

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-Q (Quarterly Report)

Filed 11/14/96 for the Period Ending 09/30/96

|             |  |
|-------------|--|
| Address     | 1025 ELDORADO BOULEVARD<br>BLDG 2000<br>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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| Address     | 1025 ELDORADO BOULEVARD BLDG 2000<br>BROOMFIELD, Colorado 80021 |
| Telephone   | 720-888-1000  |
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| Industry    | Communications Services   |
| Sector      | Services  |
| Fiscal Year | 12/31   |

# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended September 30, 1996

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission file 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)

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(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The number of shares outstanding of each class of the issuer's common stock, as of November 1, 1996:

|                            |                   |
|----------------------------|-------------------|
| Class B Common Stock ..... | 263,468 shares    |
| Class C Common Stock ..... | 10,743,773 shares |
| Class D Common Stock ..... | 23,180,243 shares |

PETER KIEWIT SONS', INC.

#### Part I - Financial Information

##### Item 1. Financial Statements:

Consolidated Condensed Statements of Earnings Consolidated Condensed Balance Sheets Consolidated Condensed Statements of Cash Flows  
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##### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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## PETER KIEWIT SONS', INC.

### Consolidated Condensed Statements of Earnings (unaudited)

|   | Three Months Ended |        |      |        | Nine Months Ended |          | September 30, |          |     |         |
|---|--------------------|--------|------|--------|-------------------|----------|---------------|----------|-----|---------|
| (dollars in millions,<br>except per share data)         | 1996               |        | 1995 |        | 1996              |          | 1995          |          |     |         |
| Revenue   |                    | \$ 770 |      | \$ 839 |                   | \$ 2,157 |               | \$ 2,099 |     |         |
| Cost of Revenue   |                    | (633)  |      | (699)  |                   | (1,816)  |               | (1,781)  |     |         |
|   |                    |        |      |        |                   |          | 137           | 140      | 341 | 318     |
| General and Administrative Expenses                     |                    | (55)   |      | (56)   |                   | (180)    |               | (161)    |     |         |
| Operating Earnings                                      |                    |        |      | 82     |                   | 84       |               | 161      |     | 157     |
| Other Income (Expense):                                 |                    |        |      |        |                   |          |               |          |     |         |
| Investment Income, net                                  |                    | 24     |      | 21     |                   | 64       |               | 50       |     |         |
| Interest Expense, net                                   |                    |        |      | (9)    |                   | (7)      |               | (24)     |     | (20)    |
| Other, net  |                    |        |      | 5      |                   | (21)     |               | 19       |     | 154     |
|   |                    |        |      |        |                   |          |               | 20       |     | (7)     |
|   |                    |        |      |        |                   |          |               |          | 59  | 184     |
| Equity Loss in MFS                                      |                    |        |      | -      |                   | (46)     |               | -        |     | (131)   |
| Earnings Before Income Taxes and<br>Minority Interest   |                    |        |      | 102    |                   | 31       |               | 220      |     | 210     |
| Benefit (Provision) for Income Taxes                    |                    | (39)   |      | 62     |                   | (85)     |               | (38)     |     |         |
| Minority Interest in Net Income<br>of Subsidiaries      |                    | -      |      | (3)    |                   | (1)      |               | (11)     |     |         |
| Net Earnings  |                    |        |      | \$ 63  |                   | \$ 90    |               | \$ 134   |     | \$ 161  |
| Earnings Attributable to<br>Class B&C Stock             |                    | \$ 39  |      | \$ 39  |                   | \$ 75    |               | \$ 73    |     |         |
| Earnings Attributable to<br>Class D Stock               | \$                 | 24     |      | \$ 51  |                   | \$ 59    |               | \$ 88    |     |         |
| Net Earnings per Common and Common<br>Equivalent Share: |                    |        |      |        |                   |          |               |          |     |         |
| Class B&C   |                    |        |      |        |                   | \$ 3.64  |               | \$ 2.69  |     | \$ 7.18 |
| Class D   |                    |        |      | \$ .98 |                   | \$ 2.38  |               | \$ 2.52  |     | \$ 4.13 |
| Cash Dividends per Common Share:                        |                    |        |      |        |                   |          |               |          |     |         |
| Class B&C   |                    |        |      |        |                   | \$ -     |               | \$ -     |     | \$ .60  |
| Class D   |                    |        |      | \$ -   |                   | \$ -     |               | \$ -     |     | \$ -    |

See accompanying notes to consolidated condensed financial statements.

## PETER KIEWIT SONS', INC.

### Consolidated Condensed Balance Sheets

|  | September 30,<br>1996 | December 30,<br>1995 |
|--|-----------------------|----------------------|
| (dollars in millions,<br>except per share data)                      | (unaudited)           |                      |
| Assets   |                       |                      |
| Current Assets:  |                       |                      |
| Cash and cash equivalents  | \$ 449                | \$ 457               |
| Marketable securities  | 555                   | 593                  |
| Receivables, less allowance of \$12 and \$12                         | 373                   | 329                  |
| Costs and earnings in excess of<br>billings on uncompleted contracts | 121                   | 78                   |
| Investment in construction joint ventures                            | 65                    | 73                   |
| Deferred income taxes  | 87                    | 66                   |
| Other  | 42                    | 47                   |

|  |       |       |                        |
|--|-------|-------|------------------------|
| Total Current Assets   | ----- | ----- |                        |
|  |       | 1,692 | 1,643                  |
| Property, Plant and Equipment,<br>less accumulated depreciation and<br>amortization of \$750 and \$710 |       | 823   | 782                    |
| Investments  |       | 647   | 553                    |
| Intangible Assets, net   |       | 351   | 363                    |
| Other Assets   | ----- | 82    | 114                    |
|  | ----- |       |                        |
|  | ===== | ===== | \$ 3,595      \$ 3,455 |

See accompanying notes to consolidated condensed financial statements.

## PETER KIEWIT SONS', INC.

### Consolidated Condensed Balance Sheets

|  |             | September 30,<br>1996 | December 30,<br>1995   |     |
|--|-------------|-----------------------|------------------------|-----|
| (dollars in millions,<br>except per share data)                                    | (unaudited) |                       |                        |     |
| Liabilities and Stockholders' Equity   |             |                       |                        |     |
| Current Liabilities:   |             |                       |                        |     |
| Accounts payable   |             | \$ 210                | \$ 240                 |     |
| Short-term borrowings  |             | -                     | 45                     |     |
| Current portion of long-term debt:   |             |                       |                        |     |
| Telecommunications   |             | 73                    | 36                     |     |
| Other  |             |                       | 2                      | 6   |
| Accrued costs and billings in excess<br>of revenue on uncompleted contracts        |             | 212                   | 121                    |     |
| Accrued insurance costs  | 78          |                       | 79                     |     |
| Other  |             |                       | 145                    | 127 |
| Total Current Liabilities  | -----       | 720                   | 654                    |     |
| Long-Term Debt, less current portion:  |             |                       |                        |     |
| Telecommunications   |             | 210                   | 264                    |     |
| Other  |             |                       | 123                    | 106 |
| Deferred Income Taxes  | 223         |                       | 236                    |     |
| Retirement Benefits  | 50          |                       | 54                     |     |
| Accrued Reclamation Costs  | 97          |                       | 100                    |     |
| Other Liabilities  |             | 207                   | 220                    |     |
| Minority Interest  |             | 220                   | 214                    |     |
| Stockholders' Equity:  |             |                       |                        |     |
| Preferred stock, no par value, authorized<br>250,000 shares: no shares outstanding |             | -                     | -                      |     |
| Common stock, \$.0625 par value,<br>\$1.5 billion aggregate redemption value:      |             |                       |                        |     |
| Class B, authorized 8,000,000 shares:  |             |                       |                        |     |
| 263,468 outstanding in 1996 and 1995   |             | -                     | -                      |     |
| Class C, authorized 125,000,000 shares:  |             |                       |                        |     |
| 10,744,633 outstanding in 1996 and<br>10,616,901 in 1995                           |             | 1                     | 1                      |     |
| Class D, authorized 50,000,000 shares:   |             |                       |                        |     |
| 23,181,650 outstanding in 1996 and<br>23,027,974 in 1995                           |             | 1                     | 1                      |     |
| Additional paid-in capital   | 234         |                       | 210                    |     |
| Foreign currency adjustment  | (6)         |                       | (6)                    |     |
| Net unrealized holding gain  | 16          |                       | 17                     |     |
| Retained earnings  |             | 1,499                 | 1,384                  |     |
| Total Stockholders' Equity   | -----       | 1,745                 | 1,607                  |     |
|  | =====       | =====                 | \$ 3,595      \$ 3,455 |     |

See accompanying notes to consolidated condensed financial statements.

## PETER KIEWIT SONS', INC.

### Consolidated Condensed Statements of Cash Flows (unaudited)

| (dollars in millions)  | 1996   | 1995   |
|--|--------|--------|
| Cash flows from continuing operations:                                     |        |        |
| Net cash provided by continuing operations                                 | \$ 229 | \$ 291 |
| Cash flows from investing activities:                                      |        |        |
| Proceeds from sales and maturities of marketable securities                | 318    | 369    |
| Purchases of marketable securities   | (287)  | (325)  |
| Proceeds from sale of property, plant and equipment, and other investments | 25     | 21     |
| Capital expenditures   | (138)  | (141)  |
| Acquisitions and investments in affiliates                                 | (96)   | (182)  |
| Other  | 3      | -      |
| Net cash used in investing activities                                      | (175)  | (258)  |
| Cash flows from financing activities:                                      |        |        |
| Proceeds from long-term debt borrowings                                    | 35     | 23     |
| Payments on long-term debt, including current portion                      | (40)   | (26)   |
| Net change in short-term borrowings  | (45)   | -      |
| Repurchases of common stock  | (15)   | (7)    |
| Dividends paid   | (25)   | (13)   |
| Issuance of common stock   | 28     | 27     |
| Net cash provided by (used in) financing activities                        | (62)   | 4      |
| Cash flows from proceeds due to sales of discontinued packaging operations | -      | 29     |
| Cash and cash equivalents of MFS at beginning of period                    | -      | (22)   |
| Effect of exchange rates on cash   | -      | 2      |
| Net change in cash and cash equivalents                                    | (8)    | 46     |
| Cash and cash equivalents at beginning of period                           | 457    | 400    |
| Cash and cash equivalents at end of period                                 | \$ 449 | \$ 446 |
| Noncash investing activities:  |        |        |
| Conversion of CalEnergy Convertible Debentures to CalEnergy Common Stock   | \$ 66  | \$ -   |
| Dividend of investment in MFS  | -      | 399    |
| Issuance of C-TEC Redeemable Preferred Stock for acquisition               | -      | 44     |

See accompanying notes to consolidated condensed financial statements.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Condensed Financial Statements

#### 1. Basis of Presentation

The consolidated condensed balance sheet of Peter Kiewit Sons', Inc. ("PKS") and subsidiaries (the "Company") at December 30, 1995 has been condensed from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position and results of operations for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 30, 1995.

Marketable securities at September 30, 1996 and December 30, 1995 include approximately \$57 million and \$62 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1996 and December 30, 1995 include approximately \$64 million and \$50 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

Where appropriate, items within the consolidated condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

## 2. Earnings Per Share:

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

| Three Months Ended<br>September 30,<br>1996 | Three Months Ended<br>September 30,<br>1995 | Nine Months Ended<br>September 30,<br>1996 | Nine Months Ended<br>September 30,<br>1995 |
|---|---|--|--|
|---|---|--|--|

Class B&C 11,013,724 14,740,972 10,542,158 14,219,168 Class D 23,181,785 21,326,218 23,207,898 21,283,397

Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

## 3. 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 construction and materials operations of Kiewit Construction Group Inc. and certain mining services provided by Kiewit Mining Group Inc. The Diversified Group contains coal mining properties owned by Kiewit Coal Properties Inc., communications companies owned by C-TEC Corporation ("C-TEC"), a minority interest in CalEnergy Company, Inc. ("CalEnergy"), international energy projects and miscellaneous investments, all owned by Kiewit Diversified Group Inc. ("KDG"). 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 two groups.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Condensed Financial Statements

## 3. Summarized Financial Information:

A summary of the results of operations and financial position for the Construction & Mining Group and the Diversified Group follows. The summary information for December 30, 1995 was derived from the audited financial statements of the respective groups which were exhibits to the 1995 Annual Report. All other summary information was derived from the unaudited financial statements of the respective groups which are exhibits to this Form 10-Q. All significant intercompany accounts and transactions, except those directly between the Construction & Mining Group and the Diversified Group, have been eliminated.

(in millions, except per share data)

| Construction & Mining Group:         |        | Three Months Ended |        |               |      | Nine Months Ended |              |      |               |
|--------------------------------------|--------|--------------------|--------|---------------|------|-------------------|--------------|------|---------------|
|                                      |        |                    |        | September 30  |      |                   |              |      | September 30, |
|                                      |        |                    |        | 1996          | 1995 |                   |              |      | 1995          |
| Results of Operations:               |        |                    |        |               |      |                   |              | 1996 |               |
| Revenue                              | \$ 606 | \$ 689             |        | \$ 1,678      |      | \$ 1,677          |              |      |               |
| Net earnings                         |        | 39                 | 39     |               | 75   |                   | 73           |      |               |
| Earnings per share                   | 3.64   | 2.69               |        | 7.18          |      | 5.18              |              |      |               |
|                                      |        |                    |        | September 30, |      |                   | December 30, |      |               |
|                                      |        |                    |        | 1996          |      |                   | 1995         |      |               |
| Financial Position:                  |        |                    |        |               |      |                   |              |      |               |
| Working capital                      | \$ 320 |                    | \$ 248 |               |      |                   |              |      |               |
| Total assets                         |        | 1,081              |        | 981           |      |                   |              |      |               |
| Long-term debt, less current portion |        | 9                  | 9      |               |      |                   |              |      |               |

Stockholders' equity 537 467

Included within the results of operations are mine management fees paid by the Diversified Group of \$9 million and \$8 million for the three months ended September 30, 1996 and 1995 and \$24 million and \$23 million for the nine months ended September 30, 1996 and 1995.

## PETER KIEWIT SONS', INC.

### Notes to Consolidated Condensed Financial Statements

## 3. Summarized Financial Information:

(in millions, except per share data)

| Diversified Group:                   |    | Three Months Ended |        | September 30, |       | Nine Months Ended |        | September 30, |  |
|--------------------------------------|----|--------------------|--------|---------------|-------|-------------------|--------|---------------|--|
|                                      |    |                    |        | 1996          |       | 1995              |        | 1996          |  |
| Results of Operations:               |    |                    |        |               |       |                   |        |               |  |
| Revenue                              |    | \$ 165             | \$ 152 |               |       | \$ 482            | \$ 429 |               |  |
| Net earnings                         | 24 |                    | 51     |               |       | 59                | 88     |               |  |
| Earnings per share                   |    | .98                | 2.38   |               | 2.52  |                   | 4.13   |               |  |
|                                      |    |                    |        |               |       |                   |        |               |  |
| Financial Position:                  |    |                    |        | September 30, |       | December 30,      |        |               |  |
|                                      |    |                    |        | 1996          |       | 1995              |        |               |  |
| Working capital                      |    | \$ 652             |        | \$ 741        |       |                   |        |               |  |
| Total assets                         |    |                    | 2,517  |               | 2,488 |                   |        |               |  |
| Long-term debt, less current portion |    | 324                |        | 361           |       |                   |        |               |  |
| Stockholders' equity                 |    |                    | 1,208  |               | 1,140 |                   |        |               |  |

Included within the results of operations are mine management fees paid to the Construction & Mining Group of \$9 million and \$8 million for the three months ended September 30, 1996 and 1995 and \$24 million and \$23 million for the nine months ended September 30, 1996 and 1995.

#### 4. Acquisitions:

On August 8, 1996, C-TEC announced a plan to rescind the sale of Residential Communications Network to RCN and acquire the assets of Liberty from RCN Corporation, ("RCN"), a subsidiary of KDG, and merge those operations with C-TEC. This action coincided with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC agreed to exercise its option to unwind the agreement to sell to RCN its other non-core assets. On August 30, C-TEC paid RCN \$58.3 million, representing the cost of RCN's investment in Liberty and Residential Communications Network and interest of \$1.7 million.

#### 5. Investments:

In February 1996, the Company exercised 1.5 million CalEnergy options at a price of \$9 per share. In September 1996, the Company converted its \$66 million of 9.5% Convertible Subordinated Debentures into 3.6 million shares of CalEnergy common stock. These transactions increased the Company's ownership interest in CalEnergy to 28%.

### PETER KIEWIT SONS', INC.

#### Notes to Consolidated Condensed Financial Statements

#### 5. Investments:

On October 15, 1996, the Company exercised 3.3 million CalEnergy options at a price of \$12 per share. This transaction brought the Company's ownership interest to 32%. In addition, the Company has 1 million options to purchase additional CalEnergy stock at \$11.625 per share that expire in 2001.

#### 6. Other Matters:

At a meeting held October 25, 1996, the Company's Board of Directors directed management to pursue a listing of the Company's Class D stock on a major securities exchange or the NASDAQ National Market as soon as practical during 1998. The Board does not foresee circumstances under which the Company would list the Class D stock prior to 1998. The Board believes that a listing will provide the Company with a capital structure more suitable for the further development of the Diversified Group's business plan. It would also provide liquidity for Class D shareholders without impairing the Company's capital base.

The Board's action does not ensure that a listing of Class D stock will occur in 1998, or at any time. The Board could delay or abandon plans to list the stock if it determined that such action would be in the best interests of all the Company's shareholders. In addition, the Company's ability to list Class D stock will be subject to factors beyond its control, including the laws, regulations, and listing eligibility criteria in affect at the time a listing is sought, as well as stock market conditions at the time. Furthermore, the Board might decide to couple the listing of Class D stock with a public offering of newly- issued Class D shares in order to raise additional capital for the Diversified Group. Such an offering could delay or alter the listing plan.

At the October meeting, the Company's Board of Directors also declared dividends of \$.70 per share for Class B and Class C Stock and \$.50 per share for Class D Stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

On October 28, 1996, CE Electric UK plc ("CE Electric"), made an unsolicited \$1.2 billion offer to acquire Northern Electric plc ("Northern"), a regional electricity distribution and supply company in the United Kingdom. CE Electric is owned 70% by CalEnergy and 30% by a KDG subsidiary. Subsequent to the offer, CE Electric has acquired approximately 30% of Northern's shares in open-market transactions. If the acquisition is completed, CE Electric will fund the acquisition with a combination of bank borrowings and capital provided by its shareholders.



In 1994, several former shareholders of a subsidiary of MFS Communications Company, Inc. ("MFS") 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. Plaintiffs allege that MFS fraudulently concealed material information from them, causing them to sell their shares of the subsidiary to MFS at an inadequate price. The lawsuit was settled in July, 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from this lawsuit. The settlement, net of reserves established, did not materially affect the Company's financial position or results of operations.

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

**PETER KIEWIT SONS', INC.**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Separate management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and the Kiewit Diversified Group have been filed as part of 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.

**Results of Operations- Third Quarter 1996 vs. Third Quarter 1995**

Revenue from each of the Company's business segments for the three months ended September 30, comprised the following (in millions):

|                    |        | 1996   | 1995   |
|--------------------|--------|--------|--------|
| Construction       | \$ 602 | \$ 686 |        |
| Mining             | 65     | 59     |        |
| Telecommunications | 90     | 85     |        |
| Other              |        | 13     | 9      |
| -----              | -----  | \$ 770 | \$ 839 |
| =====              | =====  |        |        |

Construction. Construction revenue decreased 12% in the third quarter of 1996 compared to the third quarter of 1995. This is a result of several major projects being completed during the third quarter of 1996. In addition, several large projects awarded in 1996 are in the early phases of construction and have not contributed significantly to revenue.

Contract backlog at September 30, 1996 was \$2.4 billion, of which 6% is attributable to foreign operations, principally, Canada, the Philippines and Indonesia. Projects on the west coast account for 43% of the total backlog. Contract backlog at September 30, 1995 was \$2.2 billion.

Gross margin on construction contracts increased to 11% from 10% during the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, favorably affected construction margins. In addition, the growing materials market continued to have a positive impact on margins.

Mining. Mining revenue for the third quarter of 1996 was \$6 million greater than in the third quarter of 1995. Slightly higher alternate coal sales and greater spot coal shipments offset the lack of precious metal sales which were essentially liquidated during 1995. Coal revenue increased primarily due to the additional alternate source coal needs, of a primary customer and several new spot coal contracts awarded in 1996.

Operating margins were the same in both time periods. The lack of lower margin precious metals sales and the increase in higher margin alternate source coal sales were mitigated by higher shipments of low margin spot coal.

Telecommunications. Telecommunications revenue increased 6% in 1996 compared to 1995. Revenue for C-TEC's cable group increased \$5 million or 15% for the three months ended September 30, 1996 compared to the same period in 1995. Increases in subscribers, primarily in the Pennsylvania market, and the consolidation of Mercom since August 1995, contributed to the improved revenue figures. C-TEC's telephone group experienced a \$3 million or 9% increase in revenue. Strong access line growth from second-line promotions and growth in access minutes along with increases in Internet access and video conferencing revenues primarily accounted for the revenue increase.

**PETER KIEWIT SONS', INC.**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Results of Operations- Third Quarter 1996 vs. Third Quarter 1995**

The cost of telecommunications revenue increased 13% in 1996. The cable group's additional Mercom subscribers, higher programming license fees and the additional amortization and depreciation expense from the Mercom consolidation were primarily responsible for the increase. Software expenses due to the expansion of existing telephone services and the costs associated with the increase in access lines and the nonregulated services, Internet access and video conferencing, contributed to the increase in the telephone group's costs.

C-TEC also announced that RCN Inc., a competitive provider of local, long distance telephone, video and Internet services, has taken several significant steps to quickly and efficiently deploy a full package of services to residential customers in Boston and New York. In September, RCN announced a partnership with Boston Edison to utilize their fiber optic network to deliver its communications package to the Boston area. This partnership will complement RCN's alliance with MFS to utilize their network in downtown Boston. In October, RCN signed an agreement with DirecTV to deliver direct broadcast satellite service to multiple dwelling units in New York City. RCN has also signed comprehensive interconnection agreements with NYNEX and Bell Atlantic to allow RCN to interconnect with the local exchange networks at fully reciprocal and identical rates.

**General and Administrative Expenses.** General and administrative expenses in 1996 were consistent with those in 1995. The additional costs associated with the development of the RCN business in New York and Boston and the consolidation of Mercom since August 1995 were offset by lower C-TEC professional fees.

**Investment Income, net.** Investment income increased 14% for the third quarter of 1996 compared to 1995. Improvements in the results of the Company's equity method investees, particularly CalEnergy, and a decline in the international development expenses were partially offset by fewer gains on the sale of marketable securities.

**Interest Expense, net.** The interest expense on the privately owned toll road debt, which was capitalized in 1995, and C-TEC's preferred stock which began accruing interest in 1996 are primarily responsible for the increase in interest expense.

**Other, net.** Other income in 1996 primarily relates to gains on sales of operating assets. The losses in 1995 also include performance based expenditures of \$16 million and costs incurred related to the spin-off of MFS of \$4 million.

**Equity Loss in MFS.** MFS is a leading provider of communications services to business. The Company spun-off its investment in MFS to Class D stockholders on September 30, 1995. Prior to the spin-off, the Company included its proportionate share of MFS' losses in the statement of earnings. The significant initial development and roll out expenses associated with expansion activities adversely affected MFS' 1995 results.

**Benefit (Provision) for Income Taxes.** The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. The effective income tax rate for 1995 differs primarily due to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that were no longer payable due to the tax-free spin-off of MFS, partially offset by the net operating loss deduction limitations on losses generated by MFS.

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

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Results of Operations - Nine Months 1996 vs. Nine Months 1995**

Revenue from each of the Company's business segments for the nine months ended September 30 comprised the following (in millions):

|                    | 1996     |          | 1995     |  |
|--------------------|----------|----------|----------|--|
| Construction       | \$ 1,667 | \$ 1,652 |          |  |
| Mining             |          | 183      | 186      |  |
| Telecommunications |          | 273      | 237      |  |
| Other              |          | 34       | 24       |  |
| -----              |          |          |          |  |
| =====              |          | \$ 2,157 | \$ 2,099 |  |

**Construction.** Construction and materials revenues increased by \$15 million or 1% during the first nine months of 1996 compared to the same period in 1995. The increase in materials sales, due to more favorable weather and market conditions, contributed largely to the increase.

Gross margins on construction and materials projects increased to 9% for the first nine months of 1996 versus 8% for the same time period in 1995.

**Mining.** Mining revenue decreased \$3 million in the first three quarters of 1996 from the same period in 1995. This decrease was the net result of lower precious metal sales in 1996 which were essentially liquidated in 1995, partially offset by higher alternate source coal and spot coal sales.

Operating margins in the first nine months of 1996 increased 3% when compared to 1995. A decrease in lower-margin precious metal sales in 1996 and higher alternate source coal sales combined to increase margins.

Telecommunications. Telecommunications revenue increased 15% in 1996 compared to 1995. Revenue for C-TEC's cable group increased \$29 million or 33% for the first nine months of 1996 compared to the same period in 1995. The consolidations of Twin County and Mercom and subscriber growth in its Pennsylvania market contributed to the improved revenue figure. C-TEC's telephone group experienced a \$8 million or 9% increase in revenue. Strong access line growth from second-line promotions and growth in access minutes along with increases in Internet access and video conferencing revenues primarily accounted for the revenue increase.

The cost of telecommunications revenue increased 23% in 1996. The cable group's increase is attributable to higher programming expenses and the costs attributable to consolidation of Mercom and Twin County, including amortization and depreciation expense. Programming expense increased primarily due to license fee increases, subscriber growth and channel additions. The primary reasons for the increase in the telephone group's costs were higher payroll expense and fees associated with the provision of internet access services and with consulting services for a variety of other regulatory and operational matters. Additionally, materials expense increased in connection with higher video conferencing system sales.

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

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Results of Operations - Nine Months 1996 vs. Nine Months 1995**

General and Administrative Expenses. General and administrative expenses increased 12% in 1996 compared to 1995. Costs associated with the development of the RCN business in New York and Boston, the professional fees required to explore C-TEC restructuring alternatives, the consolidation of Twin County and Mercom results, and the commencement of operations at the privately owned toll road in southern California, all contributed to the increase in general and administrative expenses.

Investment Income, net. Investment income increased 28% for the nine months ended September 30, 1996 compared to the same period in 1995. Increases in gains on the sale of marketable securities, equity earnings primarily from CalEnergy, and interest income were partially offset by a slight decline in dividend income.

Interest Expense, net. The interest expense on the toll road debt, which was capitalized in 1995, and C-TEC's preferred stock which began accruing interest in 1996 are primarily responsible for the 20% increase in interest expense.

Other, net. Other income in 1996 primarily relates to gains on sales of operating assets. Other income in 1995 also includes Whitney Benefit proceeds, the Kinross transaction gain, performance based expenditures and costs related to the spin-off of MFS.

Benefit (Provision) for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. The effective income tax rate for 1995 differs primarily due to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that were no longer payable due to the tax-free spin-off of MFS, partially offset by the net operating loss deduction limitations on losses generated by MFS.

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

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Financial Condition - September 30, 1996 vs. December 30, 1995**

The Company's working capital decreased \$17 million or 2% during the first nine months of 1996. The decrease was mainly due to cash used to fund investing and financing activities partially offset by cash provided by operations.

Investing activities include \$96 million of investments and \$138 million of capital expenditures, including \$14 million for the construction of a privately owned toll road. The investments primarily include KDG's \$4 million investment in a Philippine power project, \$37 million investment in three Indonesian power projects, the exercise of CalEnergy options to purchase CalEnergy stock for \$14 million, and C-TEC's \$27 million outlay for Liberty. These capital outlays were partially offset by \$31 million of net proceeds from the sale of marketable securities and \$25 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$27 million for the issuance of Class C Stock, \$16 million of long-term debt borrowings for the construction financing of a privately owned toll road and \$19 million of C-TEC borrowings from its revolving credit agreement. Financing uses primarily consisted of \$45 million for the repayment of short-term borrowings, C-TEC's \$34 million outlay for the payment of long-term debt, \$15 million for stock repurchases and \$25 million of cash dividends.

The Company anticipates making significant investments in its construction, infrastructure, telecommunications and energy businesses -

including its joint venture agreement with CalEnergy covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchases of the Company's stock. The Company's current financial condition and borrowing capacity should be sufficient for immediate operating and investing activities.

In October, the Company's Board of Directors declared dividends of \$.70 per share for Class B and Class C Stock and \$.50 per share for Class D Stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

On August 8, 1996, C-TEC announced a plan to rescind the 1996 sale of Residential Communications Network to RCN and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC has also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets. On August 30, C-TEC paid RCN \$58.3 million, representing the cost of RCN's investment in Liberty and Residential Communications Network and interest of \$1.7 million. C-TEC will continue to explore ways to increase its profitability and value which could include a restructuring transaction.

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

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Financial Condition - September 30, 1996 vs. December 30, 1995**

On October 28, 1996 CE Electric UK plc made an unsolicited \$1.2 billion offer to acquire Northern Electric plc, a regional electricity distribution and supply company in the United Kingdom. CE Electric is owned 70% by CalEnergy and 30% by a KDG subsidiary. Subsequent to the offer, CE Electric has acquired approximately 30% of Northern's shares in open-market transactions. If the acquisition is completed, CE Electric will fund the acquisition with a combination of bank borrowings and capital provided by its shareholders.

At a meeting held October 25, 1996, the Company's Board of Directors directed management to pursue a listing of the Company's Class D stock on a major securities exchange or the NASDAQ National Market as soon as practical during 1998. The Board does not foresee circumstances under which the Company would list the Class D stock prior to 1998. The Board believes that a listing will provide the Company with a capital structure more suitable for the further development of the Diversified Group's business plan. It would also provide liquidity for Class D shareholders without impairing the Company's capital base.

The Board's action does not ensure that a listing of Class D stock will occur in 1998, or at any time. The Board could delay or abandon plans to list the stock if it determined that such action would be in the best interests of all the Company's shareholders. In addition, the Company's ability to list Class D stock will be subject to factors beyond its control, including the laws, regulations, and listing eligibility criteria in affect at the time a listing is sought, as well as stock market conditions at the time. Furthermore, the Board might decide to couple the listing of Class D stock with a public offering of newly-issued Class D shares in order to raise additional capital for the Diversified Group. Such an offering could delay or alter the listing plan

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

### **PART II - OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

##### **MFS Litigation.**

In 1994, several former shareholders of a subsidiary of MFS Communications Company, Inc. ("MFS") 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. Plaintiffs allege that MFS fraudulently concealed material information from them, causing them to sell their shares of the subsidiary to MFS at an inadequate price. The lawsuit was settled in July 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from this lawsuit. The settlement, net of reserves established, did not materially affect the Company's financial position or results of operations.

#### **Item 6. Exhibits & Reports on Form 8-K**

(a) Exhibits filed as part of this report are listed below.

Exhibit  
Number

|      |   |
|------|---|
| 27   | Financial Data Schedule (for electronic filing purposes only) |
| 99.A | Kiewit Construction & Mining Group Financial Statements       |

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

99.B Kiewit Diversified Group Financial Statements and  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations.

(b) Report on Form 8-K filed October 30, 1996 reported CE Electric UK plc's unsolicited offer to purchase Northern Electric plc for \$1.2 billion.

## **SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PETER KIEWIT SONS', INC.**

*Dated: November 14, 1996* *\s\ Richard R. Jaros*  
*Richard R. Jaros*  
*Executive Vice President and*  
*Chief Financial Officer*

**PETER KIEWIT SONS', INC.**

## **INDEX TO EXHIBITS**

Exhibit  
No.

|      |  |
|------|--|
| 27   | Financial Data Schedule (For electronic filing purposes only)  |
| 99.A | Kiewit Construction & Mining Group Financial Statements and<br>Management's Discussion and Analysis of Financial Condition and<br>Results of Operations. |
| 99.B | Kiewit Diversified Group Financial Statements and Management's<br>Discussion and Analysis of Financial Condition and Results of<br>Operations.           |

## ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-Q for the period ending September 30, 1996 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

|                            |                     |
|----------------------------|---------------------|
| PERIOD TYPE                | 9 MOS               |
| FISCAL YEAR END            | DEC 28 1996         |
| PERIOD END                 | SEP 30 1996         |
| CASH                       | 449                 |
| SECURITIES                 | 555                 |
| RECEIVABLES                | 383                 |
| ALLOWANCES                 | 10                  |
| INVENTORY                  | 16                  |
| CURRENT ASSETS             | 1,692               |
| PP&E                       | 1,573               |
| DEPRECIATION               | 750                 |
| TOTAL ASSETS               | 3,595               |
| CURRENT LIABILITIES        | 720                 |
| BONDS                      | 333                 |
| PREFERRED MANDATORY        | 2                   |
| PREFERRED                  | 0                   |
| COMMON                     | 0                   |
| OTHER SE                   | 1,743               |
| TOTAL LIABILITY AND EQUITY | 3,595               |
| SALES                      | 1,850               |
| TOTAL REVENUES             | 2,157               |
| CGS                        | 1,607               |
| TOTAL COSTS                | 1,816               |
| OTHER EXPENSES             | 180                 |
| LOSS PROVISION             | 0                   |
| INTEREST EXPENSE           | 24                  |
| INCOME PRETAX              | 220                 |
| INCOME TAX                 | 85                  |
| INCOME CONTINUING          | 134                 |
| DISCONTINUED               | 0                   |
| EXTRAORDINARY              | 0                   |
| CHANGES                    | 0                   |
| NET INCOME                 | 134                 |
| EPS PRIMARY                | \$7.18 <sup>1</sup> |
| EPS DILUTED                | \$7.18 <sup>1</sup> |

<sup>1</sup> \$7.18 represents Class C Stock earnings per share, Class D Stock earnings per share \$2.52.

# Exhibit 99.A

## KIEWIT CONSTRUCTION & MINING GROUP

Index to Financial Statements and  
Management's Discussion and Analysis of  
Financial Condition and Results of Operations

### Financial Statements:

Condensed Statements of Earnings for the three months ended September 30, 1996 and 1995 and the nine months ended September 30, 1996 and 1995  
Condensed Balance Sheets as of September 30, 1996 and December 30, 1995  
Condensed Statements of Cash Flows for the nine months ended September 30, 1996 and 1995

### Notes to Condensed Financial Statements

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

## KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Earnings  
(unaudited)

| (dollars in millions, except<br>per share data)    | Three Months Ended |         | Nine Months Ended |          | September 30, |  | September 30, |     |
|--|--------------------|---------|-------------------|----------|---------------|--|---------------|-----|
|  | 1996               |         | 1995              |          | 1996          |  | 1995          |     |
| Revenue  | \$ 606             | \$ 689  | \$ 1,678          | \$ 1,677 |               |  |               |     |
| Cost of Revenue                                    | (536)              | (615)   | (1,525)           | (1,541)  |               |  |               |     |
|  | -----              | -----   | -----             | -----    |               |  |               |     |
|  |                    |         | 70                |          | 74            |  | 153           | 136 |
| General and Administrative Expenses                | (26)               | (26)    | (85)              | (86)     |               |  |               |     |
|  | -----              | -----   | -----             | -----    |               |  |               |     |
| Operating Earnings                                 |                    | 44      | 48                |          | 68            |  | 50            |     |
| Other Income (Expense):                            |                    |         |                   |          |               |  |               |     |
| Investment Income, net                             |                    | 7       | 4                 | 15       | 10            |  |               |     |
| Interest Expense                                   |                    |         | -                 | (1)      | (2)           |  | (2)           |     |
| Other, net   |                    |         | 12                | 8        | 41            |  | 54            |     |
|  | -----              | -----   | -----             | -----    |               |  |               |     |
|  |                    |         | 19                |          | 11            |  | 54            | 62  |
|  | -----              | -----   | -----             | -----    |               |  |               |     |
| Earnings Before Income Taxes                       | 63                 | 59      | 122               | 112      |               |  |               |     |
| Provision for Income Taxes                         | (24)               | (20)    | (47)              | (39)     |               |  |               |     |
|  | -----              | -----   | -----             | -----    |               |  |               |     |
| Net Earnings                                       | \$ 39              | \$ 39   | \$ 75             | \$ 73    |               |  |               |     |
|  | =====              | =====   | =====             | =====    |               |  |               |     |
| Earnings per Common and Common<br>Equivalent Share |                    | \$ 3.64 | \$ 2.69           | \$ 7.18  | \$ 5.18       |  |               |     |
|  | =====              | =====   | =====             | =====    |               |  |               |     |

See accompanying notes to condensed financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

Condensed Balance Sheets

|   | September 30, |     | December 30, |
|---|---------------|-----|--------------|
|   | 1996          |     | 1995         |
| (dollars in millions)                       | (unaudited)   |     |              |
| Assets                                      |               |     |              |
| Current Assets:                             |               |     |              |
| Cash and cash equivalents                   | \$            | 126 | \$ 94        |
| Marketable securities                       | 108           | 120 |              |
| Receivables, less allowance of \$9 and \$10 |               | 295 | 258          |
| Costs and earnings in excess of             |               |     |              |

|   |       |       |          |        |
|---|-------|-------|----------|--------|
| billings on uncompleted contracts   | 121   |       | 78       |        |
| Investment in construction joint ventures   | 65    | 73    |          |        |
| Deferred income taxes   | 77    |       | 61       |        |
| Other   | 11    | 13    |          |        |
|   | ----- | ----- |          |        |
| Total Current Assets  | 803   | 697   |          |        |
| Property, Plant and Equipment, less accumulated depreciation and amortization of \$418 and \$421  | 174   | 161   |          |        |
| Investments   | 86    | 83    |          |        |
| Other Assets  | 18    | 40    |          |        |
|   | ----- | ----- |          |        |
|   | ===== | ===== | \$ 1,081 | \$ 981 |
| Liabilities and Stockholders' Equity  |       |       |          |        |
| Current Liabilities:  |       |       |          |        |
| Accounts payable, including retainage of \$33 and \$42  | \$    | 150   | \$       | 179    |
| Short-term borrowings   | -     | -     | 45       |        |
| Current portion of long-term debt   |       |       | 2        |        |
| Accrued construction costs and billings in excess of revenue on uncompleted contracts             |       | 201   |          | 111    |
| Accrued insurance costs   | 78    |       | 79       |        |
| Other   | 54    | 33    |          |        |
|   | ----- | ----- |          |        |
| Total Current Liabilities   | 483   | 449   |          |        |
| Long-Term Debt, less current portion  | 9     | 9     |          |        |
| Other Liabilities   | 52    | 56    |          |        |
| Stockholders' Equity (Redeemable common stock, \$350 million current aggregate redemption value): |       |       |          |        |
| Common equity   |       | 544   | 471      |        |
| Net unrealized holding gain (loss)  |       | (2)   |          | 1      |
| Foreign currency adjustment   |       | (5)   |          | (5)    |
|   | ----- | ----- |          |        |
| Total Stockholders' Equity  | 537   | 467   |          |        |
|   | ----- | ----- |          |        |
|   | ===== | ===== | \$ 1,081 | \$ 981 |

See accompanying notes to condensed financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Condensed Statements of Cash Flows (unaudited)

|   |        |       | Nine Months Ended<br>September 30, |
|---|--------|-------|------------------------------------|
| (dollars in millions)                                       | 1996   | 1995  |                                    |
| Cash flows from operations:                                 |        |       |                                    |
| Net cash provided by operations                             | \$ 117 | \$ 91 |                                    |
| Cash flows from investing activities:                       |        |       |                                    |
| Proceeds from sales and maturities of marketable securities |        | 174   | 177                                |
| Purchases of marketable securities                          |        | (165) | (137)                              |
| Proceeds from sales of property, plant and equipment        | 21     | 11    |                                    |
| Acquisitions  |        | (3)   | -                                  |
| Capital expenditures  | (60)   | (60)  |                                    |
| Other   | 3      | (2)   |                                    |
|   | -----  | ----- |                                    |
| Net cash used in investing activities                       |        | (30)  | (11)                               |
| Cash flows from financing activities:                       |        |       |                                    |
| Payments on long-term debt, including current portion       | (2)    | (4)   |                                    |
| Net change in short-term borrowings                         | (45)   | -     |                                    |
| Issuance of common stock                                    |        | 27    | 24                                 |
| Repurchases of common stock                                 |        | (4)   | (4)                                |
| Dividends paid  | (12)   | (13)  |                                    |
| Exchange of Class B&C Stock for Class D Stock, net          | (19)   | (154) |                                    |
|   | -----  | ----- |                                    |
| Net cash used in financing activities                       |        | (55)  | (151)                              |
| Effect of exchange rates on cash                            | -      | 1     |                                    |
|   | -----  | ----- |                                    |



|  |        |       |      |
|--|--------|-------|------|
| Net change in cash and cash equivalents          |        | 32    | (70) |
| Cash and cash equivalents at beginning of period | 94     | 70    |      |
|  | -----  | ----- |      |
| Cash and cash equivalents at end of period       | \$ 126 | \$ -  |      |
|  | =====  | ===== |      |

See accompanying notes to condensed financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Condensed Financial Statements

#### 1. Basis of Presentation:

The condensed balance sheet of Kiewit Construction & Mining Group (the "Group") at December 30, 1995 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using the historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 30, 1995.

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 condensed financial statements and related notes as well as those of the Kiewit Diversified Group should be read in conjunction with these financial statements.

Marketable securities at September 30, 1996 and December 30, 1995 include approximately \$57 million and \$62 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1996 and December 30, 1995 include approximately \$64 million and \$50 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

Where appropriate, items within the condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

#### 2. Earnings Per Share:

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period. Fully diluted earnings per share have not been presented because they are not materially different from primary earnings per share. The number of shares used in computing earnings per share was 11,013,724 and 14,740,972 for the three months ended September 30, 1996 and 1995 and 10,542,158 and 14,219,168 for the nine months ended September 30, 1996 and 1995.

Pursuant to the Certificate of Incorporation of PKS, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Condensed Financial Statements

#### 3. Summarized Financial Information:

The Group's 50% portion of 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, and items attributable to the Group are as follows:

(dollars in millions)

|                                    |       | September 30, | December 30, |  |
|------------------------------------|-------|---------------|--------------|--|
|                                    |       | 1996          | 1995         |  |
| Cash and cash equivalents          | \$ -  | \$ 4          |              |  |
| Marketable securities              | 5     | 10            |              |  |
| Property, plant and equipment, net | 5     |               | 5            |  |
| Other assets                       |       | 1             | 4            |  |
|                                    | ----- | -----         |              |  |
| Total Assets                       | \$ 11 | \$ 23         |              |  |

|   |       |       |       |
|---|-------|-------|-------|
|   | ===== | ===== |       |
| Accounts payable                          |       | \$ -  | \$ 10 |
| Long-term debt, including current portion |       | 9     | 11    |
|   | ===== | ===== |       |
| Total Liabilities                         |       | \$ 9  | \$ 21 |
|   | ===== | ===== |       |

Three Months Ended Nine Months Ended September 30, September 30, 1996 1995 1996 1995

Other income (expense), net \$ - \$ 1 \$ (1) \$ -

Corporate general and administrative costs have been allocated to the Group. These allocations were less than \$1 million for the three months ended September 30, 1996 and 1995 and \$1 million for the nine months ended September 30, 1996 and 1995.

Mine management income received from the Diversified Group was \$9 million and \$8 million for the three months ended September 30, 1996 and 1995 and \$24 million and \$23 million for the nine months ended September 30, 1996 and 1995.

#### 4. Other Matters:

In October 1996, the PKS Board of Directors declared a dividend of \$.70 per share on Class B and Class C Stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

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

## KIEWIT CONSTRUCTION & MINING GROUP

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

#### Results of Operations - Third Quarter 1996 vs. Third Quarter 1995

Revenue from each of the Group's business segments for the three months ended September 30, was (in millions):

|              |       | 1996   | 1995   |
|--------------|-------|--------|--------|
| Construction |       | \$ 602 | \$ 686 |
| Other        | 4     | 3      |        |
|              | ----- |        |        |
|              | ----- | \$ 606 | \$ 689 |
|              | ===== |        |        |

Construction. Construction revenue decreased 12% in the third quarter of 1996 compared to the third quarter of 1995. This is a result of several major projects being completed during the third quarter of 1996. In addition, several large projects awarded in 1996 are in the early phases of construction and have not contributed significantly to revenue.

Contract backlog at September 30, 1996 was \$2.4 billion, of which 6% is attributable to foreign operations, principally, Canada, the Philippines and Indonesia. Projects on the west coast account for 43% of the total backlog. Contract backlog at September 30, 1995 was \$2.2 billion.

Gross margin on construction contracts increased to 11% from 10% during the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, favorably affected construction margins. In addition, the growing materials market continued to have a positive impact on margins.

General and Administrative Expenses. General and administrative expenses in 1996 were consistent with those of 1995. An increase in compensation expense was offset by decreases in computer outsourcing costs and other administrative expenses.

Investment Income, net. Investment income increased 75% for the three months ended September 30 compared to the same period in 1995. Additional earnings from the Group's equity method investees, particularly ME Holding Inc. and Pacific Rock Products, were primarily responsible for the increase in income.

Other, net. The increase in other income is primarily attributable to higher gains on the disposal of operating assets and increases in the mine management fee income from the Diversified Group.

Provision for Income Taxes. The effective income tax rate for the Group was 38% and 35% for the third quarter of 1996 and 1995. In 1996, the

effective rate is higher than the expected statutory rate primarily due to state income taxes.

## Results of Operations - Nine Months 1996 vs. Nine Months 1995

Revenue from each of the Group's business segments for the nine months ended September 30, was (in millions):

|              |          | 1996     | 1995     |
|--------------|----------|----------|----------|
| Construction | \$ 1,667 | \$ 1,654 |          |
| Other        |          | 11       | 23       |
| -----        |          |          |          |
| =====        |          | \$ 1,678 | \$ 1,677 |

## KIEWIT CONSTRUCTION & MINING GROUP

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

**Construction.** Construction and materials revenue increased by \$13 million or 1% during the first nine months of 1996 compared to the same period in 1995. The increase in materials sales, due to more favorable weather and market conditions, contributed largely to the increase.

Gross margins on construction and materials projects increased to 9% for the first nine months of 1996 versus 8% for the same time period in 1995.

**General and Administrative Expenses.** General and administrative expenses declined slightly in 1996. The closing of the Mexico office and declines in other administrative functions were partially offset by an increase in compensation expense.

**Investment Income, net.** Improvements in earnings for the Group's equity method investees, primarily ME Holding Inc. and Pacific Rock Products, in addition to the elimination of losses on the sales of marketable securities were primarily responsible for the increase in investment income.

**Other, net.** Other income is primarily comprised of \$24 million of mine management income and \$16 million of gains on the sale and disposition of construction equipment in 1996. In 1995 mine management income was \$23 million, gains on equipment disposals were \$9 million and the gain on the Kinross transaction was \$21 million.

**Provision for Income Taxes.** The effective income tax rate for the Group was 38% and 35% for the first nine months of 1996 and 1995. In 1996, the effective rate is higher than the expected statutory rate primarily due to state income taxes.

## Financial Condition - September 30, 1996 vs. December 30, 1995

The Group's working capital increased \$72 million or 29% during the first nine months of 1996. Cash and cash equivalents increased primarily due to the issuance of common stock totaling \$27 million, net proceeds from the sale of marketable securities of \$9 million, proceeds from the sale of property, plant and equipment and other assets of \$21 million and \$117 million of cash provided by operations. Partially offsetting these sources were capital expenditures of \$60 million, the repayment of \$45 million of short-term borrowings, the exchange for Class D Stock and repurchase of Class B & C stock totaling \$23 million and dividend payments of \$12 million.

The Group anticipates investing between \$40 and \$75 million annually in its construction business, including opportunities to acquire additional businesses and may purchase additional shares of the electrical contractor, ME Holding, Inc. Other long term liquidity uses include the payment of income taxes, repurchases and conversions of common stock and the payment of dividends. 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, the PKS Board of Directors declared a dividend of \$.70 per share on Class B and Class C Stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

## KIEWIT DIVERSIFIED GROUP

### Index to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Financial Statements:

Condensed Statements of Earnings for the three months ended September 30, 1996 and 1995 and the nine months ended September 30, 1996 and 1995

Condensed Balance Sheets as of September 30, 1996 and December 30, 1995

Condensed Statements of Cash Flows for the nine months ended September 30, 1996 and 1995

#### Notes to Condensed Financial Statements

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

## KIEWIT DIVERSIFIED GROUP

Condensed Statements of Earnings  
(unaudited)

| (dollars in millions,<br>except per share data)              |       |        | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |     |
|--|-------|--------|-------------------------------------|--------|------------------------------------|-----|
|  | 1996  | 1995   | 1996                                | 1995   |                                    |     |
| Revenue  |       | \$ 165 | \$ 152                              | \$ 482 | \$429                              |     |
| Cost of Revenue  | ----- | (98)   | (86)                                | (295)  | (247)                              |     |
|  |       |        | 67                                  | 66     | 187                                | 182 |
| General and Administrative Expenses                          | ----- | (38)   | (38)                                | (119)  | (98)                               |     |
| Operating Earnings   |       | 29     | 28                                  | 68     | 84                                 |     |
| Other Income (Expense):                                      |       |        |                                     |        |                                    |     |
| Investment Income, net                                       |       | 17     | 17                                  | 49     | 40                                 |     |
| Interest Expense, net  |       | (9)    | (6)                                 | (22)   | (18)                               |     |
| Other, net   | ----- | 2      | (21)                                | 3      | 123                                |     |
|  |       |        | 10                                  | (10)   | 30                                 | 145 |
| Equity Loss in MFS   | ----- | -      | (46)                                | -      | (131)                              |     |
| Earnings (Loss) Before Income<br>Taxes and Minority Interest |       | 39     | (28)                                | 98     | 98                                 |     |
| Benefit (Provision) for Income Taxes                         |       | (15)   | 82                                  | (38)   | 1                                  |     |
| Minority Interest in Net Income<br>of Subsidiaries           | ----- | -      | (3)                                 | (1)    | (11)                               |     |
| Net Earnings   | ===== | \$ 24  | \$ 51                               | \$ 59  | \$ 88                              |     |
| Earnings Per Common & Common<br>Equivalent Share             | ===== | \$ .98 | \$2.38                              | \$2.52 | \$4.13                             |     |

See accompanying notes to condensed financial statements.

## KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

| (dollars in millions)     |  |        | September 30, | December 30, | 1995 |
|---------------------------|--|--------|---------------|--------------|------|
|                           |  |        | 1996          |              |      |
| Assets                    |  |        |               |              |      |
| Current Assets:           |  |        |               |              |      |
| Cash and cash equivalents |  | \$ 323 | \$ 363        |              |      |
| Marketable securities     |  | 447    | 473           |              |      |

|  |       |          |
|--|-------|----------|
| Receivables, less allowance of \$3 and \$2   | 78    | 81       |
| Other  | 41    | 39       |
|  | ----- | -----    |
| Total Current Assets   | 889   | 956      |
| Property, Plant and Equipment,<br>less accumulated depreciation and<br>amortization of \$332 and \$289   | 649   | 621      |
| Investments  | 561   | 470      |
| Intangible Assets, net   | 336   | 347      |
| Other Assets   | 82    | 94       |
|  | ----- | -----    |
|  | ===== | =====    |
|  |       | \$2,517  |
|  |       | \$2,488  |
| Liabilities and Stockholders' Equity   |       |          |
| Current Liabilities:   |       |          |
| Accounts payable   | \$ 60 | \$ 61    |
| Current portion of long-term debt:   |       |          |
| Telecommunications   | 73    | 36       |
| Other  | 2     | 4        |
| Accrued costs and billings in excess<br>of revenue on uncompleted contracts                              | 11    | 10       |
| Accrued reclamation and other mining costs   | 20    | 18       |
| Other  | 71    | 86       |
|  | ----- | -----    |
| Total Current Liabilities  | 237   | 215      |
| Long-Term Debt, less current portion:  |       |          |
| Telecommunications   | 210   | 264      |
| Other  | 114   | 97       |
| Deferred Income Taxes  | 230   | 235      |
| Retirement Benefits  | 50    | 54       |
| Accrued Reclamation Costs  | 96    | 99       |
| Other Liabilities  | 152   | 170      |
| Minority Interest  | 220   | 214      |
| Stockholders' Equity (Redeemable common stock<br>\$1,147 million current aggregate<br>redemption value): |       |          |
| Common equity  |       | 1,191    |
| Foreign currency adjustment  |       | (1)      |
| Net unrealized holding gain  |       | 18       |
|  | ----- | -----    |
| Total Stockholders' Equity   | 1,208 | 1,140    |
|  | ----- | -----    |
|  |       | \$ 2,517 |
|  | ===== | =====    |
|  |       | \$ 2,488 |

See accompanying notes to condensed financial statements.

## KIEWIT DIVERSIFIED GROUP

### Condensed Statements of Cash Flows (unaudited)

|  |       | Nine Months Ended<br>September 30, |        |
|--|-------|------------------------------------|--------|
| (dollars in millions)  |       | 1996                               | 1995   |
| Cash flows from continuing operations:   |       |                                    |        |
| Net cash provided by continuing operations                                     |       | \$ 125                             | \$ 200 |
| Cash flows from investing activities:  |       |                                    |        |
| Proceeds from sales and maturities of<br>marketable securities and investments |       | 144                                | 192    |
| Purchases of marketable securities   |       | (122)                              | (188)  |
| Capital expenditures   |       | (78)                               | (81)   |
| Acquisitions and investment in affiliates                                      |       | (109)                              | (180)  |
| Proceeds from sale of assets and other   |       | 7                                  | 10     |
|  | ----- | -----                              | -----  |
| Net cash used in investing activities  |       | (158)                              | (247)  |
| Cash flows from financing activities:  |       |                                    |        |
| Proceeds from long-term debt borrowings  | 35    | 23                                 |        |
| Payments on long-term debt, including<br>current portion                       |       |                                    | (38)   |
| Issuance of subsidiary Class D common stock                                    | 1     | 3                                  | (22)   |
| Repurchases of common stock  |       | (11)                               | (3)    |
| Exchange of Class B&C Stock for Class D Stock, net                             | 19    | 154                                |        |
| Payments of dividends  |       | (13)                               | -      |

|  |       |        |        |
|--|-------|--------|--------|
| Net cash provided by (used in) financing activities (7)                    | ----- | -----  | 155    |
| Cash flows from proceeds due to sales of discontinued packaging operations |       | -      | 29     |
| Cash and cash equivalents of MFS at beginning of period                    |       | -      | (22)   |
| Effect of exchange rates on cash   |       | -      | 1      |
| Net change in cash and cash equivalents                                    | ----- | (40)   | 116    |
| Cash and cash equivalents at beginning of period                           |       | 363    | 330    |
| Cash and cash equivalents at end of period                                 | ----- | \$ 323 | \$ 446 |
|  | ===== | =====  |        |
| Noncash investing activities:  |       |        |        |
| Conversion of CalEnergy Convertible Debentures to CalEnergy Common Stock   |       | \$ 66  | \$ -   |
| Dividend of investment in MFS  |       | -      | 399    |
| Issuance of C-TEC Redeemable Preferred Stock for acquisition               |       | -      | 44     |

See accompanying notes to condensed financial statements.

## KIEWIT DIVERSIFIED GROUP

### Notes to Condensed Financial Statements

#### 1. Basis of Presentation:

The condensed balance sheet of Kiewit Diversified Group (the "Group") at December 30, 1995 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 30, 1995.

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 condensed financial statements and related notes as well as those of the Kiewit Construction & Mining Group should be read in conjunction with these financial statements.

Where appropriate, items within the condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

#### 2. Earnings Per Share:

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period. Fully diluted earnings per share have not been presented because they are not materially different from primary earnings per share. The number of shares used in computing earnings per share was 23,181,785 and 21,326,218 for the three months ended September 30, 1996 and 1995 and 23,207,898 and 21,283,397 for the nine months ended September 30, 1996 and 1995.

Pursuant to the Certificate of Incorporation of PKS, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

## KIEWIT DIVERSIFIED GROUP

### Notes to Condensed Financial Statements

#### 3. Summarized Financial Information:

The Group's 50% portion of 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, and specifically attributable items are as follows:

(dollars in millions)

|   | September 30,      |       | December 30,      |       |
|---|--------------------|-------|-------------------|-------|
|   | 1996               |       | 1995              |       |
| Marketable securities                     | \$                 | 5     | \$                | 10    |
| Property, plant and equipment, net        |                    | 5     |                   | 5     |
| Other assets                              |                    |       | 2                 | 3     |
|   | -----              | ----- |                   |       |
| Total Assets                              |                    | \$ 12 |                   | \$ 18 |
|   | =====              | ===== |                   |       |
| Accounts payable                          |                    | \$ 10 |                   | \$ 23 |
| Long-term debt, including current portion |                    | 1     |                   | 3     |
|   | -----              | ----- |                   |       |
| Total Liabilities                         |                    | \$ 11 |                   | \$ 26 |
|   | =====              | ===== |                   |       |
|   | Three Months Ended |       | Nine Months Ended |       |
|   | September 30,      |       | September, 30,    |       |

1996 1995 1996 1995

Other income (expense), net \$ - \$ (1) \$ (1) \$ -

Corporate general and administrative costs have been allocated to the Group. These allocations were \$2 million for the three months ended September 30, 1996 and 1995 and \$5 million and \$4 million for the nine months ended September 30, 1996 and 1995.

Mine management fees paid to the Construction & Mining Group were \$9 million and \$8 million for the three months ended September 30, 1996 and 1995 and \$24 million and \$23 million for the nine months ended September 30, 1996 and 1995.

#### 4. Acquisitions:

On August 8, 1996, C-TEC announced a plan to rescind the 1996 sale of Residential Communications Network to RCN Corporation, ("RCN"), a subsidiary of KDG, and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC also agreed to exercise its option to unwind the agreement to sell to RCN its other non-core assets. On August 30, C-TEC paid RCN \$58.3 million, representing the cost of RCN's investment in Liberty and Residential Communications Network and interest of \$1.7 million.

### KIEWIT DIVERSIFIED GROUP

#### Notes to Condensed Financial Statements

#### 5. Investments:

In February 1996, the Group exercised 1.5 million CalEnergy Company, Inc. ("CalEnergy") options at a price of \$9 per share. In September 1996, the Group converted its \$66 million of 9.5% Convertible Subordinated Debentures into 3.6 million shares of CalEnergy common stock. These transactions increased the Group's ownership interest in CalEnergy to 28%.

On October 15, 1996 the Group exercised 3.3 million CalEnergy options at a price of \$12 per share. This transaction brought the Group's ownership interest to 32%. In addition, the Group has 1 million options to purchase additional CalEnergy stock at \$11.625 per share that expire in 2001.

#### 6. Other Matters:

At a meeting held on October 25, 1996, the PKS Board of Directors directed management to pursue a listing of PKS' Class D stock on a major securities exchange or the NASDAQ National Market as soon as practical during 1998. The Board does not foresee circumstances under which PKS would list the Class D stock prior to 1998. The Board believes that a listing will provide PKS with a capital structure more suitable for the further development of the Diversified Group's business plan. It would also provide liquidity for Class D shareholders without impairing PKS' capital base.

The Board's action does not ensure that a listing of Class D stock will occur in 1998, or at any time. The Board could delay or abandon plans to list the stock if it determined that such action would be in the best interests of all PKS' shareholders. In addition, PKS' ability to list Class D stock will be subject to factors beyond its control, including the laws, regulations, and listing eligibility criteria in affect at the time a listing is sought, as well as stock market conditions at the time. Furthermore, the Board might decide to couple the listing of Class D stock with a public offering of newly-issued Class D shares in order to raise additional capital for the Diversified Group. Such an offering could delay or alter the listing plan.

At the October meeting, the PKS Board of Directors also declared a dividend of \$.50 per share for Class D stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

On October 28, 1996 CE Electric UK plc ("CE Electric"), made an unsolicited \$1.2 billion offer to acquire Northern Electric plc ("Northern"), a regional electricity distribution and supply company in the United Kingdom. CE Electric is owned 70% by CalEnergy and 30% by the Group. Subsequent to the offer, CE Electric has acquired approximately 30% of Northern's shares in open-market transactions. If the acquisition is completed, CE Electric will fund the acquisition with a combination of bank borrowings and capital provided by its shareholders.

In 1994, several former shareholders 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. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares of the subsidiary to MFS at an inadequate price. The MFS lawsuit was settled in July 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from this lawsuit. The settlement, net of reserves established, did not materially affect the Group's financial position or results of operations.

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

**KIEWIT DIVERSIFIED GROUP**

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

**Results of Operations - Third Quarter 1996 vs. Third Quarter 1995**

Revenue from each of the Group's business segments for the three months ended September 30, comprised the following (in millions):

|                    |       | 1996   | 1995   |
|--------------------|-------|--------|--------|
| Mining             | \$ 61 | \$ 56  |        |
| Telecommunications | 90    | 85     |        |
| Other              | 14    | 11     |        |
| -----              | ----- |        |        |
|                    |       | \$ 165 | \$ 152 |
| =====              | ===== |        |        |

Mining. Mining revenue for the third quarter was \$5 million greater than in the third quarter of 1995. Mining revenue increased primarily due to additional alternate source coal needs of a primary customer and new spot coal contracts awarded in 1996.

Operating margins for the third quarter of 1996 were 2% lower than in the third quarter of 1995. Higher shipments of low margin spot coal were partially offset by an increase in high margin alternate source coal sales.

Telecommunications. Telecommunications revenue increased 6% in 1996 compared to 1995. Revenue for C-TEC's cable group increased \$5 million or 15% for the third quarter of 1996 compared to the same period in 1995. Increases in subscribers, primarily in its Pennsylvania market, and the consolidation of Mercom since August 1995, contributed to the improved revenue figures. C-TEC's telephone group experienced a \$3 million or 9% increase in revenue. Strong access line growth from second-line promotions and growth in access minutes along with increases in Internet access and video conferencing revenues primarily accounted for the revenue increase.

The cost of telecommunications revenue increased 13% in 1996. The cable group's additional Mercom subscribers, higher programming license fees and the additional amortization and depreciation expense from the Mercom consolidation were primarily responsible for the increase. Software expenses due to the expansion of existing telephone services and the costs associated with the increase in access lines and the nonregulated services, Internet access and video conferencing, contributed to an increase in the telephone group's costs.

C-TEC also announced that RCN Inc., a competitive provider of local, long distance telephone, video and Internet services, has taken several significant steps to quickly and efficiently deploy a full package of services to residential customers in Boston and New York. In September, RCN announced a partnership with Boston Edison to utilize their fiber optic network to deliver its communications package to the Boston area. This partnership will complement RCN's alliance with MFS Communications to utilize their network in downtown Boston. In October, RCN signed an agreement with DirecTV to deliver direct broadcast satellite service to multiple dwelling units in New York City. RCN has also signed comprehensive interconnection agreements with NYNEX and Bell Atlantic to allow RCN to interconnect with the local exchange networks at fully reciprocal and identical rates.

General and Administrative Expenses. General and administrative expenses in 1996 were consistent with those of 1995. The costs associated with the development of the RCN business in New York and Boston and the consolidation of Mercom since August, 1995 were offset by lower C-TEC professional fees.

**KIEWIT DIVERSIFIED GROUP**



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

Investment Income, net. Investment income for the three months ended September 30, 1996 was consistent with that of the same period in 1995. Declines in international development expenses were offset by a decline in gains on the sale of marketable securities.

Interest Expense, net. The interest expense on the toll road debt, which was capitalized in 1995, and C-TEC's preferred stock which began accruing interest in 1996 are primarily responsible for the increase in interest expense.

Other, net. The improvement in other income is primarily attributable to the absence of 1995 performance based expenditures of \$16 million and costs incurred related to the spin-off of MFS of \$4 million.

Equity Loss in MFS. MFS is a leading provider of communications services to business. PKS spun-off its investment in MFS to Class D stockholders on September 30, 1995. Prior to the spin-off, the Group included its proportionate share of MFS' losses in the statement of earnings. The significant initial development and roll out expenses associated with expansion activities adversely affected MFS' results.

Provision for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. The effective income tax rate for the three months ended September 30, 1995 differs primarily due to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that were no longer payable due to the tax-free spin-off of MFS, partially offset by the net operating loss deduction limitations on losses generated by MFS.

Results of Operations - Nine Months 1996 vs. Nine Months 1995

Revenue from each of the Group's business segments for the nine months ended September 30 comprised the following (in millions):

|                    |       | 1996   | 1995   |
|--------------------|-------|--------|--------|
| Mining             |       | \$ 172 | \$ 163 |
| Telecommunications | 273   | 237    |        |
| Other              |       | 37     | 29     |
|                    | ----- |        |        |
|                    | ===== | \$ 482 | \$ 429 |
|                    |       |        |        |

Mining. Mining revenue increased \$9 million in the first three quarters of 1996 when compared to the same period in 1995. This increase was primarily due to an increase in alternate source coal sales and spot coal sales.

Operating margins were the same in both time periods. The increase in high margin alternate source sales was mitigated by higher shipments of low margin spot coal.

Telecommunications. Telecommunications revenue increased 15% in 1996 compared to 1995. Revenue for C-TEC's cable group increased \$29 million or 33% for the first nine months of 1996 compared to the same period in 1995. The consolidations of Twin County and Mercom and subscriber growth in its Pennsylvania market contributed to the improved revenue figure. C-TEC's telephone group experienced a \$8 million or 9% increase in revenue. Strong access line growth from second-line promotions and growth in access minutes along with increases in Internet access and video conferencing revenues primarily accounted for the revenue increase.

The cost of telecommunications revenue increased 23% in 1996. The cable group's increase is attributable to higher programming expenses and the costs attributable to consolidation of Mercom and Twin County, including amortization and depreciation expenses. Programming expense increased primarily due to license fee increases, subscriber growth and channel additions. The primary reasons for the increase in the telephone group's costs were higher payroll expense and fees associated with the provision of internet access services and with consulting services for a variety of other regulatory and operational matters. Additionally, materials expense increased in connection with higher video conferencing system sales.

General and Administrative Expenses. General and administrative expenses increased 21% in 1996 compared to 1995. The costs associated with the development of the RCN business in New York and Boston, the professional fees required to explore C-TEC restructuring alternatives, the consolidation of Twin County and Mercom and the commencement of operations at the privately owned toll road in southern California all contributed to the increase in general and administrative expenses.

Investment Income, net. Investment income increased 22% for the nine months ended September 30, 1996 compared to the same period in 1995. Increases in gains on the sale of marketable securities, equity earnings, primarily CalEnergy, and interest income were partially offset by a slight decline in dividend income.

Interest Expense, net. The interest expense on the toll road debt, which was capitalized in 1995, and C-TEC's preferred stock which began accruing interest in 1996 are primarily responsible for the 22% increase in interest expense.

Other, net. The decline of other income in 1996 is primarily attributable to the 1995 settlement of the Whitney litigation and the absence of

performance based expenditures and costs related to the spin-off of MFS.

**Provision for Income Taxes.** The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. The effective income tax rate for the nine months ended September 30, 1995 differs primarily due to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that were no longer payable due to the tax-free spin-off of MFS, partially offset by the net operating loss deduction limitations on losses generated by MFS.

## **KIEWIT DIVERSIFIED GROUP**

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

#### **Financial Condition - September 30, 1996 vs. December 30, 1995**

Due to the significant investing activities described below, the Group's working capital decreased \$89 million or 12% in the first nine months of 1996.

Investing activities include \$109 million of investments and \$78 million of capital expenditures, including \$14 million for the construction of a privately owned toll road. The investments primarily include C-TEC's \$13 million outlay for a note from Kiewit Construction and Mining Group, which is receivable from Mazon Corporativo, S.A. de C.V. and a \$27 million investment in Liberty, KDG's \$4 million investment in a Philippine power project, \$37 million investment in three Indonesian power projects and the exercise of CalEnergy options to purchase CalEnergy stock for \$14 million. These capital outlays were partially offset by net proceeds from the sale of marketable securities of \$22 million and \$4 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$19 million for the exchange of Class B&C Stock for Class D Stock and \$16 million for the construction financing of a privately owned toll road and \$12 million of C-TEC net borrowings under its revolving credit agreement. Financing uses primarily consist of \$13 million for the payment of dividends, \$11 million for stock repurchases, \$19 million of payments on C-TEC Senior Secured notes, and \$2 million of payments on stockholder notes and C-TEC's \$15 million outlay for the payment of long-term debt.

The Group anticipates making significant investments in its infrastructure, telecommunications and energy businesses - including its joint venture agreement with CalEnergy covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. The Group exercised 3.3 million CalEnergy options at \$12 per share in October 1996. 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 immediate operating and investing activities.

At its October meeting, the PKS Board of Directors also declared a dividend of \$.50 per share for Class D Stock, payable on January 4, 1997 to shareholders of record on January 3, 1997.

On August 8, C-TEC announced a plan to rescind the 1996 sale of Residential Communications Network to RCN and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincided with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets. On August 30, C-TEC paid RCN \$58.3 million, representing the cost of RCN's investment in Liberty and Residential Communications Network and interest of \$1.7 million. C-TEC will continue to explore ways to increase its profitability and value which could include a restructuring transaction.

On October 28, 1996, CE Electric UK plc ("CE Electric"), made an unsolicited \$1.2 billion offer to acquire Northern, a regional electricity distribution and supply company in the United Kingdom. CE Electric is owned 70% by CalEnergy and 30% by the Group. Subsequent to the offer, CE Electric has acquired approximately 30% of Northern's shares in open-market transactions. If the acquisition is completed, CE Electric will fund the acquisition with a combination of bank borrowings and capital provided by its shareholders.

## **KIEWIT DIVERSIFIED GROUP**

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

At a meeting held on October 25, 1996, the PKS Board of Directors directed management to pursue a listing of PKS' Class D stock on a major securities exchange or the NASDAQ National Market as soon as practical during 1998. The Board does not foresee circumstances under which PKS would list the Class D stock prior to 1998. The Board believes that a listing will provide PKS with a capital structure more suitable for the further development of the Diversified Group's business plan. It would also provide liquidity for Class D shareholders without impairing PKS' capital base.

The Board's action does not ensure that a listing of Class D stock will occur in 1998, or any time. The Board could delay or abandon plans to list the stock if it determined that such action would be in the best interests of all PKS' shareholders. In addition, PKS' ability to list Class D stock will be subject to factors beyond its control, including the laws, regulations, and listing eligibility criteria in affect at the time a listing is sought, as well as stock market conditions at the time. Furthermore, the Board might decide to couple the listing of Class D stock with a public

offering of newly- issued Class D shares in order to raise additional capital for the Diversified Group. Such an offering could delay or alter the listing plan.

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**End of Filing**

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