income) Loss of Subsidiaries	(12)	1	-
	-----	-----	-----
Net Earnings	\$ 140	\$ 33	\$ 181
	=====	=====	=====
Net Earnings Per Common and Common Equivalent Share	\$ 6.45	\$1.63	\$9.08
	=====	=====	=====

See accompanying notes to financial statements.

## KIEWIT DIVERSIFIED GROUP

### Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions)	1995	1994
Assets		
Current Assets:		
Cash and cash equivalents	\$ 363	\$ 330
Marketable securities	484	754
Receivables, less allowance of \$2 and \$2	81	157
Note receivable from sale of discontinued operations	-	29
Deferred income taxes	5	15
Other	36	83
	-----	-----
Total Current Assets	969	1,368
Property, Plant and Equipment, at cost:		
Land	17	15
Buildings	61	171
Equipment	717	1,254
	-----	-----
	795	1,440
Less accumulated depreciation and amortization	(289)	(336)
	-----	-----
Net Property, Plant and Equipment	506	1,104
Investments	459	258
Intangible Assets, net	499	733
Other Assets	57	74
	-----	-----
	\$ 2,490	\$ 3,537

See accompanying notes to financial statements.

## KIEWIT DIVERSIFIED GROUP

### Balance Sheets

December 30, 1995 and December 31, 1994

(dollars in millions)	1995	1994
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 61	\$ 165
Current portion of long-term debt:		
Telecommunications	36	26
Other	4	4
Accrued costs and billings in excess of revenue on uncompleted contracts	10	37
Accrued reclamation and other mining costs	18	20
Other	88	147
Total Current Liabilities	217	399
Long-Term Debt, less current portion:		
Telecommunications	264	827
Other	97	72
Deferred Income Taxes	235	306
Retirement Benefits	54	67
Accrued Reclamation Costs	99	102
Other Liabilities	170	85
Minority Interest	214	448
Stockholders' Equity (Redeemable Common Stock, \$1,151 million aggregate redemption value)		
Common equity	1,125	1,238
Foreign currency adjustment	(1)	-
Net unrealized holding gain (loss)	16	(7)
Total Stockholders' Equity	1,140	1,231
	\$2,490	\$ 3,537
	=====	=====

See accompanying notes to financial statements.

## KIEWIT DIVERSIFIED GROUP

### Statements of Cash Flows

For the three years ended December 30, 1995

(dollars in millions)	1995	1994	1993
Cash flows from continuing operations:			
Net earnings	\$ 140	\$ 33	\$ 181
Adjustments to reconcile net earnings to net cash provided by continuing operations:			
Depreciation, depletion and amortization	96	165	51
(Gain) loss on sale of property, plant and equipment, and other investments	(7)	16	8
Gain on subsidiary's stock transactions, net	(3)	(54)	(211)
Equity (earnings) loss	119	(7)	(13)
Non-cash interest expense	-	40	-
Minority interest in subsidiaries	12	(50)	(3)

Decline in market value of investments	-	-	25
Retirement benefits paid	(2)	(6)	(17)
Deferred income taxes	(147)	(37)	53
Change in working capital items:			
Receivables	11	(28)	8
Other current assets	-	(48)	-
Payables	(3)	23	51
Other liabilities	69	(2)	36
Other	(4)	24	27
	-----	-----	-----
Net cash provided by continuing operations	281	69	196
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	408	1,610	4,155
Purchases of marketable securities	(455)	(1,473)	(4,490)
Acquisitions, excluding cash acquired	(229)	(207)	(146)
Proceeds from sale of cellular properties	-	182	-
Proceeds from sale of property, plant and equipment, and other investments	14	7	25
Capital expenditures	(82)	(450)	(139)
Investments in affiliates	(29)	(33)	(3)
Acquisition of minority interest	-	(6)	-
Deferred development costs and other	(38)	(49)	(36)
	-----	-----	-----

Net cash used in investing activities \$ (411) \$ (419) \$ (634)

See accompanying notes to financial statements

## KIEWIT DIVERSIFIED GROUP

### Statements of Cash Flows

For the three years ended December 30, 1995

(dollars in millions)	1995	1994	1993
Cash flows from financing activities:			
Long-term debt borrowings	\$ 49	\$ 691	\$ 19
Payments on long-term debt, including current portion	(49)	(305)	(7)
Net change in short-term borrowings	-	-	(80)
Issuances of common stock	2	1	8
Issuances of subsidiaries' stock	-	70	458
Repurchases of common stock	(3)	(20)	(40)
Dividends paid	-	-	(17)
Exchange of Class B&C Stock for Class D Stock, net	155	42	26
Other	-	(1)	3
	-----	-----	-----
Net cash provided by financing activities	154	478	370
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	29	5	110
Other cash provided by discontinued packaging operations	-	-	20
	-----	-----	-----
Net cash provided by discontinued packaging operations	29	5	130
Cash and cash equivalents of MFS at beginning of year	(22)	-	-
Effect of exchange rates on cash	2	-	-
	-----	-----	-----
Net increase in cash and cash equivalents	33	133	62
Cash and cash equivalents at beginning of year	330	197	135
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 363	\$ 330	\$ 197
	=====	=====	=====



Supplemental disclosure of cash  
flow information:

Taxes	\$ 132	\$ 66	\$ 29
Interest	33	39	4

Noncash investing and financing activities:

Dividend of investment in MFS	\$ 399	\$ -	\$ -
Issuance of C-TEC redeemable preferred stock for acquisition	39	-	-
Issuances of MFS stock for acquisitions	-	71	-
MFS stock transactions to settle contingent purchase price adjustment	-	25	-

See accompanying notes to financial statements.

## KIEWIT DIVERSIFIED GROUP

### Statements of Changes in Stockholders' Equity For the three years ended December 30, 1995

(dollars in millions, except per share data)	1995	1994	1993
Common equity:			
Balance at beginning of year	\$ 1,238	\$ 1,182	\$ 1,017
Issuances of stock	5	1	8
Repurchases of stock	(3)	(20)	(40)
Exchange of Class B&C Stock for Class D Stock, net	155	42	26
Net earnings	140	33	181
Dividend of investment in MFS	(399)	-	-
Dividends (per share: \$.50 in 1995(a), \$.50 in 1993)	(11)	-	(10)
	-----	-----	-----
Balance at end of year	1,125	1,238	1,182
Other equity adjustments:			
Balance at beginning of year	(7)	9	4
Foreign currency adjustment	(1)	-	(4)
Net unrealized holding gain (loss)	23	(16)	9
	-----	-----	-----
Balance at end of year	15	(7)	9
	-----	-----	-----
Total stockholders' equity	\$ 1,140	\$ 1,231	\$ 1,191
	=====	=====	=====

(a) Dividend declared in 1995 but paid in January 1996.

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.

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.

Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. Investments in other companies in which the Group exercises significant influence over operating and financial policies are accounted for by the equity method. In addition, the Group accounts for its investments in international energy projects using the equity method. All significant intercompany accounts and transactions, except those directly between the Group and the Construction & Mining Group, have been eliminated.

### **Coal Sales Contracts**

The Group's coal is sold primarily under long-term contracts with electric utilities, which burn coal in order to generate steam to produce electricity. A substantial portion of the Group's sales were made under long-term contracts during 1995, 1994 and 1993. The remainder of the Group's sales are made on the spot market where prices are substantially lower than those in the long-term contracts. As the long-term contracts expire, a higher proportion of the Group's sales will occur on the spot market.

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

The coal industry is highly competitive. The Group competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than the Group, but also with alternative methods of generating electricity and alternative energy sources. Many of the Group's competitors are served by two railroads and, due to the competition, often benefit from lower transportation costs than the Group which is served by a single railroad. Additionally, many competitors have lower stripping ratios than the Group, often resulting in lower comparative costs of production.

The Group is also required to comply with various federal, state and local laws concerning protection of the environment. The Group believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors are similarly affected by such laws.

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 presently intends to deliver coal from unaffiliated mines 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**

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 telephone services and basic and premium cable programming services are recorded in the month service is provided.

The telecommunications industry is subject to local, state and federal regulation. Consequently, the ability of the telephone and cable groups to generate increased volume and profits is largely dependent upon regulatory approval to expand customer bases, increase prices and limit expenses.

Competition for the cable group's services traditionally has come from broadcast television, video rentals and direct broadcast satellite received on home dishes. Future competition is expected from telephone companies.

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

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

#### **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 an units-of-extraction basis determined in relation to estimated reserves.

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$233 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 primarily consist of amounts allocated upon purchase of existing operations, franchise and subscriber lists 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 intangible assets 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 asset to the net carrying value of the asset.

#### **Pension Plans**

The Group maintains defined benefit plans primarily for packaging employees who retired prior to the disposition of the packaging operations. 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. It is at least reasonably possible that the estimated cost of restoration will be revised in the near term.

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

#### **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.

#### **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 were 21,718,792, 20,438,806 and 19,941,885 in 1995, 1994 and 1993. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

#### **Income Taxes**

Deferred income taxes are provided on the temporary differences between the financial reporting basis and the tax basis of the Group's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 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 52 weeks in fiscal years 1995 and 1993 and 53 weeks in the 1994 fiscal year.

C-TEC has a calendar fiscal year.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (3) MFS Spin-off

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

The Spin-off was completed after PKS and KDG agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were subsequently distributed to the Class D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 4,000,000 shares of Class B and Class C Stock ("Class B&C Stock") were exchanged for 1,666,384 shares of Class D Stock on terms similar to those upon which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided for in the Company's Certificate of Incorporation. The conversion ratio used in the exchange was calculated using final 1994 stock prices adjusted for 1995 dividends.

After the recapitalization of MFS and the exchange offer discussed above, shares were distributed on the basis of approximately 1.741 shares of MFS Common Stock and approximately .651 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

The net investment in MFS distributed on September 30, 1995 was approximately \$399 million.

The results of operations of MFS have been classified as a single line item on the statements of earnings for the three years ended December 30, 1995. MFS is consolidated in the 1994 balance sheet and the 1994 and 1993 statements of cash flows.

Operating results of MFS through September 30, 1995 and for fiscal years 1994 and 1993 are summarized as follows:

(dollars in millions)	1995	1994	1993
Revenue	\$ 412	\$ 287	\$ 141
Loss from operations	(176)	(136)	(31)
Net loss	(196)	(151)	(16)
Group's share of loss in MFS	(131)	(102)	(13)

Included in the income tax benefit on the statement of earnings for the year ended December 30, 1995, is \$93 million of tax benefits from the reversal of certain deferred tax liabilities, recognized on gains from previous MFS stock transactions, that will not be taxed due to the Spin-off.

## KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (4) Corporate Activities

#### Financial Structure

Cash, cash equivalents and marketable securities were allocated between the Groups based upon the desired capital structure of the two Groups 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 1995, 1994 and 1993 were reflected in their entirety in the Diversified Group's financial statements.

PKS, in addition to specifically attributable items, 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 items attributable to the Group and the Group's 50% portion of PKS is as follows:

(dollars in millions)	1995	1994	
Cash and cash equivalents	\$ -	\$ 86	
Marketable securities	10	15	
Property, plant and equipment, net	5	5	
Other assets	3	14	
	-----	-----	
Total Assets	\$ 18	\$ 120	
	=====	=====	
Accounts payable	\$ 23	\$ 67	
Long-term debt, including current portion	3	7	
Other liabilities	-	2	
	-----	-----	
Total Liabilities	\$ 26	\$ 76	
	=====	=====	
	1995	1994	1993
Net investment income (expense)	\$ -	\$ 7	\$ 6
Other income (expense)	-	(4)	(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 \$5 million, \$8 million and \$10 million in 1995, 1994 and 1993. Due to a realignment of the corporate overhead departments, a portion of the administrative functions and personnel previously allocated to the Group are now located at the Group.

#### 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 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.

### (5) Acquisitions

During 1995, 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, in intangible assets.

C-TEC completed the first step of an acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. In consideration for 40% of the capital stock of Twin County, C-TEC paid \$26 million in cash and issued a \$4 million note of its subsidiary, C-TEC Cable Systems, Inc. In addition, C-TEC paid \$11 million in consideration of a noncompete agreement. The remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for \$52 million stated value redeemable preferred stock of C-TEC. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The fair value of the preferred stock, as determined by an independent appraiser, is \$39 million and is recorded in other liabilities. Goodwill of

\$18 million is being amortized over 10 years.

Pursuant to a stock rights offering in August 1995, C-TEC acquired majority voting control of Mercom, Inc. ("Mercom") through the exercise of stock rights and over subscription privileges. Immediately prior to the rights offering, C-TEC owned 43% of the outstanding common stock of Mercom and accounted for it under the equity method. For the aggregate consideration of approximately \$7 million, C-TEC increased its ownership interest to 62% and accordingly consolidated Mercom in its financial statements. C-TEC's total investment exceeded the underlying equity of Mercom by \$11 million, which is being amortized over 15 years.

The following unaudited pro forma information shows the results of the Group as though the C-TEC acquisitions occurred at the beginning of 1995 and 1994. 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)	1995	1994
Revenue	\$ 598	\$ 574
Net earnings	135	25
Earnings per share of Class D stock	6.23	1.26

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (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.

The above transactions, along with the stock issuances by MFS for acquisitions and employee stock options, reduced the Group's ownership in MFS prior to the Spin-off in 1995 to 66% and to 67% and 71% at the end of 1994 and 1993. As a result, the Group recognized gains of \$3 million, \$54 million and \$211 million in 1995, 1994 and 1993 representing the increase in the Group's proportionate share of MFS equity. Deferred income taxes had been established on these gains prior to the Spin-off.

#### (7) 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 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 gains and losses is 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

At December 30, 1995 and December 31, 1994 the cost, unrealized holding gains and losses and estimated fair values of marketable securities and noncurrent investments were as follows:

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
-----------------------	-------------------	--------------------------------	---------------------------------	---------------

1995:

Kiewit Mutual Fund:

Short-term government	\$ 99	\$ 1	\$ -	\$ 100
Intermediate term bond	76	4	-	80
Tax exempt	130	4	-	134
Equity	10	2	-	12
Equity securities	8	3	-	11
U.S. debt securities	2	-	-	2
Federal agency securities	8	-	-	8
Municipal debt securities	1	-	-	1
Corporate debt securities	134	-	-	134
Collateralized mortgage obligations	-	2	-	2
	-----	-----	-----	-----
	\$ 468	\$ 16	\$ -	\$ 484
	=====	=====	=====	=====
Non-current Investments:				
Equity securities	\$ 38	\$ 10	\$ -	\$ 48
	=====	=====	=====	=====

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
	-----	-----	-----	-----
	\$ 767	\$ 1	\$ 14	\$ 754
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 59	\$ 5	\$ 2	\$ 62
	=====	=====	=====	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were \$1 million and \$2 million in 1995, \$2 million and \$16 million in 1994, and \$29 million and \$39 million in 1993.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

At December 30, 1995, the contractual maturities of the debt securities are as follows:

(dollars in millions)	Amortized Cost	Fair Value
U.S. debt securities:		
Less than 1 year	\$ 2	\$ 2
	=====	=====
Federal agency securities:		
Less than 1 year	\$ 8	\$ 8
	=====	=====
Municipal debt securities:		
1-5 years	\$ -	\$ -
5-10 years	-	-
Over 10 years	1	1
	-----	-----
	\$ 1	\$ 1
	=====	=====
Corporate debt securities:		
Less than 1 year	\$ 33	\$ 33
1-5 years	81	81
5-10 years	20	20
	-----	-----
	\$ 134	\$ 134
	=====	=====

Maturities for the mutual fund, equity securities and collateralized mortgage obligations have not been presented as they do 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. With the exception of C-TEC, the fair value of debt approximates the carrying amount. C-TEC's Senior Secured Notes and the Credit Agreement with National Bank of Cooperatives have an aggregate fair value of \$253 million.

### (8) Investments

In February 1995, CalEnergy Company, Inc. ("CE"), formerly named California Energy Company, Inc., an equity method investee, 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 CE common stock at \$17 per share. As part of this offering, the Group purchased 1.5 million shares. In addition, during the second quarter of 1995, the Group purchased an additional 200,000 common shares of CE. At December 30, 1995, the Group owned 21% of CE's outstanding common stock and had a cumulative investment in CE common stock of \$153 million, \$37 million in excess of the Group's proportionate share of CE's equity. The excess investment is being amortized over 20 years. Equity earnings, net of goodwill amortization, were \$10 million, \$5 million and \$7 million in 1995, 1994 and 1993. CE common stock is traded on the New York Stock Exchange. On December 30, 1995, the market value of the Group's investment in CE common stock was \$211 million.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

In 1995, 1994 and 1993, the Group also recorded dividends in kind, of \$1 million, \$5 million and \$5 million declared by CE consisting of voting convertible preferred stock. The stock dividends brought the Group's total investment in convertible preferred stock to \$65 million. In March 1995, CE exchanged the preferred stock for 9.5% Convertible Subordinated Debentures (the "Debentures") that pay interest semi-annually. The Debentures mature in December 2003 and are convertible into CE common stock at a conversion price of \$18.375 per share any time prior to maturity. CE may prepay the Debentures if the share price of CE stock is at least 150% of the conversion price for any 20 trading days out of any 30 consecutive trading days.

On February 20, 1996 the Group exercised 1.5 million CE options at a price of \$9 per share. The transaction increased the Group's ownership interest in CE to 24%. In addition, the Group has 4.3 million options to purchase additional CE stock at prices of \$11.625-\$12 per share.

The following is summarized financial information of CalEnergy Company Inc.:

Financial Position (dollars in millions)	1995	1994
Current assets	\$ 418	\$ 518
Other assets	2,236	613
	-----	-----
Total assets	2,654	1,131
Current liabilities	564	309
Other liabilities	1,546	578
Redeemable preferred stock	-	64
	-----	-----
Total liabilities	2,110	951
	-----	-----
Net assets	\$ 544	\$ 180
	=====	=====

  

Operations (dollars in millions)	1995	1994	1993
Revenue	\$ 399	\$ 186	\$ 132
	=====	=====	=====
Net income available to common stockholders	\$ 62	\$ 32	\$ 43
	=====	=====	=====

In January 1995, C-TEC purchased, for \$84 million in cash, a 40% equity position in Megacable S.A. De C.V. ("Megacable"), Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. C-TEC accounts for its investment using the equity method. The excess cost over the underlying assets of Megacable, approximately \$94 million, is being amortized on a straight line basis over 15 years. C-TEC's share of Megacable's earnings, net of goodwill amortization was approximately a \$3 million loss in 1995.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements



Pursuant to a joint venture agreement with CE, the Group is an equity investor with CE in the Mahanagdong geothermal power project and the Casecnan power/irrigation project in the Philippines. Both projects are under construction. To date the Group has invested \$89 million in the Philippine projects. The Group also expects to be an equity investor with CE in additional geothermal projects in Indonesia. To date investments in these projects total \$9 million.

Investments also include equity securities classified as non-current and carried at the fair value of \$48 million.

## (9) Intangible Assets

Intangible assets consist of the following at December 30, 1995 and December 31, 1994:

(dollars in millions)	1995	1994
Goodwill	\$ 199	\$ 466
Franchise and subscriber lists	224	145
Noncompete agreements	86	15
Licenses and rights-of-ways	-	15
Deferred development costs	47	65
Toll road franchise costs	109	75
Other	4	19
	-----	-----
	669	800
Less accumulated amortization	(170)	(67)
	-----	-----
	\$ 499	\$ 733
	=====	=====

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

## (10) Long-Term Debt

At December 30, 1995 and December 31, 1994, long-term debt was as follows::

(dollars in millions)	1995	1994
Telecommunications:		
C-TEC Long-term Debt (with recourse only to C-TEC):		
Credit Agreement - National Bank for Cooperatives (7.51% due 2009)	\$ 119	\$ 128
Senior Secured Notes - (9.65%, due 1999) (includes unamortized premium of \$5 and \$6 based on imputed rate of 6.12%)	150	156
Term Credit Agreement - Morgan Guaranty Trust Company (7% due 2002)	19	-
Promissory Note - Twin County Acquisition (5% due 2003)	4	-
Revolving Credit Agreements and Other	8	4
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
	-----	-----
	300	853
Other Long-term Debt:		
9.5% to 11.1% Notes to former stockholders due 1996-2001	3	6
6.25% to 8.75% Convertible debentures	-	2
Construction loans and other	98	68
	-----	-----
	401	929
Less current portion	(40)	(30)
	-----	-----

\$ 361  
=====

\$ 899  
=====

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. Substantially all the assets of C-TEC's telephone group are subject to liens under this Credit Agreement. In addition, the telephone group is restricted from paying dividends in excess of the prior year net income.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

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.

Mercom, a consolidated subsidiary of C-TEC, has pledged the common stock of its operating subsidiaries as collateral for the Term Credit Agreement ("Agreement") with Morgan Guaranty Trust Company ("Morgan"). In addition, a first lien on certain material assets of Mercom and its subsidiaries has been granted to Morgan. The Agreement contains a restrictive covenant which requires Mercom to maintain a specified debt to cash flow ratio.

In connection with the acquisition of Twin County Trans Video, Inc., C-TEC Cable Systems, Inc., a wholly owned subsidiary of C-TEC, issued a \$4 million 5% promissory note. The note is unsecured.

C-TEC's cable group has Revolving Credit agreements which are collateralized by a pledge of the stock of the cable group subsidiaries. At December 30, 1995, the borrowings available under the agreement total \$12 million. The commitments are reduced on a quarterly basis through maturity in September 1996. The cable group had borrowings of \$7 million (6.7% weighted average interest rate) as of December 1995.

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 69,022, 12,594 and 14,322 shares of Class D common stock in 1995, 1994, and 1993. As a part of the exchange offer completed prior to the MFS Spin-off, all holders of 1990 and 1991 debentures and 1993 D debentures converted their debentures into Class C and Class D common stock.

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 7% to 10% at December 30, 1995. The Group capitalized \$7 million of interest in 1995.

Scheduled maturities of long-term debt through 2000 are as follows (in millions): 1996 - \$40; 1997 - \$56; 1998 - \$62; 1999 - \$61 and \$13 in 2000.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (11) Income Taxes

An analysis of the income tax benefit (provision) before minority interest for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Current:			
U.S. federal	\$ (69)	\$ (21)	\$ (24)
Foreign	(4)	(2)	-
State	(3)	(4)	(3)
	-----	-----	-----
	(76)	(27)	(27)
Deferred:			
U.S. federal	140	27	(53)
Foreign	3	4	-
State	4	6	-
	-----	-----	-----
	147	37	(53)
	-----	-----	-----
	\$ 71	\$ 10	\$ (80)
	=====	=====	=====

The United States and foreign components of earnings for tax reporting purposes, before equity loss in MFS, (recorded net of tax), minority

interest and income taxes follow:

(dollars in millions)	1995	1994	1993
United States	\$ 211	\$ 123	\$ 274
Foreign	1	1	-
	-----	-----	-----
	\$ 212	\$ 124	\$ 274
	=====	=====	=====

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the earnings before equity loss in MFS, (recorded net of tax), minority interest and income taxes for the three years ended December 30, 1995 follows:

(dollars in millions)	1995	1994	1993
Computed tax at statutory rate	\$ (74)	\$ (43)	\$ (96)
State income taxes	-	-	(3)
Depletion	2	3	3
Dividend exclusion	-	2	3
Goodwill amortization	(3)	(2)	1
Tax exempt interest	2	3	-
Prior year tax adjustments	51	51	12
MFS deferred tax	93	-	-
Other	-	(4)	-
	-----	-----	-----
	\$ 71	\$ 10	\$ (80)
	=====	=====	=====

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

The components of the net deferred tax liabilities for the years ended December 30, 1995 and December 31, 1994 were as follows:

(dollars in millions)	1995	1994
Deferred tax liabilities:		
Investments in securities	\$ 7	\$ -
Investments in joint ventures	37	83
Investments in subsidiaries	9	101
Asset bases - accumulated depreciation	191	196
Deferred coal sales	39	11
Other	23	24
	-----	-----
Total deferred tax liabilities	306	415
Deferred tax assets:		
Insurance claims	5	10
Compensation - retirement benefits	24	16
Provision for estimated expenses	22	10
Net operating losses of subsidiaries	5	84
Alternative minimum tax credits of subsidiary	5	13
Other	19	43
Valuation allowances	(4)	(52)
	-----	-----
Total deferred tax assets	76	124
	-----	-----
Net deferred tax liabilities	\$ 230	\$ 291
	=====	=====

#### (12) 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 \$7 million, \$1 million and \$7 million in 1995, 1994 and 1993.

C-TEC maintains a separate defined benefit plan for substantially all of its employees. The prepaid cost and expense related to this plan is not significant at December 30, 1995 and December 31, 1994, and for the three years ended December 30, 1995.

The Group also had a long-term incentive plan, consisting of stock appreciation rights, for certain employees. This plan concluded in 1994. The

expense related to this plan was \$1 million in 1994 and 1993.

Substantially all employees of the Group, with the exception of C-TEC employees, are covered under the Group's profit sharing plans. The expense related to these plans was less than \$ 1 million in 1995 and \$1 million in 1994 and 1993.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (13) 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 who retired prior to 1993. 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.

In March 1995, the Group settled its liability with respect to certain postretirement life insurance benefits. The Group purchased insurance coverage from a third party insurance company for approximately \$14 million to be paid over seven years. The settlement did not have a material impact on the Group's financial position, or results of operations or cash flows.

The net periodic costs for health care benefits were less than \$1 million in 1995, \$1 million in 1994 and \$4 million in 1993. In all years, the costs related primarily to interest on accumulated benefits.

The accrued postretirement benefit liability as of December 30, 1995 was as follows:

(dollars in millions)	Health Insurance
Retirees	\$ 31
Fully eligible active plan participants	-
Other active plan participants	-
	-----
Total accumulated postretirement benefit obligation	31
Unrecognized prior service cost	19
Unrecognized net loss	(7)
	-----
Accrued postretirement benefit liability	\$ 43
	=====

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

A 7.7% increase in the cost of covered health care benefits was assumed for fiscal 1995. 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 ("APB") by less than \$1 million at year-end 1995. The weighted average discount rate used in determining the APB was 6.75%.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (14) 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 30, 1995 were as follows:

	D Stock
Shares issued in 1993	748,026
Shares repurchased in 1993	841,808
Shares issued in 1994	777,556
Shares repurchased in 1994	396,684
Shares issued in 1995	2,675,553
Shares repurchased in 1995	42,147

#### (15) Industry and Geographic Data

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

In 1995, 1994 and 1993 Commonwealth Edison Company accounted for 23%, 22% and 44% of the Group's revenues

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

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

Industry	Data (dollars in millions)	1995	1994	1993
Revenue:				
Mining		\$ 216	\$ 225	\$ 210
Telecommunications		325	291	48
Other		39	21	9
		-----	-----	-----
		\$ 580	\$ 537	\$ 267
		=====	=====	=====
Operating earnings (loss):				
Mining		\$ 77	\$ 76	\$ 75
Telecommunications		37	27	6
Other		(72)	(26)	(38)
		-----	-----	-----
		\$ 42	\$ 77	\$ 43
		=====	=====	=====
Identifiable assets:				
Mining		\$ 374	\$ 370	\$ 420
Telecommunications		1,142	2,551	1,682
Other		259	118	68
Corporate (1)		715	498	589
		-----	-----	-----
		\$2,490	\$ 3,537	\$ 2,759
		=====	=====	=====
Capital Expenditures:				
Mining		\$ 4	\$ 3	\$ 5
Telecommunications		72	426	127
Other		6	16	3
Corporate		-	5	4
		-----	-----	-----
		\$ 82	\$ 450	\$ 139
		=====	=====	=====
Depreciation, depletion and amortization:				
Mining		\$ 7	\$ 11	\$ 12
Telecommunications		81	149	35
Other		5	4	3
Corporate		3	1	1
		-----	-----	-----
		\$ 96	\$ 165	\$ 51
		=====	=====	=====

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

#### (16) Related Party Transaction

The Group receives certain mine management services from the Construction & Mining Group. The expense for these services was \$30 million for 1995 and \$29 million for 1994 and 1993.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (17) Other Matters

In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposits and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a KDG subsidiary, received

approximately \$135 million in June 1995 and recorded it in other income on the statement of earnings.

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 1996. 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.

The Group is involved in various other 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, future results of operations or future cash flows.

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 position, future results of operations or future cash flows.

A subsidiary of the Group, Continental Holdings Inc., remains contingently liable as a guarantor of \$53 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 the next 8 years aggregate \$76 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 30, 1995, the Group had outstanding letters of credit of approximately \$35 million.

In November 1995, C-TEC announced that it had engaged an investment banker to assist with evaluating strategic alternatives for its various business units with a view toward enhancing shareholder value. C-TEC is now planning to distribute to its shareholders in a tax-free spin-off the telephone group, the communications services group, and certain other assets. Following the spin-off, C-TEC plans to combine its remaining businesses, which will consist of its domestic cable group, with a third party pursuant to a tax-free, stock-for-stock transaction. C-TEC has received a number of inquiries regarding its domestic cable group and is holding discussions with interested parties.

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

#### **(18) Subsequent Event**

In 1996, RCN Corporation ("RCN"), a majority owned subsidiary, entered into an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an 80 percent interest in certain private cable systems in New York City and selected areas of New Jersey. The transaction closed on March 6, 1996. These cable systems provide subscription television services using microwave frequencies. RCN deposited \$27 million in an escrow account which was released on the closing date. In addition, RCN issued a \$15 million promissory note that is expected to be paid during 1996.

Under the terms of an agreement dated March 27, 1996, RCN will pay C-TEC approximately \$123 million for certain of C-TEC's assets, including the long distance group, C-TEC International, which holds the 40% interest in Megacable, S.A. de C.V., and Residential Communications Network, a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. RCN will purchase Residential Communications Network for cash in a transaction expected to close in April 1996. RCN's purchase of the other businesses for cash or C-TEC stock, at RCN's option, is expected to close in the second half of 1996. The transactions are subject to certain conditions including the receipt of all necessary regulatory approvals. The agreement with RCN contains a repurchase option under which C-TEC can reacquire the businesses if a restructuring of C-TEC's main businesses does not occur. Additionally, C-TEC retains a warrant to reacquire a six percent stake in Residential Communications Network. The agreement with RCN was approved by a special committee of the board of directors of C-TEC, composed of directors unaffiliated with either RCN or the Group.

## **SCHEDULE II KIEWIT DIVERSIFIED GROUP**

### **Valuation and Qualifying Accounts and Reserves**

Additions

Balance Charged to Amounts Balance  
Beginning Costs and Charged to End of

(dollars in millions) of Period Expenses Reserves Other Period

**Year ended December 30, 1995**

Allowance for doubtful trade accounts	\$ 2	\$ -	\$ -	\$ -	\$ 2
Reserves:					
Retirement benefits	67	3	(2)	(14) (a)	54

**Year ended December 31, 1994**

Allowance for doubtful trade accounts	\$ 2	\$ 1	\$ (1)	\$ -	\$ 2
Reserves:					
Retirement benefits	71	2	(6)	-	67

**Year ended December 25, 1993**

Allowance for doubtful trade accounts	\$ 5	\$ 1	\$ (4)	\$ -	\$ 2
Reserves:					
Retirement benefits	74	12	(17)	2	71

(a)The Group settled its liability with respect to certain postretirement life insurance benefits by purchasing insurance coverage from a third party insurance company.

**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 1995 vs. 1994**

**Mining.** Mining revenue decreased 4% in 1995 primarily due to a decrease in spot sales. Spot sales were lower due to reduced demand in the Group's spot market area because of a mild winter and high hydro-electricity generation in the Western United States. The decrease in spot sales was partially offset by an increase in alternate source coal sales due to the acceleration of coal shipments to the current year from future years and the shift of certain coal shipments from mined coal to alternate source coal.

Direct costs, as a percentage of revenue, decreased 4% as a result of the additional alternate source coal sales.

**Telecommunications.** With the Spin-off of MFS, the Telecommunications segment is now solely comprised of C-TEC. C-TEC's primary operations are telephone and cable. In 1995, telecommunication revenue increased 12% over 1994. Sales of the telephone group increased \$7 million to \$129 million, a 6% increase over 1994. Increases in access lines for the local network service and rate increases for intrastate access traffic were primarily responsible for the improvement. Sales for the cable group increased 34% to \$127 million in 1995. The acquisition of Twin County Trans Video, Inc. and the consolidation of Mercom, Inc.'s results since August contributed \$18 million and \$6 million to C-TEC's revenue in 1995. In addition, subscriber increases of approximately 16,000 over 1994 and rate increases effective in April 1995 account for an \$8 million increase in cable revenue. Revenues from other operating groups increased \$17 million, a 32% increase over 1994 primarily due to the resale of long distance telephone services to another long distance reseller, improvements in switched business, 800 service sales and third party revenues from C-TEC's communication services business. The arrangement with the third party reseller terminated in the second quarter of 1995. Partially offsetting C-TEC's increase in revenue was the sale of the mobile services group in 1994 which contributed \$23 million in revenue that year.

C-TEC's direct costs increased \$30 million or 15% in 1995. The telephone group's cost of revenue increased primarily because of higher payroll expenses and higher depreciation expense. The acquisitions of Mercom and Twin County led to a 37% increase in direct costs for the

cable group. In addition, higher basic programming costs resulting from increased subscribers, channel additions and rate increases contributed to the increase. Direct expenses for C-TEC's other operating groups increased because of costs associated with the resale of long distance services and communication services work performed for third parties.

## **KIEWIT DIVERSIFIED GROUP**

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

Partially offsetting these increases was the elimination of direct costs associated with the mobile services group.

**General and Administrative Expenses.** General and administrative expenses increased 35% in 1995. An increase in expenses for environmental and other legal matters was partially offset by an overall decline in C-TEC's general and administrative costs.

**Gain on Subsidiary's Stock Transactions, net.** The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Group in 1995. In 1994 the Group settled a contingent purchase price obligation 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 issuances of stock for acquisitions and employee stock options, resulted in a \$28 million net gain before taxes. The Group has recognized gains and losses from sales and issuances of stock by MFS on the statement of earnings. With the Spin-off of MFS, these types of gains will no longer be recognized for MFS transactions.

**Investment Income, net.** Investment income increased 107% to \$62 million in 1995. Improvements in interest and dividend income, equity earnings, primarily from CE and declines in losses on the sales of securities and international energy project development expenses all contributed to the increase in investment income. Proceeds from the C-TEC rights offering and the sale of its mobile services group along with the Whitney Settlement proceeds all contributed to a higher average portfolio balance and increased interest income. The Group also recognized equity earnings, net of goodwill amortization from CE of \$10 million in 1995 compared to \$5 million in 1994. This increase is primarily attributable to the successful merger of Magma Energy operations into CE in 1995. In 1995, losses on the sale of securities declined 92% from 1994 primarily due to the reallocation of its portfolio from fixed rate securities to mutual fund portfolios with differing investment objectives. Developmental expenses declined 75% in 1995 primarily due to the reimbursement of prior year expenses and the capitalization of current year amounts.

**Interest Expense, net.** Interest expense in 1995 decreased 36% as compared to 1994. The decline is primarily due to C-TEC's prepayment of the senior secured notes in December 1994.

**Other, net.** In 1995, other income primarily includes settlement proceeds of \$135 million from the Whitney Benefits litigation. Other income also includes gains and losses from the disposition of property, plant and equipment and other assets in 1995 and 1994.

## **KIEWIT DIVERSIFIED GROUP**

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

**Equity Loss in MFS.** MFS is a leading provider of communication services to business. Through its operating subsidiaries, MFS provides a wide range of high quality voice, data, network system integration and other enhanced services. The Group's losses associated with MFS continued to increase, primarily because of the accelerated expansion activities announced in 1993 and 1995. These expansion activities require significant initial development and roll out expenses in advance of anticipated revenues and continue to negatively effect the operating results of MFS. After September 30, 1995, the date of the Spin-off, the Group will no longer include MFS' results in its financial statements.

**Income Tax Benefit (Provision).** The effective income tax rate for 1995 differs from the statutory rate of 35% due primarily to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities originally recognized on gains from previous MFS stock transactions that are no longer required due to the tax-free spin-off of MFS and adjustments of prior year tax provisions. In 1994, the rate is lower than 35% primarily due to adjustments to prior year tax provisions.

## **Results of Operations 1994 vs. 1993**

**Mining.** Mining revenue increased 7% in 1994. This increase was primarily due to an increase in spot sales. Mining gross profits were 47% in 1994 and 50% 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 33% of revenues and 50% of gross profits compared to 34% and 54% in 1993.

**Telecommunications.** C-TEC generated telecommunications revenue for the Group of \$291 million and \$48 million in 1994 and 1993. The 1993 figures represent activity from the acquisition date. C-TEC's telephone group and cable group had revenue of \$122 million and \$95 million. The mobile services group, sold in 1994, the long distance group and communications services group generated the balance. Overall



C-TEC's revenues increased 5% in 1994. Increases in interstate access revenues for the telephone group, 9,300 additional subscribers for the cable group and increased business and residential market penetration for the long distance group all contributed to the increase in revenue.

The cost of revenue for C-TEC included in the Group'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 and the cable group - \$71 million. C-TEC's cost of revenue increased at a higher rate than revenue in 1994. The costs associated with developing the long distance business, primarily the opening of four new sales offices in late 1993, advertising expenses and promotional and discount campaigns designed to obtain a greater market share were the reasons for the increase.

General and Administrative Expenses. General and administrative expenses in 1994 exceeded those of 1993 by 90%. The inclusion of a full year of C-TEC's operations is responsible for the majority of the increase. Overall, C-TEC's general and administrative expenses remained fairly consistent in 1994. The remaining increase in general and administrative expenses was attributable to an increase in payroll expenses partially offset by lower professional fees.

## **KIEWIT DIVERSIFIED GROUP**

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

Gain on Subsidiary's Stock Issuances, net. In 1994, the Group settled a contingent purchase price adjustment resulting from MFS' 1990 purchase of 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 were provided on these gains.

Investment Income, net. The improvement in investment income was directly attributable to a decline of \$22 million in losses from the sale and writedown of derivative and other securities. Partially offsetting these items was a \$3 million decrease in interest and dividend income and the recognition of \$4 million of developmental expenses associated with the international energy projects being jointly developed by the Group and CE.

Interest Expense, net. Interest expense increased significantly in 1994. The interest on the debt assumed in the C-TEC acquisition, \$33 million, was primarily responsible for the increase.

Other, net. Debt prepayment penalties incurred by C-TEC were primarily responsible for the decline.

Income Tax Benefit (Provision). The effective income tax rate for 1994 and 1993 differed from the statutory rate of 35% due to adjustments of prior year tax provisions. Dividend exclusions and mineral depletion deductions also contributed to the lower effective rate in 1993.

## **KIEWIT DIVERSIFIED GROUP**

### **Financial Condition - December 30, 1995**

The Group's working capital, exclusive of MFS, increased \$66 million or 9% during 1995. The increase was mainly due to cash flows from operations, including the receipt of the Whitney settlement of \$135 million and the net proceeds from stock conversions. The increase was partially offset by the use of cash for investing activities.

Investing activities include \$82 million of capital expenditures, \$258 million of investments, \$36 million of deferred development costs and net purchases of marketable securities of \$47 million. The investments primarily include C-TEC's \$84 million outlay for 40% of Megacable and \$37 million outlay for Twin County, KDG's \$85 million investment in two Philippine power projects, \$29 million purchase of CE's stock, \$8 million investment in geothermal power plants in Indonesia and \$6 million for a 19% interest in a healthcare software development company. The capital outlays were partially offset by \$14 million of proceeds from the sale of property, plant and equipment and other investments.

Financing sources include \$157 million of stock conversions and sales and \$30 million for the construction financing of a privately owned toll road. Financing uses consisted of C-TEC's \$27 million outlay for the net payment of long-term debt, \$3 million of payments on stockholders' notes and \$3 million for stock repurchases.

In 1995, the Group received the final payment (\$29 million) for the sale of certain discontinued packaging operations.

In addition to the C-TEC activities described below, the Group anticipates making significant investments in its infrastructure, telecommunications and energy businesses - including its joint venture agreement with CE 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 repurchasing the Group's stock. The Group's current financial condition and borrowing capacity should be sufficient for future operating and investing activities.

In October 1995, the PKS Board of Directors declared a special \$.50 per share dividend payable to Class D shareholders in January 1996.

In November 1995, C-TEC announced that it had engaged an investment banker to assist with evaluating strategic alternatives for its various business units with a view toward enhancing shareholder value. C-TEC is now planning to distribute to its shareholders in a tax-free spin-off the telephone group, the communications services group, and certain other assets. Following the spin-off C-TEC plans to combine its remaining businesses, which will consist of its domestic cable group, with a third party pursuant to a tax-free, stock-for-stock transaction. C-TEC has received a number of inquiries regarding its domestic cable group and is holding discussions with interested parties.

In March 1996, under the terms of an agreement, RCN will pay C-TEC approximately \$123 million for certain of C-TEC's assets, including the long distance group, C-TEC International, which holds the 40% interest in Megacable, S.A. de C.V., and Residential Communications Network, a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. RCN will purchase Residential Communications Network for cash in a transaction expected to close in April 1996. RCN's purchase of the other asset for cash or C-TEC stock, at RCN's option, is expected to close in the second half of 1996. The transactions are subject to certain conditions including the receipt of all necessary regulatory approvals. The agreement with RCN contains a repurchase option under which C-TEC can reacquire the businesses if a restructuring of C-TEC's main businesses does not occur. Additionally, C-TEC retains a warrant to reacquire a six percent stake in Residential Communications Network. The agreement with RCN was approved by a special committee of the board of directors of C-TEC, composed of directors unaffiliated with either RCN or the Group.

Also in March 1996, RCN entered into an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an 80 percent interest in certain private cable systems in New York City and selected areas of New Jersey. The transaction closed on March 6, 1996. These cable systems provide subscription television services using microwave frequencies. RCN deposited \$27 million in an escrow account which was released on the closing date. In addition, RCN issued a \$15 million promissory note that is expected to be paid during 1996.

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