

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-K/A (Amended Annual Report)

Filed 04/23/98 for the Period Ending 12/27/97

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

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K/A

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

For the fiscal year ended

*Commission File*

December 27, 1997

Number 0-15658

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

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

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

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

68131  
(Zip Code)

(402) 342-2052  
(Registrant's telephone number,  
including area code)

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

None.

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

Class C Common Stock, par value \$.0625

Class D Common Stock, par value \$.0625

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

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

The registrant's Class C stock is not publicly traded, and therefore there is no ascertainable aggregate market value of voting stock held by nonaffiliates. The registrant's Class D stock has been trading on the Nasdaq OTC Bulletin Board. The aggregate market value of the Class D stock held by nonaffiliates as of March 14, 1998 was \$7.3 billion.

As of March 15, 1998, the number of outstanding shares of each class of the Company's common stock was:

Class C - 7,681,020 Class D - 146,943,752

Portions of the Company's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are incorporated by reference into

Part III of this Form 10-K.

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	PART I

## ITEM 1. BUSINESS

Peter Kiewit Sons', Inc. ("PKS" or the "Company") is one of the largest construction contractors in North America and also owns information services, telecommunications and coal mining businesses. The Company pursues these activities through two subsidiaries, Kiewit Construction Group Inc. ("KCG") and Level 3 Communications, Inc., formerly known as Kiewit Diversified Group Inc. ("Level 3"). The organizational structure is shown by the following chart.

Class C Stock  
Peter Kiewit Sons', Inc.  
Kiewit Construction Group Inc.  
Materials Operations  
Construction Operations

Class D Stock  
Level 3 Communications, Inc.  
PKS Information Services, Inc. Level 3 Communications, LLC Kiewit Energy Group Inc.  
Kiewit Coal Properties Inc. Cable Michigan, Inc. 48.5% Commonwealth Telephone Enterprises, Inc. 48.4% RCN Corporation 46.1%

The Company has two principal classes of common stock, Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class C stock") and Class D Diversified Group Convertible Exchangeable Common Stock par value \$.0625 per share (the "Class D stock"). The value of Class C stock is linked to the Company's construction and materials operations (the "Construction Group"). The value of Class D stock is linked to the operations of Level 3 (the "Diversified Group"), under the terms of the Company's charter (see Item 5 below). All Class C shares and historically most Class D shares have been owned by current and former employees of the Company and their family members. The Company was incorporated in Delaware in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. The Company entered the coal mining business in 1943 and the telecommunications business in 1988. In 1995, the Company distributed to its Class D stockholders all of its shares of MFS Communications Company, Inc. ("MFS") (which was later acquired by WorldCom, Inc.). Through subsidiaries, the Company owns 48.5% of the common stock of Cable Michigan, Inc., 48.4% of Commonwealth Telephone Enterprises, Inc., formerly known as C-TEC Corporation ("C-TEC") and 46.1% of RCN Corporation (collectively, the "C-TEC Companies"), the three companies that resulted from the restructuring of C-TEC, which was completed in September 1997. RCN Corporation, Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc. are publicly traded companies and more detailed information about each of them is contained in their separate Annual Reports on Form 10-K. Prior to January 2, 1998, the Company was also engaged in the alternative energy business through its ownership of 24% of the voting stock of CalEnergy Company, Inc. ("CalEnergy") and certain international development projects in conjunction with CalEnergy.

On December 8, 1997, the Company's stockholders ratified the decision of the Company's Board of Directors (the "PKS Board") to separate the business conducted by the Construction Group and the business conducted by the Diversified Group (collectively, the "Business Groups") into two independent companies. In connection with the consummation of this transaction, the PKS Board declared a dividend of eight-tenths of one share of the Company's newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock") with respect to each outstanding share of Class C stock. The Class R stock is convertible in shares of Class D stock pursuant to a defined formula. In addition, the Company has announced that effective March 31, 1998, the Company, through a resolution of the PKS Board, shall cause each outstanding

share of Class C stock to be mandatorily exchanged (the "Share Exchange") pursuant to provisions of the PKS Restated Certificate of Incorporation (the "PKS Certificate") for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. ("PKS Holdings"), a recently formed, direct, wholly owned subsidiary of PKS, to which the eight-tenths of one share of Class R Stock would attach (collectively, the "Transaction"). In connection with the consummation of the Transaction, the Company will change its name to Level 3 Communications, Inc. and PKS Holdings, Inc. will change its name to Peter Kiewit Sons', Inc. The Company has announced that the PKS Board has approved in principle a plan to force conversion of all 6,538,231 shares of Class R Stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made at that time. The decision may be made not to force conversion if it were decided that conversion is not in the best interest of the then stockholders of the Company.

The Transaction is intended to separate the Business Groups into two independent companies. The PKS Board believes that separation of the Business Groups will (i) permit Level 3 to attract and retain the senior management and employees needed to implement and develop Level 3's expansion plan (which is discussed below), (ii) enable Level 3 to access the capital markets in order to fund its expansion plan on more advantageous terms than would be available to Level 3 as part of the Company, (iii) enable Level 3 to pursue strategic investments and acquisitions, as part of the expansion plan, which could be foreclosed to Level 3 as part of the Company and (iv) allow the directors and management of each Business Group to focus their attention and financial resources on that Business Group's business. Except for the anticipated effect of the Transaction on the management of the construction business, the PKS Board does not believe that the Transaction will have any other significant effect on the construction business.

For purposes of this filing, the Company has filed as exhibits to this Form 10-K, Financial Statements and Other Information for each of the Construction Group (Exhibit 99.A) and the Diversified Group or Level 3 (Exhibit 99.B). These exhibits generally follow the format of Form 10-K and consist of separate financial statements for each Group and excerpts of other information from this Form 10-K pertaining to each Business Group.

For 1997 results, the Company reports financial information for four business segments: construction; information services; telecommunications; and coal mining. Additional financial information about these segments, including revenue, operating earnings, equity earnings, identifiable assets, capital expenditures, and depreciation, depletion and amortization, as well as foreign operations information, is contained in Note 13 to the Company's consolidated financial statements.

#### KIEWIT CONSTRUCTION GROUP

### CONSTRUCTION OPERATIONS

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc. (collectively, "KCG"). KCG and its joint ventures perform construction services for a broad range of public and private customers primarily in the United States and Canada. New contract awards during 1997 were distributed among the following construction markets: transportation (including highways, bridges, airports, railroads, and mass transit) -- 62%, power, heat, cooling -- 18%, commercial buildings -- 8%, water supply -- 2%, mining -- 2%, sewage and waste disposal -- 1% and other markets -- 7%.

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

**Contract Types.** KCG performs its construction work under various types of contracts, including fixed unit or lump-sum price, guaranteed maximum price, and cost-reimbursable contracts. Contracts are either competitively bid and awarded or negotiated. KCG's public contracts generally provide for the payment of a fixed price for the work performed. Profit on a fixed-price contract is realized on the difference between the contract price and the actual cost of construction, and the contractor bears the risk that it may not be able to perform all the work for the specified amount. Construction contracts generally provide for progress payments as work is completed, with a retainage to be paid when performance is substantially complete. Construction contracts frequently contain penalties or liquidated damages for late completion and infrequently provide bonuses for early completion.

**Government Contracts.** Public contracts accounted for 74% of the combined prices of contracts awarded to KCG during 1997. Most of these contracts were awarded by government and quasi-government units under fixed price contracts after competitive bidding. Most public contracts are subject to termination at the election of the government. In the event of termination, the contractor is entitled to receive the contract price on completed work and payment of termination related costs.

**Backlog.** At the end of 1997, KCG had backlog (anticipated revenue from uncompleted contracts) of \$3.9 billion, an increase from \$2.3 billion at the end of 1996. Of current backlog, approximately \$1.0 billion is not expected to be completed during 1998. In 1997 KCG was low bidder on 226 jobs with total contract prices of \$3.5 billion, an average price of \$15.3 million per job. There were 19 new projects with contract prices over \$25 million, accounting for 76% of the successful bid volume.

**Competition.** A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, timeliness, experience, and financial strength. The construction industry is highly competitive and lacks firms with dominant market power. In 1997 Engineering News Record, a construction trade publication, ranked KCG as the 9th largest U.S. contractor in terms of 1996 revenue and 12th largest in terms of 1996 new contract awards. It ranked KCG 1st in the transportation market in terms of 1996 revenue.

Joint Ventures. KCG frequently enters into joint ventures to efficiently allocate expertise and resources among the venturers and to spread risks associated with particular projects. In most joint ventures, if one venturer is financially unable to bear its share of expenses, the other venturers may be required to pay those costs. KCG prefers to act as the sponsor of its joint ventures. The sponsor generally provides the project manager, the majority of venturer-provided personnel, and accounting and other administrative support services. The joint venture generally reimburses the sponsor for such personnel and services on a negotiated basis. The sponsor is generally allocated a majority of the venture's profits and losses and usually has a controlling vote in joint venture decision making. In 1997 KCG derived 70% of its joint venture revenue from sponsored joint ventures and 30% from non-sponsored joint ventures. KCG's share of joint venture revenue accounted for 28% of its 1997 total revenue.

Demand. The volume and profitability of KCG's construction work depends to a significant extent upon the general state of the economies of the United States and Canada, and the volume of work available to contractors. Fluctuating demand cycles are typical of the industry, and such cycles determine to a large extent the degree of competition for available projects. KCG's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or governmental action. The volume of available government work is affected by budgetary and political considerations. A significant decrease in the amount of new government contracts, for whatever reasons, would have a material adverse effect on KCG.

Locations. KCG structures its construction operations around 20 principal operating offices located throughout the U.S. and Canada, with headquarters in Omaha, Nebraska. Through its decentralized system of management, KCG has been able to quickly respond to changes in the local markets. At the end of 1997, KCG had current projects in 33 states and 6 Canadian provinces. KCG also participates in the construction of geothermal power plants in the Philippines and Indonesia.

Properties. KCG has 20 district offices, of which 16 are in owned facilities and 4 are leased. KCG owns or leases numerous shops, equipment yards, storage facilities, warehouses, and construction material quarries. Since construction projects are inherently temporary and location-specific, KCG owns approximately 950 portable offices, shops, and transport trailers. KCG has a large equipment fleet, including approximately 4,500 trucks, pickups, and automobiles, and 2,000 heavy construction vehicles, such as graders, scrapers, backhoes, and cranes.

#### **MATERIALS OPERATIONS**

Several KCG subsidiaries, primarily in Arizona and Oregon, produce construction materials, including ready-mix concrete, asphalt, sand and gravel. KCG also has quarrying operations in New Mexico and Wyoming, which produce landscaping materials and railroad ballast. Kiewit Mining Group Inc. ("KMG"), a subsidiary of KCG, provides mine management services to Kiewit Coal Properties Inc., a subsidiary of PKS. KMG also owns a 48% interest in an underground coal mine near Pelham, Alabama.

### **LEVEL 3 COMMUNICATIONS, INC.**

Level 3 engages in the information services, telecommunications, coal mining and energy businesses, through ownership of operating subsidiaries, joint venture investments and ownership of substantial positions in public companies. Level 3 also holds smaller positions in a number of development stage or startup ventures.

#### **INFORMATION SERVICES**

PKS Information Services, Inc. ("PKSIS") is a full service information technology company that provides computer operations outsourcing and systems integration services to customers located throughout the United States as well as abroad. Utilizing all computing environments from mainframes to client/server platforms, PKSIS offers custom-tailored computer outsourcing services. PKSIS also provides network and systems integration and network management services for various computer platforms. In addition, PKSIS develops, implements and supports applications software. Through its subsidiary NET Twenty-One, Inc., PKSIS' strategy is to focus on assisting its customers in "Web-enabling" legacy software applications, that is, migrating computer applications from closed computing and networking environments to network platforms using Transmission Control Protocol/Internet Protocol ("TCP/IP") technology that are then accessed using Web browsers.

The computer outsourcing services offered by PKSIS through its subsidiary PKS Computer Services, Inc. include networking and computing services necessary both for older mainframe-based systems and newer client/server-based systems. PKSIS provides its outsourcing services to clients that desire to focus their resources on core businesses, rather than expending capital and incurring overhead costs to operate their own computing environment. PKSIS believes that it is able to utilize its expertise and experience, as well as operating efficiencies, to provide its outsourcing customers with levels of service equal to or better than those achievable by the customer itself, while at the same time reducing the customer's cost for such services. This service is particularly useful for those customers moving from older computing platforms to more modern client/server networks.

PKSIS' systems integration services help customers define, develop and implement cost-effective information services. In addition, through PKS Systems Integration, Inc., PKSIS offers reengineering services that allow companies to convert older legacy software systems to modern networked computing systems, with a focus on reengineering software to enable older software application and data repositories to be accessed by Hypertext Markup Language (HTML)-based browsers ("Web browsers") over the Internet or over private or limited access TCP/IP networks.

PKSIS, through its Suite 2000-SM line of services, provides customers with a multi-phased service for converting programs and application so that date-related information is accurately processed and stored before and after the year 2000. Through the process of converting a customer's legacy software for year 2000 compliance, PKSIS is able to provide additional insight and advice to further stream-line and improve the

customer's information systems.

PKSIS has established a software engineering facility at the National Technology Park in Limerick, Ireland, to undertake: large scale development projects; system conversions; and code restructuring and software re-engineering. PKSIS has also established relationships with domestic and international partners to provide such activities as well as establishing recently a joint venture in India.

PKSIS' subsidiary, LexiBridge Corporation of Shelton, Connecticut, provides customers with a combination of workbench tools and methodology that provide a complete strategy for converting mainframe-based application systems to client/server architecture, while at the same time ensuring year 2000 compliance.

In 1997, 93% of PKSIS' revenue was from external customers and the remainder was from affiliates.

Level 3 recently has determined to increase substantially the emphasis it places on and the resources devoted to its information services business, with a view to becoming a facilities-based provider (that is, a provider of information services that owns or leases a substantial portion of the plant, property and equipment necessary to provide those services) of a broad range of integrated information services to business (the "Expansion Plan"). Pursuant to the Expansion Plan, Level 3 intends to expand substantially its current information services business, through both the expansion of the business of PKSIS and the creation, through a combination of construction, purchase and leasing of facilities and other assets, of a substantial, facilities-based communications network that utilizes Internet Protocol or IP technology.

In order to grow and expand substantially the information services it provides, Level 3 has developed a comprehensive plan to construct, purchase and lease local and backbone facilities necessary to provide a wide range of communications services over a network that uses Internet Protocol based technology. These services include:

A number of business-oriented communications services using a combination of network facilities Level 3 would construct, purchase and lease from third parties, which services may include fax services that are transmitted in part over an Internet Protocol network and are offered at a lower price than public circuit-switched telephone network- based fax service and voice message storing and forwarding that are transmitted in part over the same Internet Protocol technology based network; and

After construction, purchase and lease of local and backbone facilities, a range of Internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security.

Level 3 believes that, over time, a substantial number of businesses will convert existing computer application systems (which run on standalone or networked computing platforms utilizing a wide variety of operating systems, applications and data repositories) to computer systems that communicate using Internet Protocol and are accessed by users employing Web browsers. Level 3 believes that such a conversion will occur for the following reasons:

Internet Protocol has become a de facto networking standard supported by numerous hardware and software vendors and, as such, provides a common protocol for connecting computers utilizing a wide variety of operating systems;

Web browsers can provide a standardized interface to data

and applications and thus help to minimize costs  
of training personnel to access and use these resources;  
and

As a packet-switched technology, in many instances,  
Internet Protocol utilizes network capacity more  
efficiently than the circuit-switched public telephone  
network. Consequently, certain services provided over an  
Internet Protocol network may be less costly than the same  
services provided over public switched telephone network.

Level 3 further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to Internet access with requisite quality and security levels.

Pursuant to the Expansion Plan, Level 3's strategy will be to attempt to meet this customer need by: (i) growing and expanding its existing capabilities in computer network systems, consulting, outsourcing, and software reengineering, with particular emphasis on conversion of legacy software systems to systems that are compatible with Internet Protocol networks and Web browsers access; and (ii) creating a national end-to-end Internet Protocol based network through a combination of construction, purchase and leasing of assets. Level 3 intends to optimize its international network to provide Internet based communications services to businesses at low cost and high quality, and to design its network, to the extent possible, to more readily include future technological upgrades than older, less flexible networks owned by competitors.

To implement its strategy, Level 3 has formulated a long term business plan that provides for the development of an end-to- end network optimized for the Internet Protocol. Initially, Level 3 will offer its services over facilities, both local and national, that are in part leased from third parties to allow for the offering of services during the construction of its own facilities. Over time, it is anticipated that the portion of

Level 3's network that includes leased facilities will decrease and the portion of facilities that have been constructed, and are owned, by Level 3 will increase. Over the next 4 to 6 years, it is anticipated that the Level 3 network will encompass local facilities in approximately 40 North American markets, leased backbone facilities in approximately 10 additional North American markets, a national or inter-city network covering approximately 15,000 miles, the establishment of local facilities in approximately 10 European and 4 Asian markets and an inter-city network covering approximately 2,000 miles across Europe. Level 3 intends to design and construct its inter-city network using multiple conduits. Level 3 believes that the spare conduits will allow it to deploy future technological innovations and expand capacity without incurring significant overbuild costs. The foregoing description of the Level 3 network and the Expansion Plan constitutes a forward-looking statement. The actual configuration of the network, including the number of markets served and the expanse of the inter-city networks will depend on a variety of factors including Level 3's ability to: access markets; design fiber optic network backbone routes; attract and retain qualified personnel; design, develop and deploy enterprise support systems that will allow Level 3 to build and operate a packet switched network that interconnects with the public switched network, install fiber optic cable and facilities; obtain rights-of-way, building access rights, unbundled loops and required government authorizations, franchises and permits; and to negotiate interconnection and peering agreements.

The operations to be conducted as a result of the Expansion Plan will be subject to extensive federal and state regulation. Federal laws and Federal Communications Commission regulations apply to interstate telecommunications while state regulatory authorities exercise jurisdiction over telecommunications both originating and terminating within a state. Generally, implementation of the Expansion Plan will require obtaining and maintaining certificates of authority from regulatory bodies in most states where services are to be offered.

With respect to the Expansion Plan, Level 3 is devoting substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, the management of Level 3 has been conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services businesses as a result of the Expansion Plan. For example, the management of Level 3 negotiated the sale of its energy interests (see "- CalEnergy" below) because it believed that the ongoing ownership by Level 3 of an interest in an energy businesses was not compatible with its focus on the information services business, and because sale of those assets provided a substantial portion of the money necessary to fund the early stages of the Expansion Plan.

In addition, the Construction Group and Level 3 are currently discussing a restructuring of the current mine management arrangement between the two Business Groups. Level 3 also is reviewing its involvement in a number of start-up and development stage businesses and recently completed the sale of its interest in United Infrastructure Company ("UIC"). Level 3 is also currently discussing with the Construction Group the sale of Kiewit Investment Management Corp. to the Construction Group. Level 3 has no current intention, however, to sell, dispose or otherwise alter its ownership interest in the C-TEC Companies.

## **C-TEC COMPANIES**

On September 30, 1997, C-TEC completed a tax-free restructuring, which divided C-TEC into three public companies: C-TEC, which changed its name to Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan").

Businesses of the C-TEC Companies. Commonwealth Telephone owns the following businesses: Commonwealth Telephone Company (the rural local exchange carrier business); Commonwealth Communications (the communications engineering business); the Pennsylvania competitive local exchange carrier business; and long distance operations in certain areas of Pennsylvania. RCN owns the following businesses: its competitive telecommunications services operations in New York City and Boston; its cable television operations in New York, New Jersey and Pennsylvania; its 40% interest in Megacable S.A. de C.V., Mexico's second largest cable operator; and its long distance operations (other than the operations in certain areas of Pennsylvania). Cable Michigan owns and operates cable television systems in the State of Michigan and owns a 62% interest in Mercom, Inc., a publicly held Michigan cable television operator.

Ownership of the C-TEC Companies. In connection with the restructuring and as a result of the conversion of certain shares of C-TEC held by Level 3, Level 3 now holds 13,320,485 shares of RCN common stock, 3,330,119 shares of Cable Michigan common stock, and 8,880,322 shares of Commonwealth Telephone common stock. Such ownership represents 48.5% of the outstanding common stock of Cable Michigan, 48.4% of the outstanding common stock of Commonwealth Telephone and 46.1% of the outstanding common stock of RCN.

Each of the shares of RCN common stock, Cable Michigan common stock and Commonwealth Telephone Common Stock is traded on the National Association of Securities Dealers, Inc.'s National Market (the "Nasdaq National Market").

In its filings with the Securities and Exchange Commission, the board of directors of C-TEC concluded that the distributions were in the best interests of the shareholders because the distributions will, among other things, (i) permit C-TEC to raise financing to fund the development of the RCN business on more advantageous economic terms than the other alternatives available, (ii) facilitate possible future acquisitions and joint venture investments by RCN and Cable Michigan and possible future offerings by RCN, (iii) allow the management of each company to focus attention and financial resources on its respective business and permit each company to offer employees incentives that are more directly linked to the performance of its respective business, (iv) facilitate the ability of each company to grow in both size and profitability, and (v) permit investors and the financial markets to better understand and evaluate C-TEC's various businesses.

Accounting Method. Since the ownership by Level 3 of the equity and voting rights of each of RCN, Cable Michigan and Commonwealth Telephone at the end of 1997 was less than 50%, under generally accepted accounting principles, Level 3 uses the equity method to account for its investments in each of these companies. Under the equity method, Level 3 reports its proportionate share of each of Commonwealth



Telephone's, RCN's and Cable Michigan's earnings, even though it has received no dividends from those companies. Level 3 keeps track of the carrying value of its investment in each of the C-TEC Companies. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. Level 3 purchased its C-TEC Companies shares at a premium over the book value of the underlying net assets. This premium is being amortized over a period of between 30 to 40 years. At December 27, 1997 the carrying value of Level 3's Commonwealth Telephone shares was \$75 million, RCN shares was \$214 million and Cable Michigan shares was \$46 million.

Description of the C-TEC Companies. RCN is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected markets in the Boston to Washington, D.C. corridor. Cable Michigan is a cable television operator in the State of Michigan which, as of December 31, 1997, served approximately 204,000 subscribers. These figures include the approximately 42,000 subscribers served by Mercom, a 62% owned subsidiary of Cable Michigan. Clustered primarily around the Michigan communities of Grand Rapids, Traverse City, Lapeer and Monroe (Mercom), Cable Michigan's systems serve a total of approximately 400 municipalities in suburban markets and small towns. Commonwealth Telephone Company is a Pennsylvania public utility providing local telephone service to a 19 county, 5,067 square mile service territory in Pennsylvania. The telephone company services approximately 259,000 main access lines. The company also provides network access, long distance, and billing and collection services to interexchange carriers. The telephone company's business customer base is diverse in size as well as industry, with very little concentration. Commonwealth Long Distance operates principally in Pennsylvania, providing switched services and resale of several types of services, using the networks of several long distance providers on a wholesale basis. Commonwealth Communications Inc. provides telecommunications engineering and facilities management services to large corporate clients, hospitals and universities throughout the Northeastern United States and sells, installs and maintains PBX systems in Pennsylvania and New Jersey. In January 1995, C-TEC purchased a 40% equity position in Megacable, Mexico's second largest cable television operator, serving approximately 174,000 subscribers in 12 cities.

For more information on the business of each of RCN, Cable Michigan and Commonwealth Telephone, please see the individual filings of Annual Reports on Form 10-K for each of such companies as filed with the Securities and Exchange Commission.

## **COAL MINING**

Level 3 is engaged in coal mining through its subsidiary, Kiewit Coal Properties Inc. ("KCP"). KCP has a 50% interest in three mines, which are operated by KCP. Decker Coal Company ("Decker") is a joint venture with Western Minerals, Inc., a subsidiary of The RTZ Corporation PLC. Black Butte Coal Company ("Black Butte") is a joint venture with Bitter Creek Coal Company, a subsidiary of Union Pacific Resources Group Inc. Walnut Creek Mining Company ("Walnut Creek") is a general partnership with Phillips Coal Company, a subsidiary of Phillips Petroleum Company. The Decker mine is located in southeastern Montana, the Black Butte mine is in southwestern Wyoming, and the Walnut Creek mine is in east-central Texas.

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

Customers. The coal produced from the KCP mines is sold primarily to electric utilities, which burn coal in order to produce steam to generate electricity. Approximately 89% of sales are made under long-term contracts, and the remainder are made on the spot market. Approximately 79%, 80% and 80% of KCP's revenues in 1997, 1996 and 1995, respectively, were derived from long-term contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). The primary customer of Walnut Creek is the Texas-New Mexico Power Company.

Contracts. Customers enter into long-term contracts for coal primarily to secure a reliable source of supply at a predictable price. KCP's major long-term contracts have remaining terms ranging from 1 to 30 years. A majority of KCP's long-term contracts provide for periodic price adjustments. The price is typically adjusted through the use of various indices for items such as materials, supplies, and labor. Other portions of the price are adjusted for changes in production taxes, royalties, and changes in cost due to new legislation or regulation. In most cases, these cost items are directly passed through to the customer as incurred. In most cases the price is also adjusted based on the heating content of the coal.

Decker has a sales contract with Detroit Edison Company that provides for the delivery of a minimum of 36 million tons of low sulphur coal during the period 1998 through 2005, with annual shipments ranging from 5.2 million tons in 1998 to 1.7 million tons in 2005.

KCP and its mining ventures have entered into various agreements with Commonwealth Edison Company ("Commonwealth"), which stipulate delivery and payment terms for the sale of coal. The agreements as amended provide for delivery of 88 million tons during the period 1998 through 2014, with annual shipments ranging from 1.8 million tons to 13.1 million tons. These deliveries include 15 million tons of coal reserves previously sold to Commonwealth. Since 1993, the amended contract between Commonwealth and Black Butte provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte mine, but with coal purchased from three unaffiliated mines in the Powder River Basin of Wyoming. The contract amendment allows Black Butte to purchase alternate source coal

at a price below its production costs, and to pass the cost savings through to Commonwealth while maintaining the profit margins available under the original contract.

The contract between Walnut Creek and Texas-New Mexico Power Company provides for delivery of between 42 and 90 million tons of coal during the period 1989 through 2027. The actual tons provided will depend on the number of power units constructed and operated by TNP. The maximum amount KCP is expecting to ship in any one year is between 1.6 and 3.2 million tons.

KCP also has other sales commitments, including those with Sierra Pacific, Idaho Power, Solvay Minerals, Pacific Power & Light, Minnesota Power, and Mississippi Power, that provide for the delivery of approximately 13 million tons through 2005.

**Coal Production.** Coal production began at the Decker, Black Butte, and Walnut Creek mines in 1972, 1979, and 1989, respectively. KCP's share of coal mined in 1997 at the Decker, Black Butte, and Walnut Creek mines was 5.9, 1.0, and .9 million tons, respectively.

**Revenue.** KCP's total revenue in 1997 was \$222 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities was \$114 million, \$89 million, and \$17 million, respectively.

Under a 1992 mine management agreement, KCP pays a KCG subsidiary an annual fee equal to 30% of KCP's adjusted operating income. The fee in 1997 was \$32 million.

**Backlog.** At the end of 1997, the backlog of coal to be sold under KCP's long-term contracts was approximately \$1.4 billion, based on December 1997 market prices. Of this amount, \$213 million is expected to be sold in 1998.

**Reserves.** At the end of 1997, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 111, 39, and 31 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 46, 2, and 23 million tons, respectively. Assigned reserves represent coal that can be mined using KCP's current mining practices. Committed reserves (excluding alternate source coal) represent KCP's maximum contractual amounts. These coal reserve estimates represent total proved and probable reserves.

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

**Competition.** The coal industry is highly competitive. KCP competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than KCP, but also with alternative methods of generating electricity and alternative energy sources. In 1996, KCP's production represented 1.5% of total U.S. coal production. Demand for KCP's coal is affected by economic, political and regulatory factors. For example, recent "clean air" laws may stimulate demand for low sulphur coal. KCP's western coal reserves generally have a low sulphur content (less than one percent) and are currently useful principally as fuel for coal-fired steam-electric generating units.

KCP's sales of its western coal, like sales by other western coal producers, typically provide for delivery to customers at the mine. A significant portion of the customer's delivered cost of coal is attributable to transportation costs. Most of the coal sold from KCP's western mines is currently shipped by rail to utilities outside Montana and Wyoming. The Decker and Black Butte mines are each served by a single railroad. Many of their western coal competitors are served by two railroads and such competitors' customers often benefit from lower transportation costs because of competition between railroads for coal hauling business. Other western coal producers, particularly those in the Powder River Basin of Wyoming, have lower stripping ratios (that is, the amount of overburden that must be removed in proportion to the amount of minable coal) than the Black Butte and Decker mines, often resulting in lower comparative costs of production. As a result, KCP's production costs per ton of coal at the Black Butte and Decker mines can be as much as four and five times greater than production costs of certain competitors. KCP's production cost disadvantage has contributed to its agreement to amend its long-term contract with Commonwealth Edison Company to provide for delivery of coal from alternate source mines rather than from Black Butte. Because of these cost disadvantages, KCP does not expect that it will be able to enter into long-term coal purchase contracts for Black Butte and Decker production as the current long-term contracts expire. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

**Environmental Regulation.** The Company is required to comply with various federal, state and local laws and regulations concerning protection of the environment. KCP's share of land reclamation expenses in 1997 was \$3.6 million. KCP's share of accrued estimated reclamation costs was \$100 million at the end of 1997. The Company does not expect to make significant capital expenditures for environmental compliance in 1998. The Company believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors in the mining industry are similarly affected by such laws.

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

CalEnergy develops, owns, and operates electric power production facilities, particularly those using geothermal resources, in the United States, the Philippines, and Indonesia. In December 1996, CalEnergy and Level 3 acquired Northern Electric plc, an English electric utility company. CalEnergy is a Delaware corporation formed in 1971 and has its headquarters in Omaha, Nebraska. CalEnergy common stock is traded on the New York, Pacific, and London Stock Exchanges. In 1997, CalEnergy had revenue of \$2.3 billion and a net loss of \$84 million. At the end of 1997, CalEnergy had total assets of \$7.5 billion, debt of \$3.5 billion, and stockholders' equity of \$1.4 billion.

At the end of 1997, Level 3 owned approximately 24% of the common stock of CalEnergy. Under generally accepted accounting principles, an investor owning between 20% and 50% of a company's equity, generally uses the equity method. Under the equity method, Level 3 reports its proportionate share of CalEnergy's earnings, even though it has received no dividends from CalEnergy. Level 3 keeps track of the carrying value of its CalEnergy investment. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. At December 27, 1997 the carrying value of Level 3's CalEnergy shares was \$337 million. On January 2, 1998, Level 3 sold its entire interest in CalEnergy along with its interests in several development projects and Northern Electric plc. to CalEnergy for approximately \$1.16 billion.

## **OTHER BUSINESSES**

**SR91 Tollroad.** Level 3 has invested \$12 million for a 65% equity interest and \$4.3 million loan to California Private Transportation Company, L.P. which developed, financed, and currently operates the 91 Express Lanes, a ten mile, four lane tollroad in Orange County, California. The fully automated highway uses an electronic toll collection system and variable pricing to adjust tolls to demand. Capital costs at completion were \$130 million, \$110 million of which was funded with limited recourse debt. Revenue collected over the 35-year franchise period is used for operating expenses, debt repayment, and profit distributions. The tollroad opened in December 1995 and achieved operating break-even in 1996. Approximately 100,000 customers have registered to use the tollroad and weekday volumes typically exceed 29,000 vehicles per day.

**United Infrastructure Company.** UIC was an equal partnership between Kiewit Infrastructure Corp., a wholly owned subsidiary of Level 3, and Bechtel Infrastructure Enterprises, Inc. ("Bechtel"). UIC was formed in 1993 to develop North American infrastructure projects. During 1996, UIC began to focus primarily on water infrastructure projects, principally through U.S. Water, a partnership formed with United Utilities PLC, a U.K. company. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, on December 31, 1997 Level 3 sold its entire interest in UIC to Bechtel for \$10 million.

**Kiewit Mutual Fund.** Kiewit Mutual Fund, a Delaware business trust and a registered investment company, was formed in 1994. Initially formed to manage the Company's internal investments, shares in Kiewit Mutual Fund are now available for purchase by the general public. The Fund's investors currently include individuals and unrelated companies, as well as Company-affiliated joint ventures, pension plans, and subsidiaries. Kiewit Mutual Fund has six series: Money Market Portfolio, Government Money Market Portfolio, Short-Term Government Portfolio, Intermediate-Term Bond Portfolio, Tax-Exempt Portfolio, and the Equity Portfolio. In February 1997, the Fund adopted a master-feeder structure. Each of the Portfolios invests in a corresponding series of the Kiewit Investment Trust, which now manages the underlying securities holdings. The structure will allow smaller mutual funds and institutional investors to pool their assets with Kiewit Investment Trust, providing lower expense ratios for all participants. The registered investment adviser of Kiewit Investment Trust is Kiewit Investment Management Corp., a subsidiary of Level 3 (60%) and KCG (40%). At the end of 1997, Kiewit Mutual Fund had net assets of \$1.3 billion. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, it is anticipated that Level 3 will sell its interest in Kiewit Investment Management Corp. to the Construction Group.

**Other.** In February 1997, Level 3 purchased an office building in Aurora, Colorado for \$22 million. By investing in real estate, Level 3 defers taxes on \$40 million of taxable gain otherwise recognizable with respect to the Whitney Benefits litigation settlement in 1995. Level 3 may make additional real estate investments in 1998 with a view toward deferring the balance of that taxable gain. Level 3 has also made investments in several development-stage companies, but does not expect earnings from these companies in 1998.

## **GENERAL INFORMATION**

**Year 2000.** The Company. The Company has conducted a review of its computer systems to identify those systems that could be affected by the "Year 2000" computer issue, and has developed and is implementing a plan to resolve the issue. The Year 2000 issue results from computer programs written with date fields of two digits, rather than four digits, thus resulting in the inability of the computer programs to distinguish between the year 1900 and 2000.

The Company expects that its Year 2000 compliance project will be completed before the Year 2000 date change. During the execution of this project, the Company has and will continue to incur internal staff costs as well as consulting and other expenses. These costs will be expensed, as incurred, in compliance with GAAP. The expenses associated with this project, as well as the related potential effect on the Company's earnings is not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

**PKSIS.** PKS Computer Services, Inc., the computer outsourcing subsidiary of PKSIS, has developed a comprehensive approach to address the potential operational risks associated with the Year 2000, and began to implement remediation plans in 1997. As part of its plans PKS Computer Services is: working with its key suppliers to verify their operational viability through the Year 2000; reviewing building infrastructure components that may be affected by the Year 2000 issue, which components include fire alarms systems, security systems, and automated building controls; identifying hardware inventories that are affected by date logic that is not Year 2000 compliant, which hardware includes mainframe computers, mid-range computers, micro-computers, and network hardware. To the extent that vendors identify items that are not Year 2000 compliant, PKS Computer Services will work with the hardware vendor to develop a plan that will enable continuous operations through the Year 2000.

PKS Computer Services is responsible for providing an operating environment in which its customers applications are run. As a result, PKS Computer Services will confirm the system software inventories that it is responsible for managing. PKS Computer Services will then develop a plan with each of its customers that indicate that they intend to be customers in the year 2000 to provide for Year 2000 compliance.

PKS Computer Services believes that many of the required changes for hardware and operating environments will be included in the costs that are incurred for annual maintenance.

PKS Systems Integration LLC provides a wide variety of information technology services to its customers. In fiscal year 1997 approximately 80% of the revenue generated by PKSIS related to projects involving Year 2000 assessment and renovation services performed by PKS Systems Integration for its customers. These contracts generally require PKS Systems Integration to identify date affected fields in certain application software of its customers and, in many cases, PKS Systems Integration undertakes efforts to remediate those date-affected fields so that the applicable applications are able to process date-related information occurring on or before the Year 2000. Thus, Year 2000 issues affect many of the services PKS Systems Integration provides to its customers. This exposes PKS Systems Integration to potential risks that may include problems with services provided by PKS Systems Integration to its customers and the potential for claims arising under PKS Systems Integration customer contracts. PKS Systems Integration attempts to contractually limit its exposure to liability for Year 2000 compliance issues. However, there can be no assurance as to the effectiveness of such contractual limitations.

The expenses associated with this project by PKSIS, as well as the related potential effect on PKSIS's earnings is not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem, and any loss incurred by any customers of PKSIS as a result of the Year 2000 problem will not materially and adversely affect PKSIS and its business.

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

Employees. At the end of 1997, the Company and its majority-owned subsidiaries employed approximately 17,700 people - 16,200 in construction and materials operations, 500 by coal mining companies, 800 at PKSIS, and 200 in corporate and Level 3 positions. This does not include the employees of the C-TEC Companies.

**ITEM 2. PROPERTIES.**

The properties used in the construction segment are described under a separate heading in Item 1 above. Properties relating to the Company's coal mining segment are described as part of the general business description of the coal mining business. Level 3 has announced that it has acquired 46 acres in the Northwest corner of the Interlocken office park and will build a campus facility that is expected to eventually encompass over 500,000 square feet of office space. Interlocken is located within the City of Broomfield, Colorado, and within Boulder County, Colorado. It is anticipated that the first phase of this facility will be constructed by the end of June 1999. In addition, Level 3 has leased approximately 50,000 square feet of temporary office space in Louisville, Colorado to allow for the relocation of the majority of its employees (other than those of PKSIS) while its permanent facilities are under construction. The Company considers its properties to be adequate for its present and foreseeable requirements.

**ITEM 3. LEGAL PROCEEDINGS.**

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

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

At a special meeting of stockholders held on December 8, 1997, the following matters were submitted to a vote.

1. Ratification of the decision of the PKS Board to separate the construction business of PKS and the diversified business of PKS into two independent companies through the declaration of a dividend of eight-tenths of one share of newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock"), of PKS with respect to each outstanding share of Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share ("Class C stock"), of PKS, and mandatory exchange of each outstanding share of Class C stock for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. (collectively, the "Transaction").

	Class C stock	Class D stock
Affirmative votes:	9,031,714	21,673,495
Negative votes:	30,926	185,412
Abstentions:	11,020	64,227

2. Approval of amendments to the PKS Certificate (the "Initial Certificate Amendments"), to: (i) create the Class R Stock to be distributed in the Transaction; (ii) increase from 50,000,000 to 500,000,000 the number of shares of Class D Diversified Group Convertible Exchangeable Common Stock, par value \$.0625 per share ("Class D stock"), which PKS is authorized to issue; (iii) designate 10 shares of Class D stock as

"Class D Stock, Non-Redeemable Series"; and (iv) eliminate the requirement that the Certificate of Incorporation of PKS Holdings as in effect at the time of the Share Exchange be substantially similar to the PKS Certificate.

	Class C stock	Class D stock
Affirmative votes:	9,030,927	21,735,628
Negative votes:	28,676	147,676
Abstentions:	14,057	39,830

3. Approval of amendments to the PKS Certificate to be effected only if the Transaction is consummated, to: (i) redesignate Class D stock as "Common Stock, par value \$.01 per share", and Class D Stock, Non-Redeemable Series as "Common Stock, Non-Redeemable Series"; (ii) authorize the issuance of series of preferred stock, the terms of which are to be determined by the board of directors; (iii) modify the repurchase rights to which the holders of Class D stock are entitled; (iv) delete the provisions regarding Class C stock; (v) classify the board of directors; (vi) prohibit stockholder action by written consent; (vii) empower the board of directors, exclusively, to call special meetings of the stockholders; (viii) require a supermajority vote of stockholders to amend the by-laws; and (ix) make certain other non-substantive changes consistent with the implementation of the foregoing.

	Class C stock	Class D stock
Affirmative votes:	9,011,554	21,472,115
Negative votes:	30,696	381,726
Abstentions:	31,410	69,293

4. Approval of the amendment and restatement of the Peter Kiewit Sons', Inc. 1995 Class D stock Plan.

	Class C stock	Class D stock
Affirmative votes:	8,958,084	21,268,757
Negative votes:	70,566	536,914
Abstentions:	45,010	117,463

## DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The table below shows information as of March 15, 1998 about each director and executive officer of the Company, including his business experience during the past five years. The Company's directors and officers are elected annually and each was elected on June 7, 1997 to serve until his successor is elected and qualified or until his death, resignation or removal.

Name	Business Experience	Age	PKS Director Since
Walter Scott, Jr.*	Chairman of the Board and President, PKS (for more than the past five years); also a director of Berkshire Hathaway, Inc., Burlington Resources, Inc., CalEnergy, ConAgra, Inc., Commonwealth Telephone Enterprises, Inc., RCN Corporation, U.S. Bancorp and Valmont Industries, Inc.	66	09/27/79- Chairman 04/22/64- Director
Peter Kiewit, Jr.	Attorney, of counsel to the law firm of Gallagher & Kennedy of Phoenix, Arizona (for more than the past five years)	71	01/13/66
William L. Grewcock*	Vice Chairman, PKS (for more than the past five years)	72	01/11/68
Robert B. Daugherty	Director (and formerly Chairman of the Board and Chief Executive Officer) Valmont Industries, Inc. (for more than the past five years)	75	01/08/86
Charles M. Harper	Former Chairman of the	69	01/08/86

	Board and Chief Executive Officer of RJR Nabisco Holdings Corp. Currently a director (and formerly Chairman of the Board and Chief Executive Officer) of ConAgra, Inc. and also a director of E.I. DuPont de Nemours and Company, Norwest Corp. and Valmont Industries, Inc.		
Kenneth E. Stinson*	Executive Vice President, PKS (for more than the past five years); Chairman since 1993) and CEO (since 1992), KCG; also a director of ConAgra, Inc. and Valmont Industries, Inc.	55	01/07/87
Richard Geary*	Executive Vice President, KCG; President of Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	62	04/29/88
George B. Toll, Jr.*	Executive Vice President, KCG (since 1994); Vice President, Kiewit Pacific Co., a KCG construction subsidiary (1992-1994)	61	06/05/93
James Q. Crowe*	President and Chief Executive Officer, Level 3 (since August 1, 1997); Chairman of the Board, WorldCom, Inc., an International telecommunications company (January 1997-July 1997); Chairman of the Board, MFS Communications Company, Inc., an international telecommunications company (1992-1996) (MFS was a Diversified Group subsidiary until 1995); also a director of Commonwealth Telephone Enterprises, Inc., RCN Corporation, and InaCom Communications, Inc.	48	06/05/93
Richard R. Jaros	Executive Vice President (1993-1997) and Chief	46	06/05/93

Financial Officer (1995-1997), PKS; President of Level 3 (1996-1997); President and COO of CalEnergy (1992-1993); also a director of CalEnergy, Commonwealth Telephone Enterprises, Inc., RCN Corporation and WorldCom, Inc.

Richard W. Colf*	Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/03/95
Bruce E. Grewcock*	Executive Vice President, KCG (since 1996); Chairman (since 1996), President (1992-1996) and Sr. Vice President (1992) of Kiewit Mining Group Inc.; also a director of Kinross Gold Corporation	44	06/04/94
Tait P. Johnson*	President, Gilbert Industrial Corporation, a KCG construction subsidiary (for more than the past five years); President (1992-1996), Gilbert Southern Corp., a KCG	48	06/03/95

Allan K. Kirkwood*	Senior Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/07/97
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Identified by asterisks are the ten persons currently serving as executive officers of PKS. Executive officers are those directors who are employed by PKS or its subsidiaries. Bruce E. Grewcock is the son of William L. Grewcock.

The PKS Board has an Audit Committee, a Compensation Committee and an Executive Committee.

The Audit Committee members are Messrs. Johnson, Kirkwood and Kiewit. The functions of the Audit Committee are to recommend the selection of the independent auditors; review the results of the annual audit; inquire into important internal control, accounting and financial matters; and report and make recommendations to the full PKS Board. The Audit Committee had four meetings in 1997.

The Compensation Committee members are Messrs. Daugherty, Harper, and Kiewit, none of whom are employees of PKS. This committee reviews the compensation of the executive officers of PKS. This committee has also assumed the functions of the former Management Compensation Committee, the purpose of which was to review the compensation, securities ownership, and benefits of the employees of PKS other than its executive officers. The Compensation Committee had one formal meeting in 1997.

The Executive Committee members are Messrs. Scott (Chairman), William Grewcock, Stinson, and Crowe. This committee exercises the powers of the PKS Board between meetings of the PKS Board, except powers assigned to other committees. During 1997, the Executive Committee had no formal meetings, acted by written consent action in lieu of a meeting on two occasions, and had several informal meetings.

PKS does not have a nominating committee. The PKS Certificate provides that the incumbent directors elected by holders of Class C Stock may nominate a slate of Class C directors to be elected by holders of Class C Stock and the incumbent directors elected by holders of Class D Stock may nominate a slate of directors to be elected by holders of Class D Stock, for election at the annual meeting of stockholders.

The PKS Board had six formal meetings in 1997 and acted by written consent action on six occasions. In 1997, no director attended less than 75% of the meetings of the PKS Board and the committees of which he was a member.

Directors who are employees of PKS or its subsidiaries do not receive directors' fees. Non-employee directors are paid annual directors' fees of \$30,000, plus \$1,200 for attending each meeting of the PKS Board, and \$1,200 for attending each meeting of a committee of the PKS Board.

## PART II

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

**Market Information.** As of December 27, 1997, the Company's common stock is not listed on any national securities exchange or the Nasdaq National Market. However, the Class D stock is currently quoted on the National Association of Securities Dealers, Inc.'s OTC Bulletin Board. During the fourth quarter of 1997, the only quarter during which this trading occurred, the range of the high and low bid information for the Class D stock was \$20.41 to \$29.00. The Company has announced that the common stock of Level 3 Communications, Inc. (renamed from Peter Kiewit Sons', Inc. in connection with the Transaction) will begin trading on the Nasdaq National Market on April 1, 1998.

**Company Repurchase Duty.** Pursuant to the current terms of the PKS Certificate, the Company is generally required to repurchase shares at a formula price upon demand. Under the PKS Certificate effective January 1992, the Company has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock ("Class B"), Class C stock, and Class D stock. There are no outstanding Class B stock; the last Class B stock were converted into Class D stock on January 1, 1997. Class C stock can be issued only to Company employees and can be resold only to the Company at a formula price based on the year-end book value of the Construction Group. The Company is generally required to repurchase Class C stock for cash upon stockholder demand. Class D stock has a formula price based on the year-end book value of the Diversified Group. The Company must generally repurchase Class D stock for cash upon stockholder demand at the formula price, unless the Class D stock become publicly traded.

**Formula values.** The formula price of the Class D stock is based on the book value of Level 3 and its subsidiaries, plus one-half of the book value, on a stand-alone basis, of the parent company, PKS. The formula price of the Class C stock is based on the book value of the Construction Group and its subsidiaries, plus one-half of the book value of the unconsolidated parent company. A significant element of the Class C formula price is the subtraction of the book value of property, plant, and equipment used in construction activities (\$122 million in 1997).

**Conversion.** Under the PKS Certificate, Class C stock is convertible into Class D stock at the end of each year. Between October 15 and December 15 of each year a Class C stockholder may elect to convert some or all of his or her shares. Conversion occurs on the following January 1. The conversion ratio is the relative formula prices of Class C and Class D stock determined as of the last Saturday in December, that is, the last day in the Company's fiscal year. Class D stock may be converted into Class C stock only as part of an annual offering of Class C

stock to employees. Instead of purchasing the offered shares for cash, an employee owning Class D stock may convert such shares into Class C stock at the applicable conversion ratio.

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

Dividends and Prices. During 1996 and 1997 the Company declared or paid the following dividends on its common stock. The table also shows the stock price after each dividend payment or other valuation event.

Dividend Declared	Dividend Paid	Dividend Per Share	Class	Price Adjusted	Stock Price
Oct. 27, 1995	Jan. 5, 1996	\$0.60	C	Dec. 30, 1995	\$32.40
Apr. 26, 1996	May 1, 1996	0.60	C	May 1, 1996	31.80
Oct. 25, 1996	Jan. 4, 1997	0.70	C	Dec. 28, 1996	40.70
Apr. 23, 1997	May 1, 1997	0.70	C	May 1, 1997	40.00
Oct. 22, 1997	Jan. 5, 1998	0.80	C	Dec. 27, 1997	51.20
Oct. 27, 1995	Jan. 5, 1996	0.50	D	Dec. 30, 1995	9.90*
Oct. 25, 1996	Jan. 4, 1997	0.50	D	Dec. 28, 1996	10.85*
			D	Dec. 27, 1997	11.65*

\* All stock prices for the Class D stock reflect a dividend of four shares of Class D stock for each outstanding share of Class D stock that was effective on December 26, 1997.

The Company's current dividend policy is to pay a regular dividend on Class C stock of about 15% to 20% of the prior year's ordinary earnings of the Construction Group, with any special dividends to be based on extraordinary earnings. Although the PKS Board announced in August 1993 that the Company did not intend to pay regular dividends on Class D stock for the foreseeable future, the PKS Board declared a special dividend of \$0.50 per share of Class D stock in both October 1995 and 1996.

A dividend of 4 shares of Class D Stock for each share of Class D Stock was effected on December 26, 1997.

Stockholders. On March 15, 1998, and after giving effect to a dividend of 4 shares of Class D Stock for each outstanding share of Class D stock effected on December 26, 1997, the Company had the following numbers of stockholders and outstanding shares for each class of its common stock:

Class of Stock	Stockholders	Shares Outstanding
B	-	-
C	996	7,681,020
D	2,121	146,943,752

Recent Sales of Unregistered Securities. On April 1, 1997, the Company sold 10,000 shares of Class D stock to Charles Harper and Robert Daugherty and 8,000 shares of Class D stock to Peter Kiewit Jr. at a sale price of \$49.50 per share. Each of Messrs Harper, Daugherty and Kiewit are members of the PKS Board of Directors. The sale was effected pursuant to an exemption from registration under the Securities Act of 1933 contained in Section 4(2) of such Act.

## ITEM 6. SELECTED FINANCIAL DATA.

### PETER KIEWIT SONS', INC. SELECTED CONSOLIDATED FINANCIAL DATA

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

(dollars in millions, except per share amounts)	1997	1996	1995	1994	1993
Results of Operations:					
Revenue (1)	\$ 332	\$ 652	\$ 580	\$ 537	\$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	248	221	244	110	261
Financial Position:					
Total assets (1)	2,779	3,066	2,945	4,048	3,236
Current portion of long-term debt (1)	3	57	40	30	11



Long-term debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (3)	2,230	1,819	1,607	1,736	1,671

(1) In October 1993, the Company acquired 35% of the outstanding shares of C-TEC Corporation that had 57% of the available voting rights. On December 28, 1996 the Company owned 48% of the outstanding shares and 62% of the voting rights.

As a result of the C-TEC restructuring, the Company owns less than 50% of the outstanding shares and voting rights of the three entities, and therefore accounted for each entity using the equity method in 1997. The Company consolidated C-TEC from 1993 through 1996.

The financial position and results of operations of Kiewit Construction & Mining Group have been classified as discontinued operations due to the pending spin-off from Peter Kiewit Sons', Inc.

In September 1995, the Company dividended its investment in MFS to Class D shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1993 and 1994 balance sheets.

In January 1994, MFS, issued \$500 million of 9.375% Senior Discount Notes.

In September 1997, Level 3 agreed to sell its energy segment to CalEnergy Company, Inc. The transaction closed on January 2, 1998.

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

(3) The aggregate redemption value of common stock at December 27, 1997 was \$2.1 billion.

### KIEWIT CONSTRUCTION & MINING GROUP SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Kiewit Construction & Mining and Diversified Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	1997	Fiscal Year Ended				1993
		1996	1995	1994		
Results of Operations:						
Revenue	\$ 2,764	\$ 2,303	\$ 2,330	\$ 2,175	\$ 1,783	
Net earnings	155	108	104	77	80	
Per Common Share:						
Net earnings						
Basic	15.99	10.13	7.78	4.92	4.63	
Diluted	15.35	9.76	7.62	4.86	4.59	
Dividends (1)	1.50	1.30	1.05	0.90	0.70	
Stock price (2)	51.20	40.70	32.40	25.55	22.35	
Book value	64.38	51.02	42.90	31.39	27.43	
Financial Position:						
Total assets	1,341	1,038	976	967	889	
Current portion of long-term debt	5	-	2	3	4	
Long-term debt, less current portion	22	12	9	9	10	
Stockholders' equity (3)	652	562	467	505	480	

(1) The 1997, 1996, 1995, 1994 and 1993 dividends include \$.80, \$.70, \$.60, \$.45 and \$.40 for dividends declared in 1997, 1996, 1995, 1994 and 1993, respectively, but paid in January of the subsequent year.

(2) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.

(3) Ownership of the Class C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class C Stock at the amount computed, when put to PKS by a stockholder, pursuant to the Certificate of Incorporation. The aggregate redemption value of the Class C Stock at December 27, 1997 was \$527 million.

### DIVERSIFIED GROUP

## SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Diversified Group and Kiewit Construction & Mining Group supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
Results of Operations:					
Revenue (1)	\$ 332	\$ 652	\$ 580	\$ 537	\$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	93	113	140	33	181
Per Common Share:					
Earnings from continuing operations					
Basic	.66	.90	1.17	.27	1.74
Diluted	.66	.90	1.17	.27	1.74
Net earnings					
Basic	.74	.97	1.29	.32	1.82
Diluted	.74	.97	1.29	.32	1.81
Dividends (3)	-	.10	.10	-	.10
Stock price (4)	11.65	10.85	9.90	12.05	11.88
Book value	11.65	10.85	9.90	12.07	11.90
Financial Position:					
Total assets (1)	2,127	2,504	2,478	3,543	2,756
Current portion of long-term debt (1)	3	57	40	30	11
Long-term debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (5)	1,578	1,257	1,140	1,231	1,191

(1) In October 1993, the Group acquired 35% of the outstanding shares of C-TEC Corporation that had 57% of the available voting rights. At December 28, 1996, the Group owned 48% of the outstanding shares and 62% of the voting rights.

As a result of the C-TEC restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each of the three entities, and therefore accounted for each entity using the equity method in 1997. The Company consolidated C-TEC from 1993 to 1996.

In September 1995, the Group dividended its investment in MFS to Class D shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1993 and 1994 balance sheets.

In January 1994, MFS issued \$500 million of 9.375% Senior Discount Notes.

In September 1997, the Group agreed to sell its energy segment to CalEnergy Company, Inc. The transaction closed on January 2, 1998.

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

(3) The 1996, 1995 and 1993 dividends include \$.10 for dividends declared in 1996, 1995 and 1993 but paid in January of the subsequent year.

(4) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.

(5) Unless Class D Stock becomes publicly traded, PKS is generally committed to purchase all Class D Stock at the amount computed, in accordance with the Certificate of Incorporation, when put to PKS by a stockholder. The aggregate redemption value of the Class D Stock at December 27, 1997 was \$1,578 million.

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

This item contains information about Peter Kiewit Sons', Inc. (the "Company") as a whole. Separate reports containing management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and Diversified Group have been filed as Exhibits 99.A and 99.B to this Form 10-K. A copy of Exhibit 99.A will be furnished without charge upon the written request of a stockholder addressed to: Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131. Exhibit 99.B can be obtained by contacting Investor Relations, Level 3 Communications, Inc., 3555 Farnam Street, Omaha, Nebraska 68131.

The following discussion of Results of Operations should be read in conjunction with the segment information contained in Note 13 of the Consolidated Financial Statements.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made

by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document.

### **Results of Operations 1997 vs. 1996**

**Coal Mining.** Revenue from the Group's coal mines declined 5% in 1997 compared to 1996. Alternate source coal revenue declined by \$16 million in 1997. The mine's primary customer, Commonwealth Edison, accelerated its contractual commitments in 1996 for alternate source, thus reducing its obligations in 1997. In addition to the decline in tonnage shipped, the price of coal sold to Commonwealth declined 1%. Revenue attributable to other contracts increased by approximately \$4 million. The actual amount of coal shipped to these customers increased 5% in 1997, but the price at which it was sold was 4% lower than 1996.

**Margin,** as a percentage of revenue, declined 11% from 1996 to 1997. Margins in 1996 were higher than normal due to the additional high margin alternate source coal sold to Commonwealth in 1996 and the refund of premiums from a captive insurance company that insured against black lung disease. The decline in Commonwealth shipments and an overall decline in average selling price, adversely affected the results for 1997. If current market conditions continue, the Group expects a decline in coal revenue and earnings after 1998 as certain long-term contracts begin to expire.

**Information Services.** Revenue increased by 124% to \$94 million in 1997 from \$42 million in 1996. Revenue from computer outsourcing services increased 20% to \$49 million in 1997 from \$41 million in 1996. The increase was due to new computer outsourcing contracts signed in 1997. Revenue for systems integration grew to \$45 million in 1997 from less than \$1 million in 1996. Strong demand for Year 2000 renovation services fueled the growth for systems integration's revenues.

**Margin,** as a percent of revenue, decreased to 28% in 1997 from 41% in 1996 for the computer outsourcing business. The reduction of the gross margin was due to up-front migration costs associated with new contracts and significant increases in personnel costs due to the tightening supply of computer professionals. Gross margin for the systems integration business was approximately 40% in 1997. A comparison to 1996 gross margin is not meaningful due to the start-up nature of the business.

**General and Administrative Expenses.** Excluding C-TEC, general and administrative expenses increased 20% to \$114 million in 1997. The increase was primarily attributable to a \$41 million increase in the information services business' general and administrative expenses. The majority of the increase is attributable to additional compensation expense that was incurred due to the conversion of a subsidiary's option and SAR plans to the Class D Stock option plan. The remainder of the increase relates to the increased expenses for new sales offices established in 1997 for the systems integration business and the additional personnel hired in 1997 to implement the expansion plan.

Exclusive of the information services business, general and administrative expenses decreased 26% to \$62 million in 1997. A decrease in professional services and the mine management fees were partially offset by increased compensation expense. Due to the favorable resolution of certain environmental and legal matters, costs that were previously accrued for these issues were reversed in 1997. Partially offsetting this reduction were legal, tax and consulting expenses associated with the CalEnergy transaction and the separation of the Construction and Mining Group and Diversified Group.

**Equity Losses.** The losses for the Group's equity investments increased from \$9 million in 1996 to \$43 million in 1997. Had the C-TEC entities been accounted for using the equity method in 1996, the losses would have increased to \$13 million. The expenses associated with the deployment and marketing of the advanced fiber networks in New York, Boston and Washington D.C., and the costs incurred in connection with the buyout of a marketing contract with minority shareholders are primarily responsible for the increase in equity losses attributable to RCN from \$6 million in 1996 to \$26 million in 1997. The Group's share of Cable Michigan's losses decreased to \$6 million in 1997 from \$8 million in 1996. This improvement is attributable to the gains recognized on the sale of Cable Michigan's Florida cable systems. Commonwealth Telephone's earnings were consistent with that of 1996. The Group recorded equity earnings of \$9 million in each year attributable to Commonwealth Telephone. The Group also recorded equity losses attributable to several developing businesses.

**Investment Income.** Investment income increased 7% in 1997 after excluding C-TEC's \$14 million of investment income in 1996. Gains recognized on the sale of marketable securities, primarily within the Kiewit Mutual Fund ("KMF"), increased from \$3 million in 1996 to \$9 million in 1997. In 1997, KMF repositioned the securities within its portfolios to more closely track the overall market. Partially offsetting these additional gains was a decline in interest income due to an overall reduction of yield earned by the KMF portfolios.

**Interest Expense.** Interest expense increased significantly in 1997 after excluding \$28 million of interest attributable to C-TEC in 1996. CPTC, the owner-operator of a privatized tollroad in California, incurred interest costs of approximately \$9 million and \$11 million in 1996 and 1997. In 1996, interest of \$5 million was capitalized due to the construction of the tollroad. Construction was completed in August 1996, and all interest incurred subsequent to that date was charged against earnings. Interest associated with the financing of the Aurora, Colorado property of \$1 million, also contributed to the increase in interest expense.

**Other Income.** Other income in 1996 includes \$2 million of other expenses attributable to C-TEC. Excluding these losses, other income declined from \$8 million in 1996 to \$1 million in 1997. The absence of gains on the sale of timberland properties and other assets, which accounted for \$6 million of income in 1996, is responsible for the decline.

**Income Tax (Provision) Benefit.** The effective income tax rate for 1997 is less than the expected statutory rate of 35% due primarily to prior year tax adjustments, partially offset by the effect of nondeductible compensation expense associated with the conversion of the information services option and SAR plans to the Class D Stock plan. In 1996, the effective rate was also lower than the statutory rate due to prior year tax adjustments. These adjustments were partially offset by nondeductible costs associated with goodwill amortization and taxes on foreign operations. In 1997 and 1996, the Group settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

**Discontinued Operations - Construction.** The Construction and Mining Group's operations can be separated into two components; construction and materials. Construction revenues increased \$414 million during 1997 compared to 1996. The consolidation of ME Holding Inc. (due to the increase in ownership from 49% to 80%) ("ME Holding") contributed \$261 million, almost two-thirds of the increase. In addition to ME Holding several large projects and joint ventures became fully mobilized during the latter part of the year and were well into the "peak" construction phase.

Material revenues increased 19% to \$290 million in 1997 from \$243 million in 1996. The acquisition of additional plant sites accounts for 22% of the increase in sales. The remaining increase was a result of the strong market for material products in Arizona. This raised sales volume from existing plant sites and allowed for slightly higher selling prices. The inclusion of \$10 million of revenues from the Oak Mountain facility in Alabama also contributed to the increase.

Construction margins increased to 13% of revenue in 1997 as compared to 10% in 1996. The favorable resolution of project uncertainties, several change order settlements, and cost savings or early completion bonuses received during the year contributed to this increase.

Material margins decreased from 10% of revenue in 1996 to 4% in 1997. Losses at the Oak Mountain facility in Alabama were the source of the decrease. The materials margins from sources other than Oak Mountain remained stable as higher unit sales and selling prices were offset by increases in raw materials costs.

General and administrative expenses of the Construction Group increased 11% in 1997 after deducting \$17 million of expenses attributable to ME Holding. Compensation and profit sharing expenses increased \$9 million and \$2 million, respectively, from 1996. The increase in these costs is a direct result of higher construction earnings.

The effective income tax rates in 1997 and 1996 for the Construction Group differ from the expected statutory rate of 35% primarily due to state income taxes and prior year tax adjustments.

**Discontinued Operations - Energy.** Income from discontinued operations increased to \$29 million in 1997 from \$9 million in 1996. The acquisition of Northern Electric, plc. in late 1996 and the commencement of operations at the Mahanagdong geothermal facility in July, 1997 were the primary factors that resulted in the increase.

In October 1997, CalEnergy sold approximately 19.1 million shares of its common stock. This sale reduced the Group's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Group's policy to recognize gains or losses on the sale of stock by its investees. The Group recognized an after-tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern Electric, plc. at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted in July, 1997. The total after-tax impact to Level 3, directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

### **Results of Operations 1996 vs. 1995**

**Coal Mining.** Revenue and net earnings improved primarily due to increased alternate source tons sold to Commonwealth Edison Company in 1996 and the liquidation of a captive insurance company which insured against black lung disease. Upon liquidation, the Group received a refund of premiums paid plus interest in excess of reserves established by the Group for this liability. Since 1993, the amended contract with Commonwealth provided that delivery commitments would be satisfied with coal produced by unaffiliated mines in the Powder River Basin in Wyoming. Coal produced at the Group's mines did not change significantly from 1995 levels

**Information Services.** Revenue increased 17% to \$42 million in 1996 from \$36 million in 1995. The increase was primarily due to new computer outsourcing contracts signed in 1996. Less than \$1 million of revenue was generated by the operations of the new systems integration business, started in February, 1996.

Margin, as a percent of revenue, for the outsourcing business decreased to 41% in 1996 from 45% in 1995. The reduction of the margin was primarily due to up-front migration costs for new customers which were recognized as an expense when incurred.

**Telecommunications.** Revenue for the telecommunications segment increased 13% to \$367 million for fiscal 1996. C-TEC's telephone group's \$10 million, or 8%, increase in sales and C-TEC's cable group's \$33 million or 26% increase in revenue were the primary contributors to the

improved results. The increase in telephone group revenue is due to higher intrastate access revenue from the growth in access minutes, an increase of 13,000 access lines, and higher internet access and video conferencing sales. Cable group revenue increased primarily due to higher average subscribers and the effects of rate increases in April 1995 and February 1996. Subscriber counts increased primarily due to the acquisition of Pennsylvania Cable Systems, formerly Twin County Trans Video, Inc., in September 1995, and the consolidation of Mercom, Inc. since August 1995. Pennsylvania Cable Systems and Mercom account for \$23 million of the increase in cable revenue in 1996.

The 1996 operating expenses for the telecommunications business increased \$38 million or 18% compared to 1995. The telephone group experienced a 9% increase in expenses and the cable group's costs increased 31%. The increase for the telephone group was primarily attributable to higher payroll expenses resulting from additional personnel, wage increases and higher overtime. Also contributing to the increase, were fees associated with the internet access services and consulting services for a variety of regulatory and operational matters. The cable group's increase was due to increased depreciation, amortization and compensation expenses associated with the acquisition of Pennsylvania Cable Systems and the consolidation of Mercom's operations. Also contributing to the higher costs were rate increases for existing programming and the costs for additional programming.

**General and Administrative Expenses.** General and administrative expenses declined 5% to \$181 million in 1996. Decreases in expenses associated with legal and environmental matters were partially offset by higher mine management fees paid to the Construction & Mining Group, the costs attributable to C-TEC and the opening of the SR91 toll road. C-TEC's corporate overhead and other costs increased approximately 13% in 1996. This increase is attributable to costs associated with the development of the RCN business in New York and Boston, the acquisition of Pennsylvania Cable Systems, the consolidation of Mercom and the investigation of the feasibility of various restructuring alternatives.

**Equity Earnings, net.** Losses attributable to the Group's equity investments increased to \$9 million in 1996 from \$5 million in 1995. The additional losses were attributable to an enterprise engaged in the renewable fuels business and to C-TEC's investment in MegaCable S.A. de C.F., Mexico's second largest cable television operator.

**Investment Income, net.** Investment income increased 24% in 1996 compared to 1995. Increased gains on the sale of marketable and equity securities and interest income were partially offset by a slight decline in dividend income.

**Interest Expense, net.** Interest expense in 1996 increased 43% compared to 1995. The increase was primarily due to interest on the CPTC debt that was capitalized through July 1996, and C-TEC's redeemable preferred stock, issued in the Pennsylvania Cable Systems acquisition, that began accruing interest in 1996.

**Gain on Subsidiary's Stock Transactions, net.** The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Group in 1995.

**Other, net.** The decline of other income in 1996 was primarily attributable to the 1995 settlement of the Whitney Benefits litigation.

**Income Tax Benefit (Provision).** The effective income tax rate for 1996 differs from the statutory rate of 35% primarily because of adjustments to prior year tax provisions, partially offset by state taxes and nondeductible amounts associated with goodwill amortization. In 1995, the rate was lower than 35% due primarily to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities originally recognized on gains from MFS stock transactions that were no longer required due to the tax-free spin-off of MFS, and adjustments to prior year tax provisions.

**Discontinued Operations - Construction.** Revenue from construction decreased 1% to \$2,303 million in 1996. This resulted from the completion of several major projects during the year, while many new contracts were still in the start-up phase. KCG's share of joint venture revenue remained at 30% of total revenues in 1996. Revenue from materials increased by less than 1% in 1996. Increased demand for aggregates in the Arizona market was offset by a decline in precious metal sales. KCG sold its gold and silver operations in Nevada to Kinross Gold Corporation ("Kinross") and essentially liquidated its metals inventory in 1995.

Opportunities in the construction and materials industry continued to expand along with the economy. Because of the increased opportunities, KCG was able to be selective in the construction projects it pursued. Gross margins for construction increased from 8% in 1995 to 10% in 1996. This resulted from the completion of several large projects and increased efficiencies in all aspects of the construction process. Gross margins for materials declined from 13% in 1995 to 10% in 1996. The lack of higher margin precious metals sales in 1996 combined with slightly lower construction materials margins produced the reduction in operating margin.

In 1995, the exchange of KCG's gold and silver operations in Nevada for 4,000,000 shares of common stock of Kinross led to a \$21 million gain for KCG. The gain was the difference between KCG's book value in the gold and silver operations and the market value of the Kinross shares at the time of the exchange. Other income was also primarily comprised of mining management fees from the Diversified Group, of \$37 million and \$30 million in 1996 and 1995, and gains on the disposition of property, plant and equipment and other assets of \$17 million and \$12 million in 1996 and 1995.

The effective income tax rate for 1996 differs from the statutory rate of 35% primarily because of adjustments to prior year tax provisions and state taxes. In 1995, the rate was higher than 35% due primarily to state income taxes.

Discontinued Operations - Energy. Income from discontinued operations declined in 1996 by 36% to \$9 million. Losses attributable to the Group's interest in the Casecan project, additional development expenses for international activities, and the costs associated with the Northern Electric transaction were partially offset by increased equity earnings from CalEnergy.

### **Financial Condition - December 27, 1997**

The Group's working capital, excluding C-TEC and discontinued operations, increased \$392 million or 106% during 1997. This is due to the \$182 million of cash generated by operations, primarily coal operations, and the significant financing activities described below.

Investing activities include \$452 million to purchase marketable securities, \$42 million of investments and \$26 million of capital expenditures, including \$14 million for the existing information services business and \$6 million for a corporate jet. The investments primarily include the Group's \$22 million investment in the Pavilion Towers office complex, located in Aurora, Colorado, and \$15 million of investments in developing businesses. Funding a portion of these activities was the sale of marketable securities of \$167 million.

Sources of financing include \$138 million for the issuance of Class D Stock, \$72 million for the exchange of Class C stock for Class D stock and \$16 million for the financing for Pavilion Towers. Uses consist primarily of \$12 million for the payment of dividends, and \$2 million of payments on long-term debt.

Prior to the execution of an agreement with CalEnergy in September, 1997, the Group invested \$31 million in the Dieng, Patuha and Bali power projects in Indonesia.

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitely abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

Level 3 has recently decided to substantially increase its emphasis on and resources to its information services to business. Pursuant to the plan, Level 3 intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

Using this network Level 3 intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at lower prices than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

Level 3 believes that over time, a substantial number of businesses will convert existing computer application systems to computer systems which communicate using TCP/IP and are accessed by users employing Web browsers. Level 3 further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to internet access with requisite quality and security levels.

Level 3 anticipates that the capital expenditures required to implement this expansion plan will be substantial. Level 3 estimates that these costs may be in excess of \$500 million in 1998 and could exceed \$1.5 billion in 1999. Level 3's current financial condition, borrowing capacity and proceeds from the CalEnergy transaction described below should be sufficient for immediate operating, implementation and investing activities. However, Level 3 expects to raise capital from both the equity and debt markets due to the significant capital requirements of the information services expansion plan.

In connection with the Expansion Plan, Level 3 expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, management is conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement

Level 3's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, Level 3 may dispose of that business.

In January 1998, Level 3 and CalEnergy closed the sale of Level 3's energy assets to CalEnergy. Level 3 received proceeds of \$1,159 million and expects to recognize an after-tax gain of approximately \$324 million in 1998. The after-tax proceeds from this transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

In January 1998, Class C shareholders converted 2.3 million shares, with a redemption value of \$122 million, into 10.5 million shares of Class D Stock.

In February 1998, Level 3 announced that it was moving its corporate headquarters to Broomfield, Colorado, a northwest suburb of Denver. The campus facility is expected to encompass over 500,000 square feet of office space at a construction cost of over \$70 million. Level 3 is leasing space in the Denver area while the campus is under construction. The first phase of the complex is scheduled for completion in the summer of 1999.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVLT". The Nasdaq listing will follow the separation of Level 3 and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D Stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of Level 3 and the Construction Group. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by Level 3's Board of Directors at that time. Level 3's Board may choose not to force conversion if it were to decide that conversion is not in the best interests of the stockholders of Level 3. If, as currently anticipated, Level 3's Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If Level 3's Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

Immediately prior to the spin-off of the Kiewit Construction and Mining Group, the Company will recognize a gain equal to the difference between the carrying value of the Construction and Mining Group and its fair value. The Company will then reflect the fair value of Kiewit Construction and Mining Group as a dividend to shareholders.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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

The financial statements of an equity investee (RCN) are required by Rule 3.09 and are incorporated by reference from RCN's Form 10-K for the year ended December 31, 1997, filed under Commission File No. 000-22825.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**  
None.

## **PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

**ITEM 11. EXECUTIVE COMPENSATION.**

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

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

The information required by Part III is incorporated by reference to the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission. However, certain information is set forth under the caption "Directors and Executive Officers of the Registrant" following Item 4 above.

## PART IV

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

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

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

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, effective January 8, 1992 (Exhibit 3.1 to Company's Form 10-K for 1991).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Peter Kiewit Sons', Inc., effective December 8, 1997.
3.4	By-laws, composite copy, including all amendments, as of March 19, 1993 (Exhibit 3.4 to Company's Form 10-K for 1992).
10.1	Separation Agreement, dated December 8, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc.
10.2	Amendment No. 1 to Separation Agreement, dated March 18, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc.
21	List of subsidiaries of the Company.
23	Consents of Coopers & Lybrand LLP
27	Financial data schedules.
99.A	Kiewit Construction & Mining Group Financial Statements and Other Information.
99.B	Diversified Group Financial Statements and Other Information.

(b) No reports on Form 8-K were filed by the Company during the fourth quarter of 1997.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March, 1998.  
PETER KIEWIT SONS', INC.

By: /s/ Walter Scott, Jr.  
Name: Walter Scott, Jr.  
Title: Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 30th day of March, 1998.

/s/ Walter Scott, Jr.  
Walter Scott, Jr.

Chairman of the Board and President  
(principal executive officer)

/s/ R. Douglas Bradbury  
R. Douglas Bradbury

Executive Vice President of Level 3  
Communications, Inc.  
(principal financial officer)

/s/ Eric J. Mortensen  
Eric J. Mortensen

Controller  
(principal accounting officer)



/s/ Richard W. Colf  
Richard W. Colf, Director  
Director

/s/ Richard R. Jaros  
Richard R. Jaros,

/s/ James Q. Crowe  
James Q. Crowe, Director  
Director

/s/ Tait P. Johnson  
Tait P. Johnson,

/s/ Robert B. Daugherty  
Robert B. Daugherty, Director  
Director

/s/ Allan K. Kirkwood  
Allan K. Kirkwood,

/s/ Richard Geary  
Richard Geary, Director  
Director

/s/ Peter Kiewit, Jr.  
Peter Kiewit, Jr.,

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

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

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

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

/s/ Charles M. Harper  
Charles M. Harper, Director

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

### **Index to Financial Statements**

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

Financial Statements as of December 27, 1997 and December 28, 1996 and for the three years ended December 27, 1997:

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

Notes to Consolidated Financial Statements

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

### **REPORT OF INDEPENDENT ACCOUNTANTS**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peter Kiewit Sons', Inc. and Subsidiaries as of December 27, 1997 and December 28, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 1997 in conformity with generally accepted accounting principles.

**Coopers & Lybrand L.L.P.**

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

Consolidated Statements of Earnings

For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Revenue	\$ 332	\$ 652	\$ 580
Cost of Revenue	(175)	(384)	(345)
	-----	-----	-----
	157	268	235
General and Administrative Expenses	(114)	(181)	(190)
	-----	-----	-----
Operating Earnings	43	87	45
Other (Expense) Income:			
Equity losses, net	(43)	(9)	(5)
Investment income, net	45	56	45
Interest expense, net	(15)	(33)	(23)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	1	6	125
	-----	-----	-----
	(12)	20	145
Equity Loss in MFS	-	-	(131)
	-----	-----	-----
Earnings Before Income Taxes, Minority Interest and Discontinued Operations	31	107	59
Income Tax Benefit (Provision)	48	(3)	79
Minority Interest in Net Loss (Income) of Subsidiaries	4	-	(12)
	-----	-----	-----
Income from Continuing Operations	83	104	126
Discontinued Operations:			
Construction, net of income tax (expense) of (\$107), (\$72) and (\$60)	155	108	104
Energy, net of income tax benefit (expense) of \$1, (\$9) and (\$8)	10	9	14
	-----	-----	-----
Income from Discontinued Operations	165	117	118
	-----	-----	-----
Net Earnings	\$ 248	\$ 221	\$ 244
	=====	=====	=====
Earnings Per Share:			
Continuing Operations:			
Class D Stock			
Basic	\$ .66	\$ .90	\$1.17
	=====	=====	=====
Diluted	\$ .66	\$ .90	\$1.17
	=====	=====	=====
Net Income:			
Class C Stock			
Basic	\$15.99	\$10.13	\$7.78
	=====	=====	=====
Diluted	\$15.35	\$ 9.76	\$7.62
	=====	=====	=====
Class D Stock			
Basic	\$ .74	\$ .97	\$1.29
	=====	=====	=====
Diluted	\$ .74	\$ .97	\$1.29
	=====	=====	=====

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheets

December 27, 1997 and December 28, 1996

(dollars in millions)	1997	1996
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 87	\$ 147
Marketable securities	678	372
Restricted securities	22	17
Receivables, less allowance of \$-, and \$3	42	76
Investment in discontinued operations - energy	643	608
Other	22	26
	-----	-----
Total Current Assets	1,494	1,246
Property, Plant and Equipment, at cost:		
Land	15	18
Buildings and leasehold improvements	122	159
Equipment	275	810
	-----	-----
	412	987
Less accumulated depreciation and amortization	(228)	(345)
	-----	-----
Net Property, Plant and Equipment	184	642
Investments	383	189
Investments in Discontinued Operations-Construction	652	562
Intangible Assets, net	21	353
Other Assets	45	74
	-----	-----
	\$ 2,779	\$3,066
	=====	=====

See Note 17 for 1997 pro forma balance sheet information. See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Consolidated Balance Sheets

December 27, 1997 and December 28, 1996

(continued)

(dollars in millions)	1997	1996
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 31	\$ 79
Current portion of long-term debt:		
Telecommunications	-	55
Other	3	2
Accrued reclamation and other mining costs	19	19
Deferred income taxes	15	5
Other	21	87
	-----	-----
Total Current Liabilities	89	247
Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	137	113
Deferred Income Taxes	83	148
Accrued Reclamation Costs	100	98
Other Liabilities	139	216
Minority Interest	1	218
Stockholders' Equity:		
Preferred stock, no par value, authorized		

250,000 shares:		
no shares outstanding in 1997 and 1996	-	-
Common stock, \$.0625 par value, \$2.1 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares:		
- outstanding in 1997 and 263,468 outstanding in 1996	-	-
Class C, authorized 125,000,000 shares:		
10,132,343 outstanding in 1997 and 10,743,173 outstanding in 1996	1	1
Class D, authorized 500,000,000 shares:		
135,517,140 outstanding in 1997 and 115,901,215 outstanding in 1996	8	1
Class R, authorized 8,500,000 shares:		
- outstanding in 1997 and 1996	-	-
Additional paid-in capital	427	235
Foreign currency adjustment	(7)	(7)
Net unrealized holding gain	2	23
Retained earnings	1,799	1,566
	-----	-----
Total Stockholders' Equity	2,230	1,819
	-----	-----
	\$2,779	\$3,066
	=====	=====

See Note 17 for 1997 pro forma balance sheet information. See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Consolidated Statements of Cash Flows

For the three years ended December 27, 1997

(dollars in millions)	1997	1996	1995
Cash flows from continuing operations:			
Income from continuing operations	\$ 83	\$ 104	\$ 126
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Depreciation, depletion and amortization	24	132	96
Gain on sale of property, plant and equipment, and other investments	(9)	(3)	(7)
Gain on subsidiary's stock transactions, net	-	-	(3)
Compensation expense attributable to stock options	21	-	-
Equity losses, net	43	10	130
Minority interest in subsidiaries	(4)	-	12
Retirement benefits paid	(7)	(6)	(2)
Federal income tax refunds	146	-	35
Deferred income taxes	(103)	(68)	(152)
Change in working capital items:			
Receivables	(9)	(1)	11
Other current assets	(1)	6	-
Payables	(3)	9	(3)
Other liabilities	(5)	13	34
Other	6	-	(4)
	-----	-----	-----
Net cash provided by continuing operations	182	196	273
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	167	378	383
Purchases of marketable securities	(452)	(311)	(440)
Increase in restricted securities	(2)	(2)	(2)
Investments and acquisitions, net of cash acquired	(42)	(59)	(136)
Proceeds from sale of property, plant and equipment, and other investments	1	7	14
Capital expenditures	(26)	(117)	(118)
Other	3	(8)	(2)
	-----	-----	-----
Net cash used in investing activities	\$ (351)	\$ (112)	\$ (301)

See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

# Consolidated Statements of Cash Flows

For the three years ended December 27, 1997

(continued)

(dollars in millions)	1997	1996	1995
Cash flows from financing activities:			
Long-term debt borrowings	\$ 17	\$ 38	\$ 49
Payments on long-term debt, including current portion	(2)	(60)	(49)
Issuances of common stock	138	-	2
Issuances of subsidiaries' stock	-	1	-
Repurchases of common stock	-	(11)	(3)
Dividends paid	(12)	(11)	-
Exchange of Class C Stock for Class D Stock, net	72	20	155
	-----	-----	-----
Net cash provided by (used in) financing activities	213	(23)	154
Cash flows from discontinued operations:			
Discontinued energy operations	3	5	8
Investments in discontinued energy operations	(31)	(282)	(101)
Proceeds from sales of discontinued packaging operations	-	-	29
	-----	-----	-----
Net cash used in discontinued operations	(28)	(277)	(64)
Cash and cash equivalents of C-TEC in 1997 and MFS in 1995 at beginning of year	(76)	-	(22)
Effect of exchange rates on cash	-	-	2
	-----	-----	-----
Net change in cash and cash equivalents	(60)	(216)	42
Cash and cash equivalents at beginning of year	147	363	321
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 87	\$ 147	\$ 363
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Taxes paid	\$ 62	\$ 55	\$ 132
Interest paid	13	38	33
Noncash investing and financing activities:			
Conversion of CalEnergy convertible debentures to common stock	\$ -	\$ 66	\$ -
Dividend of investment in MFS	-	-	399
Issuance of C-TEC redeemable preferred stock for acquisition	-	-	39

See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 27, 1997

(dollars in millions)	Class B&C Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 31, 1994	\$ 1	\$ 1	\$ 182	\$ (7)	\$ (8)	\$ 1,567	\$1,736
Issuances of stock	-	-	29	-	-	-	29
Repurchases of stock	-	-	(1)	-	-	(5)	(6)
Foreign currency adjustment	-	-	-	1	-	-	1

Net unrealized holding gain	-	-	-	-	25	-	25
Net earnings	-	-	-	-	-	244	244
Dividends: (a)							
Class C (\$1.05 per common share)	-	-	-	-	-	(12)	(12)
Class D (\$.10 per common share)	-	-	-	-	-	(11)	(11)
MFS Dividend	-	-	-	-	-	(399)	(399)
	-----	-----	-----	-----	-----	-----	-----
Balance at December 30, 1995 \$	1	1	210	(6)	17	1,384	1,607
Issuances of stock	-	-	27	-	-	-	27
Repurchases of stock	-	-	(2)	-	-	(14)	(16)
Foreign currency adjustment	-	-	-	(1)	-	-	(1)
Net unrealized holding gain	-	-	-	-	6	-	6
Net earnings	-	-	-	-	-	221	221
Dividends: (b)							
Class C (\$1.30 per common share)	-	-	-	-	-	(13)	(13)
Class D (\$.10 per common share)	-	-	-	-	-	(12)	(12)
	-----	-----	-----	-----	-----	-----	-----
Balance at December 28, 1996 \$	1	\$ 1	\$ 235	\$ (7)	\$ 23	\$1,566	\$1,819

See accompanying notes to consolidated financial statements

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

#### Consolidated Statements of Changes in Stockholders' Equity For the three years ended December 27,1997

(continued)

(dollars in millions)	Class B&C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 28, 1996 \$	1	\$ 1	\$ 235	\$ (7)	\$ 23	\$1,566	\$1,819
Issuances of stock	-	-	172	-	-	-	172
Repurchases of stock	-	-	-	-	-	(2)	(2)
Option Activity	-	-	27	-	-	-	27
Class D Stock Split	-	7	(7)	-	-	-	-
Foreign currency adjustment	-	-	-	-	-	-	-
Net unrealized holding loss	-	-	-	-	(21)	-	(21)
Net earnings	-	-	-	-	-	248	248
Dividends: (c)							
Class C (\$1.50 per common share)	-	-	-	-	-	(13)	(13)

Balance at	----	----	-----	-----	-----	-----	-----
December 27, 1997	\$ 1	\$ 8	\$ 427	\$ (7)	\$ 2	\$1,799	\$2,230
	=====	=====	=====	=====	=====	=====	=====

(a) Includes \$.60 and \$.10 per share for dividends on Class C and Class D Stock, respectively, declared in 1995 but paid in January 1996.

(b) Includes \$.70 and \$.10 per share for dividends on Class C and Class D Stock, respectively, declared in 1996 but paid in January 1997.

(c) Includes \$.80 per share for dividends on Class C declared in 1997 but paid in January 1998.

See accompanying notes to consolidated financial statements.

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (1) Summary of Significant Accounting Policies

##### Principles of Consolidation

The consolidated financial statements include the accounts of Peter Kiewit Sons', Inc. and subsidiaries in which it has control ("PKS" or "the Company"), which are engaged in enterprises primarily related to construction, coal mining, energy generation, information services, and telecommunications. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. Investments in other companies in which the Company exercises significant influence over operating and financial policies, including construction joint ventures and energy projects, are accounted for by the equity method. The Company accounts for its share of the operations of the construction joint ventures on a pro rata basis in the consolidated statements of earnings. All significant intercompany accounts and transactions have been eliminated.

In 1997, the Company agreed to sell its energy assets to CalEnergy Company, Inc. ("CalEnergy") and to spin-off the construction business. Therefore, the assets and liabilities, and results of operations, of both businesses have been classified as discontinued operations on the consolidated balance sheet, statements of earnings and cash flows. (See notes 2 and 3)

On September 5, 1997, C-TEC Corporation ("C-TEC") announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies. The transaction was effective September 30, 1997. As a result of the restructuring plan, the Company owns less than 50% of the outstanding shares and voting rights of each entity, and therefore has accounted for each entity using the equity method as of the beginning of 1997. In accordance with Generally Accepted Accounting Principles, C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 financial statements.

The results of operations of MFS Communications Company, Inc. ("MFS"), (which later merged into WorldCom Inc.) prior to its spin-off on September 30, 1995, have been classified as a single line item on the statements of earnings

The Company invests in the portfolios of the Kiewit Mutual Fund, ("KMF"), a registered investment company. KMF is not consolidated in the Company's financial statements.

##### Description of Business Groups

Holders of Class C Stock ("Construction & Mining Group") and Class D Stock ("Diversified Group") are stockholders of PKS. The Construction & Mining Group ("KCG") contains the Company's traditional construction and materials operations performed by Kiewit Construction Group Inc. The Diversified Group through Level 3 Communications, Inc. (formerly Kiewit Diversified Group Inc.) ("Level 3") contains coal mining properties owned by Kiewit Coal Properties Inc., energy investments, including a 24% interest in CalEnergy and a 30% interest in CE Electric UK plc ("CE Electric"), investments in international energy projects, information services businesses, telecommunications companies owned by C-TEC, as well as other assets. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the groups.

##### Construction Contracts

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

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

KCG recognizes revenue on long-term construction contracts and joint ventures on the percentage-of-completion method based upon engineering estimates of the work performed on individual contracts. Provisions for losses are recognized on uncompleted contracts when they become known. Claims for additional revenue are recognized in the period when allowed. It is at least reasonably possible that engineering estimates of the work performed on individual contracts will be revised in the near term.

### **Coal Sales Contracts**

Level 3's coal is sold primarily under long-term contracts with electric utilities, which burn coal in order to generate steam to produce electricity. A substantial portion of Level 3's coal sales were made under long-term contracts during 1997, 1996 and 1995. The remainder of Level 3's sales are made on the spot market where prices are substantially lower than those in the long-term contracts. As the long-term contracts expire, a higher proportion of Level 3's sales will occur on the spot market.

The coal industry is highly competitive. Level 3 competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than Level 3, but also with alternative methods of generating electricity and alternative energy sources. Many of Level 3's competitors are served by two railroads and, due to the competition, often benefit from lower transportation costs than Level 3 which is served by a single railroad. Additionally, many competitors have lower stripping ratios than Level 3, often resulting in lower comparative costs of production.

Level 3 is also required to comply with various federal, state and local laws concerning protection of the environment. Level 3 believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors are similarly affected by such laws.

Level 3 and its mining ventures have entered into various agreements with its customers which stipulate delivery and payment terms for the sale of coal. Prior to 1993, one of the primary customers deferred receipt of certain commitments by purchasing undivided fractional interests in coal reserves of Level 3 and the mining ventures. Under the agreements, revenue was recognized when cash was received. The agreements with this customer were renegotiated in 1992. In accordance with the renegotiated agreements, there were no sales of interests in coal reserves subsequent to January 1, 1993. Level 3 has the obligation to deliver the coal reserves to the customer in the future if the customer exercises its option. If the option is exercised, Level 3 presently intends to deliver coal from unaffiliated mines. In the opinion of the management, Level 3 has sufficient coal reserves to cover the above sales commitments.

Level 3's coal sales contracts are with several electric utility and industrial companies. In the event that these customers do not fulfill contractual responsibilities, Level 3 would pursue the available legal remedies.

### **Information Services Revenue**

Information services revenue is primarily derived from the computer outsourcing business and the systems integration business. Level 3 provides outsourcing service, typically through contracts ranging from 3-5 years, to firms that desire to focus their resources on their core businesses. Under these contracts, Level 3 recognizes revenue in the month the service is provided. The systems integration business helps customers define, develop and implement cost-effective information systems. Revenue from these services is billed on a time and materials basis or percentage of completion basis depending on the extent of the services provided.

### **Telecommunications Revenue**

In 1996 and 1995 C-TEC's most significant operating groups are its local telephone service and cable system operations. C-TEC's telephone network access revenues are derived from net access charges, toll rates and settlement arrangements for traffic that originates or terminates within C-TEC's local telephone company. Revenues from telephone services and basic and premium cable programming services are recorded in the month the service is provided.

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

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

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



As noted previously, the investment in C-TEC has been accounted for using the equity method in 1997.

### **Depreciation and Amortization.**

Property, plant and equipment are recorded at cost. Depreciation and amortization for the majority of the Company's property, plant and equipment are computed on accelerated and straight-line methods. Depletion of mineral properties is

provided primarily on an units-of-extraction basis determined in relation to estimated reserves.

#### **Intangible Assets**

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

### **Long Lived Assets**

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

### **Reserves for Reclamation**

Level 3 follows the policy of providing an accrual for reclamation of mined properties, based on the estimated cost of restoration of such properties, in compliance with laws governing strip mining. It is at least reasonably possible that the estimated cost of restoration will be revised in the near-term.

### **Foreign Currencies**

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

### **Subsidiary and Investee Stock Activity**

The Company recognizes gains and losses from the sale, issuance and repurchase of stock by its subsidiaries.

### **Earnings Per Share**

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". The Statement establishes standards for computing and presenting earnings per share and requires the restatement of prior per share data presented. Basic earnings per share have been computed using the weighted average number of shares during each period. Diluted earnings per share is computed by including stock options and convertible debentures considered to be dilutive common stock equivalents.

Potentially dilutive stock options are calculated in accordance with the treasury stock method which assumes that proceeds from the exercise of all options are used to repurchase common stock at the average market value. The number of shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the options. The potentially dilutive convertible debentures are calculated in accordance with the "if converted" method. This method assumes that the after-tax interest expense associated with the debentures is an addition to income and the debentures are converted into equity with the resulting common shares being aggregated with the weighted average shares outstanding.

The following details the earnings per share calculations for Class D Stock and Class C Stock:

Class D Stock	1997	1996	1995
Income from continuing operations available to common shareholders (in millions)	\$ 83	\$ 104	\$ 126
Add: Interest expense, net of tax effect associated with convertible debentures	-	-	-*
	-----	-----	-----

Income from continuing operations for fully diluted shares	83	104	126
Income from discontinued operations	10	9	14
Net Income	\$ 93	\$ 113	\$ 140
	=====	=====	=====
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	124,647	116,006	108,594
Additional dilutive stock options	539	311	-
Additional dilutive shares assuming conversion of convertible debentures	-	-	257
	-----	-----	-----
Total number of shares used to compute diluted earnings per share	125,186	116,317	108,851
	=====	=====	=====
Continuing Operations:			
Basic earnings per share	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Diluted earnings per share	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Discontinued Operations:			
Basic earnings per share	\$ .08	\$ .07	\$ .12
	=====	=====	=====
Diluted earnings per share	\$ .08	\$ .07	\$ .12
	=====	=====	=====
Net Income:			
Basic earnings per share	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====
Diluted earnings per share	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====

\*Interest expense attributable to convertible debentures was less than \$1 million in 1995.

Class C Stock	1997	1996	1995
Net income available to common shareholders (in millions)	\$ 155	\$ 108	\$ 104
Add: Interest expense, net of tax effect associated with convertible debentures	1	-*	-*
	-----	-----	-----
Net income for diluted shares	\$ 156	\$ 108	\$ 104
	=====	=====	=====
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	9,728	10,656	13,384
Additional dilutive shares assuming conversion of convertible debentures	441	437	312
	-----	-----	-----
Total number of shares used to compute diluted earnings per share	10,169	11,093	13,696
	=====	=====	=====
Net Income			
Basic earnings per share	\$ 15.99	\$ 10.13	\$ 7.78
	=====	=====	=====
Diluted earnings per share	\$ 15.35	\$ 9.76	\$ 7.62
	=====	=====	=====

\*Interest expense attributable to convertible debentures was less than \$1 million in 1996 and 1995.

#### Stock Dividend

Effective December 26, 1997, the PKS Board of Directors approved a dividend of four shares of Class D Stock for every one share of Class D Stock held. All share information and per share data have been restated to reflect this dividend.

#### Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax

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

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Recently Issued Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements.

Also in 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data.

These statements are effective for financial statements for periods beginning after December 15, 1997. Management does not expect adoption of these statements to materially affect the Company's financial statements.

### Reclassifications

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

### Fiscal Year

The Company's fiscal year ends on the last Saturday in December. There were 52 weeks in fiscal years 1997, 1996 and 1995.

#### (2) Reorganization

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998. As a result of these events the Company has reflected the financial position and results of operations of the Kiewit Construction and Mining Group as discontinued operations on the consolidated balance sheets and consolidated statements of earnings for all periods presented. The activities of the Construction and Mining Group have been removed from the statements of cash flows. The financial statements of Kiewit Construction and Mining Group can be found in Exhibit 99.A of this document.

The following is summarized financial information of the Kiewit Construction and Mining Group:

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 2,764	\$ 2,303	\$ 2,330
Net income	155	108	104

Financial Position (dollars in millions)	1997	1996
--	------	------

Current assets	\$ 1,057	\$ 764
Other assets	284	274
	-----	-----
Total assets	\$ 1,341	\$ 1,038
	=====	=====
Current liabilities	579	397
Other liabilities	99	79
Minority interest	11	-
	-----	-----
Total liabilities	689	476
	-----	-----
Net assets	\$ 652	\$ 562
	=====	=====

Immediately prior to the spin-off of the Kiewit Construction and Mining Group, the Company will recognize a gain equal to the difference between the carrying value of the Construction and Mining Group and its fair value. The Company will then reflect the fair value of Kiewit Construction and Mining Group as a dividend to shareholders.

Level 3 has recently decided to substantially increase its emphasis on and resources to its information services business. Pursuant to the plan, Level 3 intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network (the "Expansion Plan").

Using the network Level 3 intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at lower prices than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

### (3) Discontinued Energy Operations:

In connection with the Expansion Plan, Level 3 expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, the management is conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, Level 3 may dispose of that business.

On September 10, 1997, Level 3 and CalEnergy entered into an agreement whereby CalEnergy contracted to purchase Level 3's energy investments for \$1,155 million, subject to adjustments. These energy investments include approximately 20.2 million shares of CalEnergy common stock (assuming the exercise of 1 million options held by Level 3), Level 3's 30% ownership interest in CE Electric and Level 3's investments, made jointly with CalEnergy, in international power projects in Indonesia and the Philippines. The transaction was subject to the satisfactory completion of certain provisions of the agreement and closed on January 2, 1998. These assets comprised the energy segment of Level 3. Therefore, the Company has reflected these assets, the earnings and losses attributable to these assets, and the related cash flow items as discontinued operations on the balance sheets, statements of earnings and cash flows for all periods presented.

In order to fund the purchase of these assets, CalEnergy sold, in October 1997, approximately 19.1 million shares of its common stock at a price of \$37.875 per share. This sale reduced Level 3's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Company's policy to recognize gains or losses on the sale of stock by its investees. Level 3 recognized an after-tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

The Agreement with CalEnergy included a provision whereby CalEnergy and Level 3 shared equally any proceeds from the offering above or below a specified amount. The offering was conducted at a price above that provided in the agreement and therefore, Level 3 received additional proceeds of \$16 million at the time of closing.

Level 3 expects to recognize an after-tax gain on the disposition of its energy assets in 1998 of approximately \$324 million. The after-tax proceeds from the transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

The following is summarized financial information for discontinued energy operations:

Income from Discontinued Operations	1997	1996	1995
Operations			
Equity in:			
CalEnergy earnings, net	\$ 16	\$ 20	\$ 10
CE Electric earnings, net	17	(2)	-

International energy projects earnings, net	5	(5)	6
Investment income from CalEnergy	-	5	6
Income tax expense	(9)	(9)	(8)
	-----	-----	-----
Income from operations	\$ 29	\$ 9	\$ 14
	=====	=====	=====

#### CalEnergy Stock Transactions

Gain on investee stock activity	\$ 68	\$ -	\$ -
Income tax expense	(24)	-	-
	-----	-----	-----
	\$ 44	\$ -	\$ -
	=====	=====	=====

#### Extraordinary Loss - Windfall Tax

Level 3's share from CalEnergy	\$ (39)	\$ -	\$ -
Level 3's share from CE Electric	(58)	-	-
Income tax benefit	34	-	-
	-----	-----	-----
Extraordinary loss	\$ (63)	\$ -	\$ -
	=====	=====	=====

Investments in Discontinued Operations	1997	1996
Investment in CalEnergy	\$ 337	\$ 292
Investment in CE Electric	135	176
Investment in international energy projects	186	149
Restricted securities	2	8
Deferred income tax liability	(17)	(17)
	-----	-----
Total	\$ 643	\$ 608
	=====	=====

At December 27, 1997, Level 3 owned 19.2 million shares or 24% of CalEnergy's outstanding common stock and had a cumulative investment in CalEnergy common stock of \$337 million. CalEnergy common stock is traded on the New York Stock Exchange. On December 27, 1997, the market value of Level 3's investment in CalEnergy common stock was \$548 million.

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

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 2,271	\$ 576	\$ 399
Income before extraordinary item	52	92	62
Extraordinary item - Windfall tax	(136)	-	-
Level 3's share:			
Income before extraordinary item	18	22	13
Goodwill amortization	(2)	(2)	(3)
	-----	-----	-----
Equity in income of CalEnergy before extraordinary item	\$ 16	\$ 20	\$ 10
	=====	=====	=====
Extraordinary item - Windfall tax	\$ (39)	\$ -	\$ -
	=====	=====	=====
Financial Position (dollars in millions)	1997	1996	
Current assets	\$ 2,053	\$ 945	
Other assets	5,435	4,768	
	-----	-----	
Total assets	7,488	5,713	
Current liabilities	1,440	1,232	
Other liabilities	4,494	3,301	
Minority interest	134	299	
	-----	-----	
Total liabilities	6,068	4,832	
	-----	-----	
Net assets	\$ 1,420	\$ 881	
	=====	=====	
Level 3's share:			
Equity in net assets	\$ 337	\$ 267	
Goodwill	-	25	

Investment in CalEnergy

-----  
\$ 337  
=====

-----  
\$ 292  
=====

In December 1996, CE Electric, which is 70% owned by CalEnergy and 30% owned by Level 3, acquired majority ownership of the outstanding ordinary share capital of Northern Electric, plc. pursuant to a tender offer (the "Tender Offer") commenced in the United Kingdom by CE Electric in November 1996. As of March 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

As of December 27, 1997, CalEnergy and Level 3 had contributed to CE Electric approximately \$410 million and \$176 million, respectively, of the approximately \$1.3 billion required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The remaining funds necessary to consummate the Tender Offer were provided by a term loan and a revolving facility agreement obtained by CE Electric. Level 3 has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern Electric, plc. at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted in July 1997. The total after-tax impact to Level 3 directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

The following is summarized financial information of CE Electric as of December 31, 1997 and December 31, 1996:

Operations (dollars in millions)	1997	1996
Revenue	\$ 1,564	\$ 37
Income before extraordinary item	58	-
Extraordinary item - Windfall tax	(194)	-
Level 3's share:		
Income before extraordinary item	\$ 17	\$ -
Management fee paid to CalEnergy	-	(2)
	-----	-----
	17	(2)
	=====	=====
Extraordinary item - Windfall tax	\$ (58)	\$ -
	=====	=====
Financial Position (dollars in millions)	1997	1996
Current assets	\$ 419	\$ 583
Other assets	2,519	1,772
	-----	-----
Total assets	2,938	2,355
Current liabilities	1,166	785
Other liabilities	1,265	718
Preferred stock	56	153
Minority interest	-	112
	-----	-----
Total liabilities	2,487	1,768
	-----	-----
Net assets	\$ 451	\$ 587
	=====	=====
Level 3's Share:		
Equity in net assets	\$ 135	\$ 176
	=====	=====

CE Electric's 1995 and 1996 operating results prior to the acquisition were not significant relative to Level 3's results after giving effect to certain pro forma adjustments related to the acquisitions, primarily increased amortization and interest expense.

In 1993, Level 3 and CalEnergy formed a venture to develop power projects outside of the United States. Since 1993, construction has begun on the Mahanagdong, Casecnan and Dieng power projects. The Mahanagdong project is a 165 MW geothermal power facility located on the Philippine island of Leyte. The Casecnan project is a combined irrigation and 150 MW hydroelectric power generation facility located on the island of Luzon in the Philippines. Dieng Unit I is a 55 MW geothermal facility on the Indonesian island of Java. An additional five units are expected to be constructed on a modular basis at the Dieng site, as geothermal resources are developed. In June 1997, Level 3 and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to Level 3.

Generally, costs associated with the development, financing and construction of the international energy projects have been capitalized by each of the projects and will be amortized over the life of each project.

The following is summarized financial information for the international energy projects:

Financial Position (dollars in millions)	Mahanagdong	Casecnan	Dieng	Other	Total
1997					
Current assets	\$ 42	\$ 334	\$ 87	\$ 67	\$ 530
Other assets	252	148	240	171	811
	-----	-----	-----	-----	-----
Total assets	294	482	327	238	1,341
Current liabilities	11	12	88	61	172
Other liabilities	186	372	123	56	737
	-----	-----	-----	-----	-----
Total liabilities (with recourse only to the projects)	197	384	211	117	909
	-----	-----	-----	-----	-----
Net assets	\$ 97	\$ 98	\$ 116	\$ 121	\$ 432
	=====	=====	=====	=====	=====
Level 3's share:					
Equity in net assets	\$ 48	\$ 49	\$ 46	\$ 43	\$ 186
	=====	=====	=====	=====	=====
1996					
Current assets	\$ 1	\$ 441	\$ 15	\$ 10	\$ 467
Other assets	239	51	118	36	444
	-----	-----	-----	-----	-----
Total assets	240	492	133	46	911
Current liabilities	15	9	24	11	59
Other liabilities	153	372	35	-	560
	-----	-----	-----	-----	-----
Total liabilities (with recourse only to the projects)	168	381	59	11	619
	-----	-----	-----	-----	-----
Net assets	\$ 72	\$ 111	\$ 74	\$ 35	\$ 292
	=====	=====	=====	=====	=====
Level 3's share:					
Equity in net assets	\$ 36	\$ 55	\$ 36	\$ 17	\$ 144
Loan to Project	-	-	5	-	5
	-----	-----	-----	-----	-----
	\$ 36	\$ 55	\$ 41	\$ 17	\$ 149
	=====	=====	=====	=====	=====

In late 1995, the Casecnan joint venture closed financing for the construction of the project with bonds issued by the project company. The difference between the interest expense on the debt and the interest earned on the unused funds prior to payment of construction costs resulted in a loss to the venture of \$12 million in 1997 and 1996. Level 3's share of these losses were \$6 million in each year. The Mahanagdong facility commenced operation in July, 1997. Level 3's proportionate share of the earnings attributable to Mahanagdong was \$7 million 1997. No income or losses were incurred by the international projects in 1995. In addition to the equity earnings and losses, Level 3 has project development and insurance expenses, and received management fee income related to the international projects in all years.

In late 1995, a Level 3 and CalEnergy venture, CE Casecnan Water and Energy Company, Inc. ("CE Casecnan") closed financing and commenced construction of a \$495 million irrigation and hydroelectric power project located on the Philippine island of Luzon. Level 3 and CalEnergy each made \$62 million of equity contributions to the project.

The CE Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. On May 7, 1997, CE Casecnan announced that it had terminated the Hanbo Contract. In connection with the contract termination, CE Casecnan made a \$79 million draw request under the letter of credit issued by Korea First Bank ("KFB") to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request; the matter is being litigated. If KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the CE Casecnan project. Level 3 does not expect the outcome of the litigation to affect its financial position due to the transaction with CalEnergy.

#### (4) MFS Spin-off

In September 1995, the PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off") effective on September 30, 1995. Shares were distributed on the basis of approximately .348 shares of MFS Common Stock and approximately .130 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

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

Operating results of MFS through September 30, 1995 are summarized as follows:

(dollars in millions)	1995
Revenue	\$ 412
Loss from operations	(176)
Net loss	(196)
Level 3's share of loss in MFS	(131)

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

#### (5) Gain on Subsidiary's Stock Transactions, net

Stock issuances by MFS for acquisitions and employee stock options, reduced Level 3's ownership in MFS prior to the Spin-off in 1995 to 66% from 67% in 1994. As a result, Level 3 recognized a gain of \$3 million in 1995 representing the increase in Level 3's proportionate share of MFS' equity. Deferred income taxes had been established on this gain prior to the Spin-off.

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

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

#### Cash and Cash Equivalents

Cash equivalents generally consist of funds invested in the Kiewit Mutual Fund-Money Market Portfolio and highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

#### Marketable Securities, Restricted Securities and Non-current Investments

Level 3 has classified all marketable securities, restricted securities and marketable non-current investments not accounted for under the equity method as available-for-sale. Restricted securities primarily include investments in various portfolios of the Kiewit Mutual Fund that are restricted to fund certain reclamation liabilities of its coal mining ventures. Due to the anticipated increase in capital expenditures, Level 3 has reclassified its investments in marketable equity securities from non-current to current in 1997. The amortized cost of the securities used in computing unrealized and realized gains and losses is determined by specific identification. Fair values are estimated based on quoted market prices for the securities on hand or for similar investments. Net unrealized holding gains and losses are reported as a separate component of stockholders' equity, net of tax.

At December 27, 1997 and December 28, 1996 the amortized cost, unrealized holding gains and losses, and estimated fair values of marketable securities, restricted securities and marketable non-current investments were as follows:

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1997:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	\$ 234	\$ -	\$ -	\$ 234
Intermediate term bond	195	3	-	198
Tax exempt	154	3	-	157
Equity	7	4	-	11
Collateralized mortgage obligations	-	1	-	1
Equity securities	48	9	-	57
Other securities	20	-	-	20
	-----	-----	-----	-----
	\$ 658	\$ 20	\$ -	\$ 678
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 10	\$ -	\$ -	\$ 10
Equity	12	-	-	12
	-----	-----	-----	-----
	\$ 22	\$ -	\$ -	\$ 22
	=====	=====	=====	=====
1996:				
Marketable Securities:				



Kiewit Mutual Fund:				
Short-term government	\$ 100	\$ -	\$ -	\$ 100
Intermediate term bond	65	2	-	67
Tax exempt	126	2	-	128
Equity	5	2	-	7
Corporate debt securities (held by C-TEC)	47	-	-	47
Collateralized mortgage obligations	-	1	-	1
Other securities	20	2	-	22
	-----	-----	-----	-----
	\$ 363	\$ 9	\$ -	\$ 372
	=====	=====	=====	=====
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 8	\$ -	\$ -	\$ 8
Equity	7	2	-	9
	-----	-----	-----	-----
	\$ 15	\$ 2	\$ -	\$ 17
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 49	\$ 26	\$ -	\$ 75
	=====	=====	=====	=====

Other securities consist of bonds issued by the Casecan project and purchased by Level 3.

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable and equity securities were \$9 million and \$- million in 1997, \$3 million and \$- million in 1996, and \$1 million and \$2 million in 1995.

At December 27, 1997, the contractual maturities of the debt securities are as follows:

(dollars in millions)	Amortized Cost	Fair Value
Other securities:		
10+ years	\$ 20	\$ 20
	=====	=====

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

### Long-term Debt

The fair value of debt was estimated using the incremental borrowing rates of Level 3 for debt of the same remaining maturities. The fair value of the debt approximates the carrying amount.

### (7) Investments

Investments consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
Commonwealth Telephone Enterprises Inc.	\$ 75	\$ -
RCN Corporation	214	-
Cable Michigan	46	-
Pavilion Towers	22	-
Equity securities (Note 6)	-	75
C-TEC investments:		
Megacable S.A. de C.V.	-	74
Other	-	12
Other	26	28
	-----	-----
	\$ 383	\$ 189
	=====	=====

On September 5, 1997, C-TEC announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies effective September 30, 1997. Under the terms of the restructuring C-TEC shareholders received stock in the following companies:

- Commonwealth Telephone Enterprises, Inc., containing the local telephone group and related engineering business;

- Cable Michigan, Inc., containing the cable television operations in Michigan; and

- RCN Corporation, Inc., which consists of RCN Telecom Services; C-TEC's existing cable systems in the Boston-Washington D.C. corridor; and the investment in Megacable S.A. de C.V., a cable operator in Mexico. RCN Telecom Services is a provider of packaged local and long distance telephone, video, and internet access services provided over fiber optic networks to residential customers in Boston, New York City and Washington D.C.

As a result of the restructuring, Level 3 owns less than 50% of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method as of the beginning of 1997. C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 consolidated financial statements.

The following is summarized financial information of the three entities created as result of the C-TEC restructuring:

Operations (dollars in millions)		1997	1996	1995		
Commonwealth Telephone Enterprises						
Revenue		\$ 197	\$ 186	\$ 174		
Net income available to common stockholders		20	20	31		
Level 3's share:						
Net income		10	10	15		
Goodwill amortization		(1)	(1)	1		
		-----	-----	-----		
Equity in net income		\$ 9	\$ 9	\$ 16		
		=====	=====	=====		
Cable Michigan						
Revenue		\$ 81	\$ 76	\$ 60		
Net loss available to common stockholders		(4)	(8)	(10)		
Level 3's share:						
Net loss		(2)	(4)	(5)		
Goodwill amortization		(4)	(4)	(4)		
		-----	-----	-----		
Equity in net loss		\$ (6)	\$ (8)	\$ (9)		
		=====	=====	=====		
RCN Corporation						
Revenue		\$ 127	\$ 105	\$ 91		
Net (loss) income available to common stockholders		(52)	(6)	2		
Level 3's share:						
Net (loss) income		(26)	(3)	1		
Goodwill amortization		-	(3)	1		
		-----	-----	-----		
Equity in net (loss) income		\$ (26)	\$ (6)	\$ 2		
		=====	=====	=====		
Financial Position (in millions)						
	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
	1997	1996	1997	1996	1997	1996
Current assets	\$ 71	\$ 51	\$ 23	\$ 10	\$ 698	\$ 143
Other assets	303	266	120	139	453	485
	-----	-----	-----	-----	-----	-----
Total assets	374	317	143	149	1,151	628
Current liabilities	76	59	16	24	70	57
Other liabilities	260	189	166	190	708	175
Minority interest	-	-	15	15	16	5
	-----	-----	-----	-----	-----	-----
Total liabilities	336	248	197	229	794	237
	-----	-----	-----	-----	-----	-----
Net assets (liabilities)	\$ 38	\$ 69	\$ (54)	\$ (80)	\$ 357	\$ 391
	=====	=====	=====	=====	=====	=====
Level 3's Share:						
Equity in net assets	\$ 18	\$ 33	\$ (26)	\$ (38)	\$ 173	\$ 189
Goodwill	57	58	72	75	41	41
	-----	-----	-----	-----	-----	-----
	\$ 75	\$ 91	\$ 46	\$ 37	\$ 214	\$ 230

=====

On December 27, 1997 the market value of Level 3's investments in Commonwealth Telephone, Cable Michigan and RCN was \$215 million, \$76 million and \$485 million, respectively.

In February 1997, Level 3 purchased the Pavillion Towers office buildings in Aurora, Colorado for \$22 million.

Investments in 1996 also include C-TEC's 40% ownership of Megacable S.A. de C.V., Mexico's second largest cable operator, accounted for using the equity method.

## (8) Intangible Assets

Intangible assets consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
CPTC intangibles and other	\$ 23	\$ 23
C-TEC:		
Goodwill	-	198
Franchise and subscriber lists	-	229
Other	-	34
	-----	-----
	23	484
Less accumulated amortization	(2)	(131)
	-----	-----
	\$ 21	\$ 353
	=====	=====

## (9) Long-Term Debt

At December 27, 1997 and December 28, 1996, long-term debt was as follows:

(dollars in millions)	1997	1996
CPTC Long-term Debt (with recourse only to CPTC):		
Bank Note		
(7.7% due 2008)	\$ 65	\$ 65
Institutional Note		
(9.45% due 2017)	35	35
OCTA Debt		
(9.0% due 2006)	8	6
Subordinated Debt		
(9.5% No Maturity)	6	2
	-----	-----
	114	108
Other:		
Pavilion Towers Debt (8.4% due 2007)	15	-
Capitalized Leases	6	1
Other	5	6
	-----	-----
	26	7

C-TEC Long-term Debt (with recourse only to C-TEC):  
Credit Agreement - National Bank for Cooperatives

(7.51% due 2009)	-	110
Senior Secured Notes		
( 9.65% due 1999)	-	134
Term Credit Agreement - Morgan Guaranty		
Trust Company (7% due 2002)	-	18
	-----	-----
	-	262
	-----	-----
	140	377
Less current portion	(3)	(57)
	-----	-----
	\$ 137	\$ 320

## CPTC:

In August 1996, CPTC converted its construction financing note into a term note with a consortium of banks ("Bank Debt"). The interest rate on the Bank Debt is based on LIBOR plus a varying rate with interest payable quarterly. Upon completion of the SR91 toll road, CPTC entered into an interest rate swap arrangement with the same parties. The swap expires in January 2004 and fixes the interest rate on the Bank Debt from 9.21% to 9.71% during the term of the swap agreement.

The institutional note is with Connecticut General Life Insurance Company, a subsidiary of CIGNA Corporation. The note converted into a term loan upon completion of the SR91 toll road.

Substantially all the assets of CPTC and the partners' equity interest in CPTC secure the term debt.

Orange County Transportation Authority holds \$8 million of subordinated debt which is due in varying amounts over 10 years. Interest accrues at 9% and is payable quarterly beginning in 2000.

In July 1996, CPTC borrowed from the partners \$2 million to facilitate the completion of the project. In 1997, CPTC borrowed an additional \$4 million from the partners in order to comply with equity maintenance provisions of the contracts with the State of California and its lenders. The debt is generally subordinated to all other debt of CPTC. Interest on the subordinated debt compounds annually at 9.5% and is payable only as CPTC generates excess cash flows.

CPTC capitalized interest of \$- million, \$5 million and \$7 million in 1997, 1996 and 1995.

## Other:

In June 1997, a mortgage with Metropolitan Life was established. The Pavilion Towers building in Aurora, CO collateralizes this debt.

Scheduled maturities of long-term debt through 2002 are as follows (in millions): 1998 - \$3; 1999 - \$6; 2000 - \$5; 2001 - \$6 and \$8 in 2002.

## (10) Income Taxes

An analysis of the income tax benefit (provision) attributable to earnings from continuing operations before income taxes and minority interest for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Current:			
U.S. federal	\$ (54)	\$ (61)	\$ (66)
Foreign	-	(4)	(4)
State	(1)	(6)	(3)
	-----	-----	-----
	(55)	(71)	(73)
Deferred:			
U.S. federal	103	67	145
Foreign	-	-	3
State	-	1	4
	-----	-----	-----
	103	68	152
	-----	-----	-----
	\$ 48	\$ (3)	\$ 79
	=====	=====	=====

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

(dollars in millions)	1997	1996	1995
United States	\$ 31	\$ 106	\$ 187
Foreign	-	1	3
	-----	-----	-----
	\$ 31	\$ 107	\$ 190
	=====	=====	=====

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the earnings from continuing operations before equity loss in MFS (recorded net of tax), minority interest and income taxes for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Computed tax at statutory rate	\$ (11)	\$ (37)	\$ (67)
State income taxes	(1)	(3)	-
Depletion	3	3	2
Goodwill amortization	-	(3)	(2)
Tax exempt interest	2	2	2
Prior year tax adjustments	62	44	51
Compensation expense attributable to options	(7)	-	-
MFS deferred tax	-	-	93
Taxes on foreign operations	-	(2)	1
Other	-	(7)	(1)
	-----	-----	-----
	\$ 48	\$ (3)	\$ 79
	=====	=====	=====

During the three years ended December 27, 1997, the Company settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

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

The components of the net deferred tax liabilities for the years ended December 27, 1997 and December 28, 1996 were as follows:

(dollars in millions)	1997	1996
Deferred tax liabilities:		
Investments in securities	\$ 7	\$ 11
Investments in joint ventures	33	45
Asset bases - accumulated depreciation	53	225
Coal sales	41	15
Other	16	16
	-----	-----
Total deferred tax liabilities	150	312
Deferred tax assets:		
Compensation - retirement benefits	25	29
Investment in subsidiaries	8	2
Provision for estimated expenses	7	26
Net operating losses of subsidiaries	-	6
Foreign and general business tax credits	3	67
Alternative minimum tax credits	-	16
Other	9	19
Valuation allowances	-	(6)
	-----	-----
Total deferred tax assets	52	159
	-----	-----
Net deferred tax liabilities	\$ 98	\$ 153
	=====	=====

#### (11) Stockholders' Equity

PKS is generally committed to purchase all common stock in accordance with the Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 27, 1997 were as follows:

	Class B&C Stock	Class D Stock
Shares issued in 1995	1,021,875	530,610
Shares repurchased in 1995	136,057	210,735
Class B&C shares converted to Class D shares	6,092,877	12,847,155
Shares issued in 1996	896,640	-
Shares repurchased in 1996	146,893	1,276,080
Class B&C shares converted to Class D shares	623,475	2,052,425
Shares issued in 1997	893,924	13,113,015
Shares repurchased in 1997	44,256	14,805
Class B&C shares converted to Class D shares	1,723,966	6,517,715

The 1996 activity includes 150,995 Class D shares converting to 47,007 Class C shares. The 1997 activity includes 1,880 Class D shares converting to 510 Class C shares.

#### (12) Class D Stock Plan

In December 1997, stockholders approved amendments to the 1995 Class D Stock Plan ("the Plan"). The amended plan, among other things, increases the number of shares reserved for issuance upon the exercise of stock based awards to 35,000,000, increases the maximum number of options granted to any one participant to 5,000,000, provides for the acceleration of vesting in the event of a change in control, allows for the grant of stock based awards to directors of Level 3 and other persons providing services to Level 3, and allows for the grant of nonqualified stock options with an exercise price less than the fair market value of Class D Stock.

In December 1997, Level 3 converted both option and stock appreciation rights plans of a subsidiary, to the Class D Stock plan. This conversion resulted in the issuance of 3.7 million options to purchase Class D Stock at \$9 per share. Level 3 recognized an expense, and a corresponding increase in equity, as a result of the transaction. This increase in equity and the conversion of the stock appreciation rights liability to equity are reflected as option activity in the statement of Changes in Stockholders' Equity. The options vest over three years and expire in December 2002.

Level 3 has elected to adopt only the required disclosure provisions and not the optional expense recognition provisions under SFAS No. 123 "Accounting for Stock Based Compensation", which established a fair value based method of accounting for stock options and other equity instruments. The fair value of the options outstanding was calculated using the Black-Scholes method using risk-free interest rates ranging from 5.5% to 6.77% and expected lives of 75% of the total life of the option. Level 3 used an expected volatility rate of 0%, which is allowed for private entities under SFAS No. 123. Once Level 3's stock is listed, volatility factors will be incorporated in determining fair value. Level 3's net income and earnings per share for 1997 and 1996 would have been reduced to the pro forma amounts shown below had SFAS No. 123 been applied.

	1997	1996
Net Income of Level 3		
As Reported	\$ 93	\$ 113
Pro Forma	93	112
Basic Earnings per Share		
As Reported	\$ .74	\$ .97
Pro Forma	.74	.97
Diluted Earning per Share		
As Reported	\$ .74	\$ .97
Pro Forma	.74	.96

The 1995 historical and pro forma and as reported amounts did not vary as the options granted in 1995 had not vested.

Transactions involving stock options granted under the Plan are summarized as follows:

	Shares	Option Price Per Share	Weighted Avg. Option Price
Balance December 31, 1994	-	\$ -	\$ -
Options granted	1,340,000	8.08	8.08
Options cancelled	-	-	-
Options exercised	-	-	-
	-----		
Balance December 30, 1995	1,340,000	\$ 8.08	\$ 8.08
		=====	=====
Options granted	895,000	\$ 9.90	\$ 9.90
Options cancelled	(15,000)	8.08	8.08
Options exercised	-	-	-
	-----		
Balance December 28, 1996	2,220,000	\$8.08 - \$9.90	\$ 8.81
		=====	=====
Options granted	7,495,465	\$9.00 - \$10.85	\$ 9.93
Options cancelled	(53,000)	\$9.90	\$ 9.90
Options exercised	(2,318,465)	\$8.08 - \$9.90	\$ 8.93
	-----		
Balance December 27, 1997	7,344,000	\$8.08 - \$10.85	\$ 9.91
	=====	=====	=====
Options exercisable			
December 30, 1995	-	\$ -	\$ -
December 28, 1996	265,000	8.08	8.08
December 27, 1997	1,295,269	\$8.08 - \$9.90	8.70

The weighted average remaining life for the 7,344,000 options outstanding on December 27, 1997 is 8.3 years.

The Company conducts its continuing operations primarily in three reportable segments: information services, telecommunications and coal mining. Other primarily includes CPTC and corporate overhead not attributable to a specific segment and marketable securities.

Equity earnings is included due to the significant equity investments in the telecommunications business.

In 1997, 1996 and 1995 Commonwealth Edison Company accounted for 43%, 23% and 23% of Level 3's revenues.

Industry and geographic data for the construction and energy businesses have been recorded under discontinued operations.

A summary of the Company's operations by industry and geographic region is as follows:

Industry Data (dollars in millions)	Information Services	Telecom- munications C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
1997						
Revenue	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Operating Earnings	(16)	-	82	(23)	-	43
Equity Losses, net	-	(23)	-	(20)	-	(43)
Identifiable Assets	61	336	499	588	1,295	2,779
Capital Expenditures	14	-	3	9	-	26
Depreciation, Depletion & Amortization	8	-	8	8	-	24
1996						
Revenue	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Operating Earnings	(3)	31	94	(35)	-	87
Equity Losses, net	(1)	(1)	-	(7)	-	(9)
Identifiable Assets	29	1,100	387	380	1,170	3,066
Capital Expenditures	11	87	2	17	-	117
Depreciation, Depletion & Amortization	10	106	12	4	-	132
1995						
Revenue	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Operating Earnings	4	37	77	(73)	-	45
Equity Losses, net	-	(3)	-	(2)	-	(5)
Identifiable Assets	34	1,143	368	614	786	2,945
Capital Expenditures	6	72	4	36	-	118
Depreciation, Depletion & Amortization	5	81	7	3	-	96
Geographic Data (dollars in millions)	Information Services	Telecom- munications C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
1997						
Revenue:						
United States	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$ (16)	\$ -	\$ 82	\$ (23)	\$ -	\$ 43

Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ (16)	\$ -	\$ 82	\$ (23)	\$ -	\$ 43
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 59	\$ 336	\$ 499	\$ 588	\$ 870	\$ 2,352
Other	2	-	-	-	425	427
	-----	-----	-----	-----	-----	-----
	\$ 61	\$ 336	\$ 499	\$ 588	\$1,295	\$ 2,779
	=====	=====	=====	=====	=====	=====
1996						
Revenue:						
United States	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$ (3)	\$ 31	\$ 94	\$ (35)	\$ -	\$ 87
Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ (3)	\$ 31	\$ 94	\$ (35)	\$ -	\$ 87
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 29	\$ 1,100	\$ 387	\$ 380	\$ 761	\$ 2,657
Other	-	-	-	-	409	409
	-----	-----	-----	-----	-----	-----
	\$ 29	\$ 1,100	\$ 387	\$ 380	\$ 1,170	\$ 3,066
	=====	=====	=====	=====	=====	=====
1995						
Revenue:						
United States	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$ 4	\$ 37	\$ 77	\$ (73)	\$ -	\$ 45
Other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ 4	\$ 37	\$ 77	\$ (73)	\$ -	\$ 45
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 34	\$ 1,143	\$ 368	\$614	\$ 614	\$ 2,773
Other	-	-	-	-	172	172
	-----	-----	-----	-----	-----	-----
	\$ 34	\$ 1,143	\$ 368	\$614	\$ 786	\$ 2,945
	=====	=====	=====	=====	=====	=====

#### (14) Related Party Transactions

Level 3 receives certain mine management services from the Construction & Mining Group. The expense for these services was \$32 million for 1997, \$37 million for 1996 and \$30 million for 1995, and is recorded in general and administrative expenses. The revenue earned by the Construction and Mining Group is included in discontinued operations.

#### (15) Fair Value of Financial Instruments

The carrying and estimated fair values of Level 3's financial instruments are as follows:

(dollars in millions)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Note 6)	\$ 87	\$ 87	\$ 147	\$ 147
Marketable securities (Note 6)	678	678	372	372
Restricted securities (Note 6)	22	22	17	17
Investment in equity securities (Notes 6 & 7)	-	-	75	75
Investment in C-TEC entities (Note 7)	335	776	355	315



Investments in discontinued operations (Note 3)	643	854	608	960
Long-term debt (Notes 6 & 9)	140	140	377	384

(16) C-TEC Restructuring

The following is financial information of the Company had C-TEC been accounted for utilizing the equity method as of December 27, 1997 and December 28, 1996 and for each of the three years ended December 27, 1997. The 1997 financial statements include C-TEC accounted for utilizing the equity method and are presented here for comparative purposes only.

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 332	\$ 285	\$ 255
Cost of Revenue	(175)	(134)	(133)
	-----	-----	-----
	157	151	122
General and Administrative Expenses	(114)	(95)	(114)
	-----	-----	-----
Operating Earnings	43	56	8
Other (Expense) Income:			
Equity earnings (losses), net	(43)	(13)	7
Investment income, net	45	42	30
Interest expense, net	(15)	(5)	(1)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	1	11	120
	-----	-----	-----
	(12)	35	159
Equity Loss in MFS	-	-	(131)
Earnings from Continuing Operations before Income Taxes and Minority Interest	31	91	36
Income Tax Benefit	48	11	90
Minority Interest in Net Loss of Subsidiaries	4	2	-
	-----	-----	-----
Income from Continuing Operations	83	104	126
Income from Discontinued Operations	165	117	118
	-----	-----	-----
Net Earnings	\$ 248	\$ 221	\$ 244
	=====	=====	=====

Financial Position (dollars in millions)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 87	\$ 71
Marketable securities	678	325
Restricted securities	22	17
Receivables	42	34
Investment in Discontinued Operations - Energy	643	608
Other	22	12
	-----	-----
Total Current Assets	1,494	1,067
Net Property, Plant and Equipment	184	174
Investments	383	458
Investments in Discontinued Operations-Construction	652	562
Intangible Assets, net	21	23
Other Assets	45	49
	-----	-----
	\$ 2,779	\$ 2,333
	=====	=====

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	\$ 31	\$ 41
Current portion of long-term debt	3	2

Accrued reclamation and other mining costs	19	19
Other	36	27
	-----	-----
Total Current Liabilities	89	89
Long-term Debt, less current portion	137	113
Deferred Income Taxes	83	47
Accrued Reclamation Costs	100	98
Other Liabilities	139	163
Minority Interest	1	4
Stockholders' Equity	2,230	1,819
	-----	-----
	\$ 2,779	\$ 2,333
	=====	=====

(17) Pro Forma Information (unaudited).

The following information represents the pro forma financial position of Level 3 after reflecting the impact of the transactions with CalEnergy (Note 3), the conversion of Class C shares to Class D shares (Note 19) and transactions related to the spin-off of the Construction and Mining Group (Note 2), all of which took place or are expected to happen in the first quarter of 1998.

(dollars in millions)	1997 Historical	Adjustments	1997 Pro Forma
Current Assets			
Cash & marketable securities	\$ 765	\$ 122 (a) 1,159 (b)	\$ 2,046
Investment in discontinued operations - energy	643	(643)(b)	-
Other current assets	86		86
	-----	-----	-----
Total Current Assets	1,494	638	2,132
Property, Plant & Equipment, net	184		184
Investment in Discontinued Operations	-		
Construction	652	(122)(a) 350 (c) (880)(d)	-
Other Non-current assets	449		449
	-----	-----	-----
	\$ 2,779	\$ (14)	\$ 2,765
	=====	=====	=====
Current Liabilities	\$ 89	\$ 192 (b)	\$ 281
Non-current Liabilities	459		459
Minority Interest	1		1
Stockholders' Equity	2,230	324 (b) 350 (c) (880)(d)	2,024
	-----	-----	-----
	\$ 2,779	\$ (14)	\$ 2,765
	=====	=====	=====

- (a) Reflect conversion of 2.3 million Class C shares to 10.5 million Class D shares
- (b) Reflect sale of energy assets to CalEnergy and related income tax liability.
- (c) Reflect fair value gain on the distribution of the Construction and Mining Group.
- (d) Reflect spin-off of the Construction and Mining Group.

(18) Other Matters

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitely abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposit and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a Level 3 subsidiary, received approximately \$135 million in June 1995 and recorded it in other income on the statements of earnings.

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

Level 3 leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 7 years aggregate \$29 million.

It is customary in Level 3's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of Level 3 in accordance with specified terms and conditions. As of December 27, 1997, Level 3 had outstanding letters of credit of approximately \$22 million.

#### (19) Subsequent Events

In January 1998, approximately 2.3 million shares of Class C Stock, with a redemption value of \$122 million, were converted into 10.5 million shares of Class D Stock.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVLT". The Nasdaq listing will follow the separation of the Level 3 and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of Level 3 and the Construction Group. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by Level 3's Board of Directors at that time. Level 3's Board may choose not to force conversion if it were to decide that conversion is not in the best interests of Level 3 stockholders. If, as currently anticipated, Level 3's Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If Level 3's Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

**APPENDIX E-I**  
**FORM OF CERTIFICATE OF AMENDMENT**  
**OF**  
**RESTATED CERTIFICATE OF INCORPORATION**  
**OF**  
**PETER KIEWIT SONS', INC.**

Peter Kiewit Sons', Inc. (the "Corporation"), a corporation organized under the laws of the State of Delaware, hereby certifies that the following amendments to the Corporation's Restated Certificate of Incorporation were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware:

FIRST: ARTICLE FOURTH of the Corporation's Restated Certificate of Incorporation is amended by deleting the first three paragraphs thereof, and replacing them with the following:

**CAPITAL STOCK**

The total number of shares of all classes of stock which the Corporation shall have authority to issue is 641,750,000 shares; of which 250,000 shares shall be Preferred Stock, with no par value per share; of which 8,000,000 shares shall be Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock, par value \$0.0625 per share (the "Class B Stock"); of which 125,000,000 shares shall be Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$0.0625 per share (the "Class C Stock"); of which 500,000,000 shares shall be Class D Diversified Group Convertible Exchangeable Common Stock, par value \$0.0625 per share, issuable in two series (the "Class D Stock"); and of which 8,500,000 shares shall be Class R Convertible Common Stock, par value \$0.01 per share (the "Class R Stock").

Ten shares of the authorized but unissued shares of Class D Stock as of the date of the filing of this Certificate of Amendment of the Corporation's Restated Certificate of Incorporation are hereby designated as Class D Stock, Non-Redeemable Series. The rights, powers, preferences, privileges, qualifications and limitations of Class D Stock, Non-Redeemable Series shall be identical to those of all other shares of Class D Stock, except as described in ARTICLE NINTH hereof.

Shares of Class R Stock shall have such rights, powers, preferences, privileges, qualifications and limitations as are set forth in ARTICLE TENTH hereof, and all of the rights, powers, preferences, privileges, qualifications and limitations of the other classes of capital stock of the Corporation shall be subject to such rights, powers, preferences, privileges, qualifications and limitations of the Class R Stock.

Certain terms used herein, each of which is capitalized, are defined in ARTICLE EIGHTH.

A description of certain of the different classes of stock and a statement of the designations, powers, preferences, rights, qualifications, limitations and restrictions of each of said classes of stock are as follows:

SECOND: ARTICLE FOURTH of the Corporation's Restated Certificate of Incorporation is amended by deleting subparagraph III(D)(1)(c) thereof in its entirety.

THIRD: ARTICLE EIGHTH of the Corporation's Restated Certificate of Incorporation is amended by deleting the definition of "Effective Time" in its entirety.

FOURTH: The Corporation's Restated Certificate of Incorporation is amended to insert a new ARTICLE NINTH to read as follows:

**ARTICLE NINTH**  
**SERIES OF CLASS D STOCK**

Notwithstanding any other provision hereof (i) with respect to the Class D Stock, other than the next paragraph of this ARTICLE NINTH, in no event shall (a) any holder of Class D Stock, Non-Redeemable Series have any right to require the Corporation to repurchase such holder's shares of Class D Stock, Non-Redeemable Series; (b) Class D Stock, Non-Redeemable Series be convertible into Class C Stock; (c) Class D Stock, Non-Redeemable Series be subject to exchange for Class C Stock by the Corporation; or (d) Class D Stock, Non-Redeemable Series be subject to any redemption, and (ii) holders of Class D Stock, Non-Redeemable Series shall be entitled to vote with, and on the same terms as, holders of Class C Stock for the election and removal of Class C Directors.

In the event that the Class D Stock is Publicly Traded, (i) each share of Class D Stock, Non-Redeemable Series shall automatically, and without further action by or on behalf of the Corporation, the Corporation's transfer agent or the holder of any share of Class D Stock, Non-Redeemable Series, be converted into a share of Class D Stock which is not Class D Stock, Non-Redeemable Series, and the rights, powers, preferences, privileges, qualifications and limitations of such shares so converted shall be identical to those of all other shares of Class D Stock in all respects and (ii) Class D Stock, Non-Redeemable Series shall no longer be designated as a separate series of Class D Stock.

FIFTH: The Corporation's Restated Certificate of Incorporation is amended to insert a new ARTICLE TENTH to read as follows:

**ARTICLE TENTH**  
**CLASS R STOCK**

**A. Certain Definitions.**

"Appraised Value" shall have the meaning given to it in paragraph E.3. hereof.

"Attached Class R Stock" shall mean Class R Stock which is attached to Construction Stock pursuant to the terms hereof.

"Attached Transfer" shall mean the simultaneous transfer to the same transferee of a share of Class R Stock (or fraction thereof) and the share of Construction Stock to which such share of Class R Stock (or fraction thereof) is attached; provided that such transfer of such share of Construction Stock is permitted by the Certificate of Incorporation of the Corporation or PKS Holdings, as applicable.

"Base Conversion Value" shall mean \$25.00.

"Base Price" shall mean \$82.00 per share, subject to adjustment as provided in paragraph F. hereof.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in the City of New York or the city in which the Corporation's transfer agent maintains its principle office or a place of payment are authorized by law, regulation or executive order to remain closed.

"Change of Control" shall mean the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Corporation and its subsidiaries taken as a whole, to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act); (ii) the adoption of a plan relating to the liquidation or dissolution of the Corporation; (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above), becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of shares representing more than 50% of the total outstanding voting power of the Corporation or the surviving corporation of any such merger or consolidation (if other than the Corporation); (iv) the first day on which a majority of the members of the Board of Directors are not Continuing Directors; or (v) the adoption by the Board of Directors of a plan for the distribution of all or substantially all of the assets of the Corporation and its subsidiaries taken as a whole, to stockholders of the Corporation; provided, however, that the Class C Exchange shall not be considered a Change of Control.

"Class C Exchange" shall mean the exchange by the Corporation, pursuant to the Separation Agreement, of one share of PKS Holdings Stock for each outstanding share of Class C Stock.

"Construction Stock" shall mean (i) prior to the Class C Exchange, Class C Stock, and (ii) after the Class C Exchange, PKS Holdings Stock and any other capital stock to which Class R Stock may be attached as provided in paragraph B.3. hereof.

"Continuing Director" shall mean, as of any date of determination, any member of the Board of Directors of the Corporation who (i) was a member of such Board of Directors immediately following the consummation of the Class C Exchange or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

"Conversion Condition" shall mean, with respect to a given share of Class R Stock (or fraction thereof), the occurrence of the earliest of: (i) the repurchase or redemption by the Corporation or PKS Holdings of the share of Construction Stock to which it is attached; (ii) the exchange of the share of Construction Stock to which it is attached into another class of stock or securities of PKS Holdings intended to be issued primarily to persons leaving employment of PKS Holdings; (iii) April 15, 2006; and (iv) a Change of Control of the Corporation; provided, however, that the Conversion Condition shall not be deemed to have occurred as a result of the Class C Exchange.

"Conversion Ratio" shall have the meaning given to it in paragraph E.

"Conversion Ratio Certificate" shall mean either a Private Conversion Ratio Certificate or a Public Conversion Ratio Certificate, each having the meaning given to it in paragraph E. hereof.

"Conversion Value" shall mean, as of any given date, the Conversion Value set forth in the most recent Conversion Ratio Certificate delivered pursuant to paragraph E. hereof on or prior to such date, subject to any adjustment required by paragraph F. hereof. The Conversion Value set forth in any such Conversion Ratio Certificate shall be equal to: (i) in the event that the Trading Price is greater than or equal to the Base Price, the Base Conversion Value; (ii) in the event that the Trading Price is less than the Base Price, an amount equal to (a) the Base Conversion Value minus (b) an amount equal to (x) the Excess Amount Factor, multiplied by (y) the amount by which the Base Price exceeds the Trading

Price; provided, however, that in no event shall the Conversion Value be less than the Minimum Value.

"Convertible Security" shall mean any right or warrant to subscribe for or to purchase, or any option for the purchase of, shares of Class D Stock or any stock, or other securities convertible into or exchangeable for shares of Class D Stock; provided, however, that Class R Stock shall not be a Convertible Security.

"Current Trading Value" of any Publicly Traded security on a given date shall mean the arithmetic mean of the daily Mean Reported Prices of such security for each Business Day during the period commencing on and including the fourteenth Business Day preceding such date and ending on and including such date.

"Excess Amount Factor" shall mean 1.0, subject to adjustment as provided in paragraph F. hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934.

"Extraordinary Dividend" shall mean any dividend, or portion thereof, on the Class D Stock (i) paid in property other than (a) cash, (b) shares of Class D Stock or in a subdivision of the outstanding shares of Class D Stock (by reclassification or otherwise) or (c) pursuant to any rights agreement in connection with a stockholder rights plan approved by the Board of Director or (ii) paid in cash, to the extent that such dividend, together with all cash dividends paid on the Class D Stock during the twelve-month period ending on the date of payment of such dividend exceeds, on a per share basis, 10% of the Trading Price of the Class D Stock as of the record date of such dividend; provided, however, that in no event shall such excess be greater than the amount of such dividend.

"Fixed Conversion Value" shall mean \$25.00, as adjusted pursuant to paragraph F. hereof.

"Fixed Terms" shall mean each of the Fixed Conversion Value and the Base Price, each as adjusted pursuant to paragraph F. hereof.

"Initial Issuance Date" shall mean the date of issuance of the first share of Class R Stock (or fraction thereof) to be issued.

"Inverse Fixed Terms" shall mean each of the Excess Amount Factor and the Minimum Conversion Liquidation Ratio, each as adjusted pursuant to paragraph F. hereof.

"Investment Bank" shall mean any investment bank of national reputation selected by the Board of Directors.

"Liquidation Ratio" shall mean, as of any date, a fraction, the numerator of which is the product of (i) the number of shares of Class R Stock outstanding as of such date and (ii) the Conversion Ratio, and the denominator of which is sum of (a) the number of shares of Class D Stock outstanding as of such date and (b) the numerator of such fraction; provided, however, that in no event shall the Conversion Ratio used to calculate such Liquidation Ratio be less than the Minimum Conversion Liquidation Ratio.

"Mandatory Conversion Date" shall mean April 15, 2010.

"Mandatory Redemption Date" shall mean October 15, 1998, or such later date as shall be determined by resolution of the Board of Directors, a copy of which shall be made available to any stockholder of the Corporation upon request thereby.

"Mean Reported Price" shall mean on a given day with respect to any Publicly Traded security, the arithmetic mean between the highest reported sales price and the lowest reported sales price, in each case regular way, for such security, as reported on the Composite Quotation System, or, if such security is not reported on the Composite Quotation System, on the principal national securities exchange on which such security is listed or admitted to trading, or if such security is not listed or admitted to trading on any national securities exchange, reported by the Nasdaq National Market or Nasdaq SmallCap Market, as appropriate, or a similar organization if Nasdaq is no longer reporting such information.

"Minimum Conversion Liquidation Ratio" shall mean 0.25, as adjusted pursuant to paragraph F. hereof.

"Minimum Value" shall mean \$15.00.

"Permitted Transfer" shall mean any transfer of Class R Stock to the Corporation or any designee of the Corporation, including the Mandatory Redemption, a Forced Conversion or the Mandatory Conversion.

"PKS Holdings" shall mean PKS Holdings, Inc., together with its successors and assigns.

"PKS Holdings Stock" shall mean common stock, par value \$.01 per share, of PKS Holdings.

"Private Conversion Period" shall mean the 25-day period commencing on and including the first day following the Corporation's mailing to the registered holders of Class R Stock of a Private Conversion Ratio Certificate; provided, however, that in 2006 such term shall run through

May 15, 2006, regardless of the date of such mailing.

"Public Conversion Period" shall mean the period commencing on and including the first Business Day of each calendar month, through and including the fifth Business Day thereafter, except for the calendar month of April 2010, for which the Public Conversion Period shall mean the period from and including the first Business Day of such month, through and including April 15, 2010.

"Regular Dividend" shall mean any dividend on the Class D Stock paid in cash that is not an Extraordinary Dividend.

"Restricted Period Termination Date" shall mean, with respect to a given share of Class R Stock (or fraction thereof), the date on which the Conversion Condition with respect to such share of Class R Stock (or fraction thereof) has been satisfied.

"Separation Agreement" shall mean that certain Separation Agreement dated as of , 1997 among the Corporation, PKS Holdings, Kiewit Diversified Group, Inc. and Kiewit Construction Group, Inc.

"Trading Price" shall mean, as of any date, the Trading Price set forth in the most recent Conversion Ratio Certificate, as described in paragraphs E.3. and E.4. hereof.

#### B. Issuance and Attachment.

1. When issued, each share of Class R Stock (or fraction thereof) shall attach to the share of Class C Stock with respect to which it was distributed.
2. Upon the occurrence of the Class C Exchange, each share of Class R Stock (or fraction thereof) attached to a share of Class C Stock shall, automatically and without further action by or on behalf of the Corporation, PKS Holdings, the Corporation's transfer agent or the holder of such share of Class R Stock or Class C Stock, attach to the share of PKS Holdings Stock for which such share of Class C Stock was exchanged.
3. In the event that the Corporation or PKS Holdings shall
  - (i) pay a dividend on Construction Stock in shares of Construction Stock,
  - (ii) subdivide its outstanding shares of Construction Stock, (iii) combine its outstanding shares of Construction Stock into a smaller number of shares of Construction Stock or (iv) issue any shares of capital stock in a reclassification of Construction Stock (including any such reclassification in connection with a consolidation or merger), shares of Class R Stock (or fractions thereof) which were attached to Construction Stock immediately prior to the occurrence of any such event shall, upon the effectiveness of any such event, attach on a pro rata basis to (x) the Construction Stock held by such holder to which such shares of Class R Stock (or fractions thereof) were attached; and/or (y) any capital stock so issued having ownership restrictions comparable to those applicable to the Class C Stock at the time of the Class C Exchange to which such shares of Class R Stock (or fractions thereof) were attached at such time, as appropriate.

Except as described in paragraph B.2. hereof, a share of Class R Stock (or fraction thereof) shall detach from the share of Construction Stock to which it is attached only upon the occurrence of (i) the Conversion Condition with respect to such share of Class R Stock (or fraction thereof), or (ii) a Permitted Transfer. If, at any time prior to the first anniversary of the Class C Exchange, any holder, who had sold or transferred to the Corporation prior to the Class C Exchange shares of Class C Stock to which Class R Stock was attached, purchases or acquires Construction Stock, the number of shares of Class R Stock (or fractions thereof) held by such holder which are not attached to Construction Stock multiplied by the Reattachment Ratio shall, unless otherwise determined by the Board of Directors, immediately attach, without further action by or on behalf of the Corporation, PKS Holdings, the Corporation's transfer agent or the holder of such share of Construction Stock, to such newly purchased or acquired shares of Construction Stock on a pro rata basis, and the Conversion Condition and the Restricted Period Termination Date shall be deemed not to have occurred with respect to such shares of Class R Stock (and fractions thereof) so attached.

"Reattachment Ratio" shall mean the lesser of (i) 1.0 or (ii) a fraction, the numerator of which equals the purchase price paid to the Corporation or PKS Holdings, as applicable, for such newly purchased or acquired shares of Construction Stock, and the denominator of which equals the purchase price paid to such holder by the Corporation for such repurchase of such shares of Class C Stock.

4. Certificates representing Attached Class R Stock shall contain such legends as the Corporation shall deem appropriate.

#### C. Transfer Restrictions.

1. Except for an Attached Transfer, no share of Class R Stock (or fraction thereof) may be transferred prior to the Class C Exchange other than pursuant to the Mandatory Redemption. Following the Class C Exchange and prior to the occurrence of the Restricted Period Termination Date for a given share of Class R Stock (or fraction thereof), any attempted transfer of such share of Class R Stock (or fraction thereof), except an Attached Transfer, a Permitted Transfer or pursuant to the Mandatory Redemption, shall be void and of no effect. Neither the Corporation nor its transfer agent shall register any attempted transfer of any certificate representing a share of Class R Stock (or fraction thereof) prior to the occurrence of the Restricted Period Termination Date for such share of Class R Stock (or fraction thereof), except an Attached Transfer or a Permitted Transfer. For purposes hereof, neither the Class C Exchange, the attachment of Class R Stock to PKS Holdings Stock upon the occurrence of the Class C Exchange nor the reattachment of Class R Stock to PKS Holdings Stock pursuant to paragraph B.3. hereof shall be considered a transfer of Class R Stock.

2. Following the Class C Exchange and the occurrence of the Restricted Period Termination Date for a given share of Class R Stock (or fraction thereof), such share of Class R Stock (or fraction thereof) shall separate from the share of PKS Holdings Stock to which it was attached and, until the close of business on the Mandatory Conversion Date, shall be freely transferable, and the Corporation or its transfer agent shall from time to time register the transfer of the certificate representing such share of Class R Stock (or fraction thereof) upon the books of the Corporation, upon surrender of such certificate, duly endorsed, accompanied by documentation reasonably satisfactory to the Corporation evidencing that the Restricted Period Termination Date has occurred with respect to such Class R Stock (or fraction thereof).

3. In the event of an Attached Transfer or a Permitted Transfer of a share of Class R Stock (or fraction thereof) following the Class C Exchange and prior to the Restricted Period Termination Date of such share of Class R Stock (or fraction thereof), the Corporation or its transfer agent shall from time to time register such Attached Transfer or Permitted Transfer of the certificate representing such share of Class R Stock (or fraction thereof) upon the books of the Corporation, upon surrender of such certificate, duly endorsed, accompanied by documentation reasonably satisfactory to the Corporation evidencing the Attached Transfer or Permitted Transfer, as the case may be, of such Class R Stock.

#### D. Optional Conversion.

1. Subject to the provisions hereof, each share of Class R Stock may be converted, at the option of the holder thereof (an "Optional Conversion"), into the number of fully paid and nonassessable shares of Class D Stock which are not Class D Stock, Non-Redeemable Series, equal to the Conversion Ratio then in effect, and each fraction of a share of Class R Stock may be converted into the number of fully paid and nonassessable shares of such Class D Stock equal to such fraction multiplied by the Conversion Ratio then in effect. No share of Class R Stock (or fraction thereof) may be converted into Class D Stock prior to the occurrence of the Conversion Condition with respect to such share of Class R Stock (or fraction thereof), except as provided in paragraph K. hereof.

2. Other than as set forth in paragraphs K. and L. hereof, Class R Stock may not be converted into Class D Stock except as follows:

a) In the event that the Class D Stock is not Publicly Traded, each share of Class R Stock (or fraction thereof) for which the Conversion Condition has been met may be converted into Class D Stock on any Business Day during any Private Conversion Period following the earlier of (i) December 31, 1999, or (ii) a Change of Control; and

b) In the event that the Class D Stock is Publicly Traded, each share of Class R Stock (or fraction thereof) for which the Conversion Condition has been met may be converted into Class D Stock on any Business Day during any Public Conversion Period after the Blackout Period. The "Blackout Period" shall mean the 90-day period commencing on the first day on which the Class D Stock is Publicly Traded; provided, however, that the Board of Directors may, by resolution, extend the Blackout Period up to 180 days from the first day on which the Class D Stock is Publicly Traded if so requested by a managing underwriter of Class D Stock in connection with an underwritten initial public offering thereof. A copy of such resolution of the Board of Directors shall be made available to any stockholder of the Corporation upon request thereby.

3. Upon the occurrence of any Mandatory Redemption, Forced Conversion or Mandatory Conversion of Class R Stock or any liquidation of the Corporation, the right of Optional Conversion shall terminate at the close of business on the full Business Day next preceding the date fixed for such Mandatory Redemption, Forced Conversion or Mandatory Conversion or for the payment of any amounts distributable on liquidation to the holders of Class R Stock.

4. The Corporation may issue fractions of shares of Class R Stock. The Corporation shall not issue fractions of shares of Class D Stock or scrip in lieu thereof upon conversion of Class R Stock. If any fraction of a share of Class D Stock would, except for the provisions of this paragraph D.4., be issuable upon conversion of any Class R Stock, the Corporation shall in lieu thereof pay to the person entitled thereto an amount in cash equal to the Trading Price then in effect multiplied by the fraction represented by such fraction of a share of Class D Stock.

5. In order to exercise the Optional Conversion privilege, the holder of any Class R Stock to be converted shall surrender such holder's certificate or certificates therefor to the principal office of the transfer agent for the Class R Stock (or if no transfer agent be at the time appointed, then the Corporation at its principal office), and shall give written notice to the Corporation at such office that the holder elects to convert the Class R Stock represented by such certificates, or any number thereof. Such notice shall also state the name or names (with address) in which the certificate or certificates for shares of Class D Stock which shall be issuable on such conversion, and for any shares of Class R Stock (or fractions thereof) represented by the certificate or certificates so surrendered which are not to be converted, shall be issued, subject to any restrictions on transfer relating to such shares of the Class R Stock (or fractions thereof). If so required by the Corporation, certificates surrendered for conversion shall be duly endorsed and accompanied by documentation satisfactory to the Corporation evidencing that the Restricted Period Termination Date has occurred with respect to such Class R Stock.

6. As soon as practicable after receipt during a Conversion Period of such notice and documentation and the surrender of the certificate or certificates for Class R Stock for which the Conversion Condition has been met, as aforesaid, the Corporation shall cause to be issued and delivered at such office to such holder, or on his or its written order, a certificate or certificates for the number of full shares of Class D Stock issuable on such conversion in accordance with the provisions hereof, cash as provided in paragraph D.4. hereof in respect of any fraction of a share of Class D Stock otherwise issuable upon such conversion and a certificate or certificates for the number of shares of Class R Stock (or fractions thereof) representing the shares of Class R Stock (or fractions thereof) surrendered pursuant to paragraph D.5. hereof but not so converted. Such shares of Class D Stock, when issued, shall be fully paid and nonassessable and free from all taxes, liens, charges and security interests created by or imposed upon the Corporation with respect to the issuance and holding thereof.



7. The Corporation shall at all times when the Class R Stock shall be outstanding reserve and keep available out of its authorized but unissued Class D Stock, for the purposes of effecting the conversion of the Class R Stock, such number of its duly authorized shares of Class D Stock as shall from time to time be sufficient to effect the conversion of all outstanding Class R Stock. Before taking any action which would cause an adjustment reducing the Conversion Value below the then par value of the shares of Class D Stock issuable upon conversion of the Class R Stock, the Corporation shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of such Class D Stock at such adjusted Conversion Value.

8. All shares of Class R Stock (and fractions thereof) which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease and terminate except only the right of the holder thereof to receive shares of Class D Stock and cash for fractional shares of Class D Stock in exchange therefor and payment of any accrued and unpaid dividends thereon. Any shares of Class R Stock (and fractions thereof) so converted shall be retired and canceled and shall not be reissued, and the Corporation shall from time to time take such appropriate action as may be necessary to reduce the authorized Class R Stock accordingly.

E. Determination of Conversion Ratio; Obligation of the Corporation to Provide Conversion Ratio Certificates and Appraisals.

1. The Conversion Ratio, Conversion Value and Trading Price used for any purpose, including with respect to the conversion of Class R Stock, shall be as set forth in the most recent Conversion Ratio Certificate, and shall in any case be as adjusted pursuant to paragraph F. hereof; provided, however, that prior to the delivery of the first Conversion Ratio Certificate, the Conversion Value shall be the Fixed Conversion Value, the Trading Price shall be the Base Price and the Conversion Ratio shall be equal to the Fixed Conversion Value divided by the Base Price, as each of such terms shall be adjusted pursuant to the terms hereof.

2. The "Conversion Ratio" shall be equal to (i) the Conversion Value divided by (ii) the Trading Price.

3. If, at the end of any fiscal year of the Corporation, beginning with the end of the fiscal year ending in 1999, the Class D Stock is not Publicly Traded, the Corporation shall, no earlier than 20 days nor later than 60 days following the end of such fiscal year, cause to be provided to each office designated for conversion of Class R Stock, a copy of a certificate (the "Private Conversion Ratio Certificate") signed by two officers of the Corporation setting forth the Conversion Ratio, Conversion Value and Trading Price as of the end of such fiscal year, calculated in each case pursuant to this paragraph E. In addition, if a Change of Control occurs when the Class D Stock is not Publicly Traded, the Corporation shall within 60 days following such Change of Control, cause to be provided to each office designated for conversion of Class R Stock, such a Private Conversion Ratio Certificate.

The "Trading Price" set forth in such Private Conversion Ratio Certificate shall be the Appraised Value set forth in the most recent Appraisal delivered to the Corporation and approved by the Board of Directors.

If, at the end of any fiscal year of the Corporation, beginning with the end of the fiscal year ending in 1999, the Class D Stock is not Publicly Traded, the Corporation shall cause to be prepared and delivered to the Board of Directors and approved by the Board of Directors, prior to 60 days following the end of such fiscal year, an appraisal (an "Appraisal") of the per share value of the Class D Stock as of the last day of such fiscal year by an Investment Bank. If a Change of Control occurs or the Board of Directors should determine to cause a Forced Conversion, and the Class D Stock is not Publicly Traded, the Corporation shall cause to be prepared and delivered to the Board of Directors and approved by the Board of Directors, within 60 days following such Change of Control or determination of the Board of Directors, an Appraisal of the per share value of the Class D Stock as of the date of such Change of Control or determination of the Board of Directors. Such Investment Bank shall determine the per share value of the Class D Stock as if the Class D Stock was Publicly Traded and shall submit such per share value to the Board of Directors for its approval. The value per share of the Class D Stock as approved by the Board of Directors shall be the "Appraised Value." In determining the Appraised Value, the Investment Bank shall place substantial, but not exclusive, emphasis on valuations of comparable companies in the public equity markets, and shall not take into account factors such as control premiums, minority discounts or illiquidity discounts that would not generally apply to such companies.

As promptly as practicable following its delivery of any Private Conversion Ratio Certificate, the Corporation shall cause to be given to each of the registered holders of Class R Stock at such holder's address appearing upon the books of the Corporation a copy of such Private Conversion Ratio Certificate by first class mail, postage prepaid.

4. During any period in which the Class D Stock is Publicly Traded, the Corporation shall, on the last Business Day of each calendar month, cause to be provided to each office designated for conversion of Class R Stock, a copy of a certificate (the "Public Conversion Ratio Certificate"), signed by two officers of the Corporation, setting forth the Conversion Ratio, Conversion Value and Trading Price as of the close of business on such Business Day, calculated in each case pursuant to this paragraph E.

The "Trading Price" set forth in such Public Conversion Ratio Certificate shall be equal to the Current Trading Value of one share of Class D Stock as of the close of business on the last Business Day of such calendar month. Notwithstanding anything herein to the contrary, if, during any period being used to calculate such Current Trading Value (the "Calculation Period"), any event has occurred to cause the Conversion Ratio and/or the Conversion Value to be adjusted pursuant to paragraph F. hereof (an "Adjustment Event"), the Corporation shall in good faith determine such Conversion Ratio and/or the Conversion Value, as appropriate, so as to give pro forma effect to the Adjustment Event immediately prior to the Calculation Period.

The Corporation shall provide any holder of Class R Stock with a copy of any Public Conversion Ratio Certificate upon request. Beginning on

the day on which the first Public Conversion Ratio Certificate is provided pursuant to this paragraph E.4., the Corporation shall maintain a reasonable means to allow holders to be informed of the value of the Conversion Ratio as set forth in the most recent Public Conversion Ratio Certificate on an immediate basis during business hours on each Business Day on which Class R Stock is issued and outstanding.

5. All calculations and determinations required to be made by the Corporation pursuant hereto shall be made by the Corporation in good faith. All such calculations and determinations shall be conclusive unless otherwise specifically provided hereby.

6. Conversion Ratio Certificates may, at the Corporation's discretion, be prepared by an agent of the Corporation. In such case each such Conversion Ratio Certificate shall be signed by an authorized signatory of such agent and countersigned by two officers of the Corporation.

7. Upon any conversion of Class R Stock into Class D Stock, in no event shall any such Class R Stock be converted into Class D Stock, Non-Redeemable Series.

#### F. Anti-dilution Provisions.

1. If the Corporation shall (a) pay a dividend on any of its shares of capital stock (including Class D Stock) in shares of Class D Stock, (b) subdivide its outstanding shares of Class D Stock, (c) combine its outstanding shares of Class D Stock into a smaller number of shares of Class D Stock or (d) in an event or manner other than as set forth in paragraph F.4. below, issue any shares of its capital stock in a reclassification of the Class D Stock (each, a "Conversion Term Adjustment Event"):

a) Each of the Fixed Terms shall be adjusted to the value determined by multiplying (x) the Fixed Term immediately prior to such Conversion Term Adjustment Event, by (y) a fraction, the numerator of which is the number of shares of Class D Stock outstanding immediately prior to such Conversion Term Adjustment Event, and the denominator of which is the number of shares of Class D Stock outstanding immediately after such Conversion Term Adjustment Event; and

b) Each of the Inverse Fixed Terms shall be adjusted to the value determined by multiplying (x) such Inverse Fixed Term immediately prior to such Conversion Term Adjustment Event, by (y) a fraction, the numerator of which is the number of shares of Class D Stock outstanding immediately after such Conversion Term Adjustment Event, and the denominator of which is the number of shares of Class D Stock outstanding immediately prior to such Conversion Term Adjustment Event.

2. If the Corporation shall issue Convertible Securities to all holders of its outstanding Class D Stock (other than pursuant to any rights agreement in connection with a stockholder rights plan approved by the Board of Directors), without payment of additional consideration by such holders, entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Class D Stock at a price per share that is lower than the Trading Price as set forth in the most recent Conversion Ratio Certificate prior to the record date mentioned below (or, if no Conversion Ratio Certificate has yet been provided, equal to the Base Price immediately prior to such record date) (a "Discounted Stock Adjustment Event"):

a) Each of the Fixed Terms shall be adjusted to the value determined by multiplying (x) such term immediately prior to such Discounted Stock Adjustment Event, by (y) a fraction, (i) the numerator of which shall be the number of shares of Class D Stock outstanding on the date of such Discounted Stock Adjustment Event plus the number of shares which the aggregate offering price of the total number of shares of Class D Stock so offered would purchase at the price per share of Class D Stock equal to the Trading Price as set forth in the most recent Conversion Ratio Certificate prior to the record date mentioned below (or, if no Conversion Ratio Certificate has yet been provided, equal to the Base Price immediately prior to such record date), and (ii) the denominator of which shall be the number of shares of Class D Stock outstanding on the date of such Discounted Stock Adjustment Event plus the number of additional shares of Class D Stock offered for subscription or purchase.

b) Each of the Inverse Fixed Terms shall be adjusted to the value determined by multiplying (x) such term immediately prior to such Discounted Stock Adjustment Event, by (y) a fraction, (i) the numerator of which shall be the number of shares of Class D Stock outstanding on the date of such Discounted Stock Adjustment Event plus the number of additional shares of Class D Stock offered for subscription or purchase, and (ii) the denominator of which shall be the number of shares of Class D Stock outstanding on the date of such Discounted Stock Adjustment Event plus the number of shares which the aggregate offering price of the total number of shares of Class D Stock so offered would purchase at the price per share of Class D Stock equal to the Trading Price as set forth in the most recent Conversion Ratio Certificate prior to the record date mentioned below (or, if no Conversion Ratio Certificate has yet been provided, equal to the Base Price immediately prior to such record date).

Such adjustment shall be made whenever such Convertible Securities are issued, and shall become effective immediately on the date of issuance retroactive to the record date for the determination of stockholders entitled to receive such Convertible Securities.

3. If the Corporation shall pay any Regular Dividend or Extraordinary Dividend (a "Dividend Adjustment Event"):

a) Each of the Fixed Terms shall be adjusted to such value determined by multiplying (x) such term immediately prior to such Dividend Adjustment Event, by (y) a fraction, (i) the numerator of which shall be the Trading Price immediately prior to such Dividend Adjustment Event minus the per share amount received by holders of Class D Stock in connection with such dividend, and (ii) the denominator of which shall be the Trading Price immediately prior to such Dividend Adjustment Event.

b) Each of the Inverse Fixed Terms shall be adjusted to such value determined by multiplying (x) such term immediately prior to such Dividend Adjustment Event, by (y) a fraction, (i) the numerator of which shall be the Trading Price immediately prior to such Dividend Adjustment Event, and (ii) the denominator of which shall be the Trading Price immediately prior to such Dividend Adjustment Event minus the per share amount received by holders of Class R Stock in connection with such dividend.

Any non-cash portions of an Extraordinary Dividend set forth in this paragraph F.3. shall be based upon the fair market value of such non-cash portion at the time such Extraordinary Dividend is declared or paid, as determined in good faith by the Board of Directors.

4. If any capital reorganization or reclassification of the capital stock of the Corporation, or consolidation or merger of the Corporation with another corporation, or share exchange involving the outstanding shares of the Corporation's capital stock or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Class D Stock shall be entitled to receive stock, securities, cash or other property with respect to or in exchange for Class D Stock, then, as a condition of such reorganization, reclassification, consolidation, merger, share exchange or sale, lawful and adequate provision shall be made whereby the holders of the Class R Stock shall have the right to acquire and receive upon conversion of the Class R Stock (after and subject to the rights of holders of Preferred Stock, if any), such shares of stock, securities, cash or other property issuable or payable (as part of the reorganization, reclassification, consolidation, merger, share exchange or sale) with respect to or in exchange for such number of outstanding shares of Class D Stock as would have been received upon conversion of the Class R Stock at the Conversion Ratio immediately prior to such event. The Corporation shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Corporation) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument mailed or delivered to the holders of the Class R Stock at the last address of each such holder appearing on the books of the Corporation, the obligation to deliver to each such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to receive upon conversion of such holder's shares of Class R Stock.

5. The Corporation shall not effect a reclassification of the Class R Stock without the approval of holders of a majority of the shares of Class R Stock.

6. The provisions of this paragraph F. shall not apply to any Class D Stock issued, issuable or deemed outstanding pursuant hereto: (a) to any person pursuant to any stock option, stock purchase or similar plan or arrangement for the benefit of employees of the Corporation or its subsidiaries in effect on the Initial Issuance Date or thereafter adopted by the Board of Directors of the Corporation; (b) pursuant to options, warrants and conversion rights in existence on the Initial Issuance Date; or (c) on conversion of the Class R Stock.

7. In the event of:

a) the occurrence of any event causing the adjustment of the Fixed Term or any Inverse Fixed Term pursuant to paragraphs F.1., F.2. or F.3. hereof; or

b) there shall be any capital reorganization or reclassification of the capital stock of the Corporation, including any subdivision or combination of its outstanding shares of Class D Stock, or consolidation or merger of the Corporation with, or sale of all or substantially all of its assets to, another corporation; or

c) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation; or

d) the occurrence of a Change of Control;

then, in connection with such event, the Corporation shall give to the holders of the Class R Stock:

(1) in the case of a), b) or c) above, at least twenty

(20) days prior written notice of the date on which the books of the Corporation shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, provided that if the Class R Stock is Publicly Traded, such notice must be given prior to the end of the Public Conversion Period prior to such record date;

(2) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, at least twenty (20) days prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Class D Stock shall be entitled thereto, and shall also specify the date on which the holders of Class D Stock shall be entitled to exchange their Class D Stock for securities or other property deliverable upon such reorganization, reclassification consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be; and

(3) in the case of d) above, five days after such Change of Control, unless notice is required sooner by (1) above; provided that if stockholder approval is required to effect such Change of Control, notice shall be provided concurrently with the notice to stockholders in connection with obtaining such stockholder approval.

Each such written notice shall be given by first class mail, postage prepaid, addressed to the holders of the Class R Stock at the address of each

such holder as shown on the books of the Corporation.

8. If any event occurs as to which, in the opinion of the Board of Directors of the Corporation, the provisions of this paragraph F. are not strictly applicable or if strictly applicable would not fairly protect the rights of the holders of the Class R Stock in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make an adjustment in the application of such provisions, in accordance with such essential intent and principles, so as to protect such rights as aforesaid. Upon the occurrence of any such adjustment pursuant to this paragraph F.8., the Corporation shall give notice to the holders of Class R Stock as provided in paragraph F.7(1), F.7(2) or F.7(3) hereof, as appropriate. All calculations and determinations required to be made by the Corporation pursuant hereto shall be made by the Corporation in good faith. All such calculations and determinations shall be conclusive unless otherwise specifically provided hereby.

#### G. Rank.

After the Class C Exchange, the Class R Stock shall, with respect to dividend distributions and with respect to distributions of assets and rights upon the liquidation, winding up and dissolution of the Corporation, rank on a parity with Class D Stock and junior to Preferred Stock.

#### H. Dividends.

1. Prior to the Class C Exchange, no dividends may be declared or paid with respect to Class R Stock. After (i) the Class C Exchange and (ii) dividends payable on any Preferred Stock have been declared and set aside on any such Preferred Stock having a preference over the Class D Stock and Class R Stock with respect to the payment of such dividends, holders of Class R Stock shall only be entitled to receive dividends, out of any assets or funds legally available therefor, in an amount per share of Class R Stock (and proportionally to such amount for fractional shares thereof) as set forth below:

a) If and when a Regular Dividend is declared, an amount which is equal to (i) the Conversion Ratio then in effect multiplied by (ii) the aggregate per share amount of such Regular Dividend declared on a share of Class D Stock; and

b) Subject to paragraph K. hereof, if and when an Extraordinary Dividend is declared, an amount which is equal to (i) the Conversion Ratio then in effect multiplied by (ii) one-fourth of the sum of (A) the aggregate per share amount of all cash portions of such Extraordinary Dividend plus (B) the aggregate per share amount (based upon the fair market value of the non-cash portion of such Extraordinary Dividend at the time such Extraordinary Dividend is declared or paid as determined in good faith by the Board of Directors) of all non-cash portions of such Extraordinary Dividend, in each case as declared on a share of Class D Stock.

Such dividends shall be declared and paid contemporaneously with the declaration and payment of the related dividend on the Class D Stock; and the foregoing are the only times when dividends shall be declared and paid with respect to the Class R Stock.

2. All dividends paid with respect to shares of Class R Stock pursuant to this paragraph H. shall be paid pro rata and in like manner to all of the holders entitled thereto.

3. No Regular or Extraordinary Dividends shall be declared by the Board of Directors or paid or set apart for payment by the Corporation on Class D Stock unless, contemporaneously therewith, a like ratable dividend calculated in accordance with this paragraph H. is declared and paid, or declared and a sum set apart sufficient for such payment, on the Class R Stock, payable as set forth herein.

#### I. Liquidation Rights.

1. Prior to the Class C Exchange, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation ("Liquidation"), the holders of Class R Stock then outstanding shall not be entitled to receive any property, assets or funds of the Corporation.

2. In the event of a Liquidation following the Class C Exchange, holders of Class R Stock then outstanding shall be entitled to be paid ratably out of the assets and funds of the Corporation legally available for distribution to its stockholders, after and subject to the payment in full of all amounts required to be distributed to the holders of any Preferred Stock upon such Liquidation, an amount equal to (a) the Liquidation Ratio then in effect multiplied by (b) the aggregate amount of all assets and funds remaining available for distribution to holders of Class D Stock and Class R Stock.

#### J. Voting.

1. Prior to the Class C Exchange, except as required by law, holders of Class R Stock shall not be entitled to vote on any matter.

2. After the Class C Exchange, each issued and outstanding share of Class R Stock (and fraction thereof) shall be entitled to vote only (i) for the election of directors, and (ii) as required by law. On matters on which the holders of Class R Stock are entitled to vote, (a) each issued and outstanding share of Class R Stock shall be entitled to the number of votes equal to the Conversion Ratio as of the record date for determination of stockholders entitled to vote on such matter, and (b) each issued and outstanding fraction of a share of Class R Stock shall be entitled to (x) such fraction, multiplied by (y) the number of votes equal to the Conversion Ratio as of the record date for determination of stockholders entitled to vote on such matter. Except as required by law, holders of Class R Stock shall vote together with the holders of Class D Stock as a

single class on all matters on which holders of Class R Stock are entitled to vote.

#### K. Forced Conversion.

1. In the event that the Board of Directors determines that the Corporation should convert all issued and outstanding shares of Class R Stock (and fractions thereof) into Class D Stock, the Corporation may at its option, elect to cause all, but not less than all, shares of Class R Stock (and fractions thereof) to be converted (a "Forced Conversion") into Class D Stock at the Conversion Ratio (i) in the event that the Class D Stock is not Publicly Traded, set forth in the Private Conversion Ratio Certificate delivered pursuant to paragraph E.3. hereof as a result of such determination by the Board of Directors, and (ii) in the event that the Class D Stock is Publicly Traded, in effect on the date the Board of Directors determines to cause such a conversion; provided, however, that if such Conversion Ratio in effect was calculated using a Conversion Value of less than \$25.00, such Conversion Ratio shall be recalculated using a Conversion Value of \$25.00.

2. All holders of record of shares of Class R Stock (or fractions thereof) will be given at least ten (10) days prior written notice of the date fixed and the place designated for such conversion of Class R Stock pursuant to this paragraph K. Such notice shall be sent by mail, first class, postage prepaid, to each record holder of shares of Class R Stock (or fractions thereof) at such holder's address appearing on the stock register. On or before the date fixed for conversion each holder of shares of Class R Stock (or fractions thereof) shall surrender his or its certificate or certificates for all such shares to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of Class D Stock and cash in lieu of any fractional share of Class D Stock to which such holder is entitled pursuant to this paragraph K. On the date fixed for conversion, all rights with respect to the Class R Stock so converted will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Class D Stock into which such Class R Stock has been converted, cash as provided in paragraph D.4. hereof in respect of any fraction of a share of Class D Stock otherwise issuable upon such conversion and payment of any accrued and unpaid dividends thereon. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his attorneys duly authorized in writing. All certificates evidencing shares of Class R Stock (or fractions thereof) which are required to be surrendered for conversion in accordance with the provisions hereof shall, from and after the date fixed for conversion, be deemed to have been retired and canceled and the shares of Class R Stock (or fractions thereof) represented thereby converted into Class D Stock for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. As soon as practicable after the date of such conversion and the surrender of the certificate or certificates for Class R Stock as aforesaid, the Corporation shall cause to be issued and delivered to such holder, or on such holder's written order, a certificate or certificates for the number of full shares of Class D Stock issuable on such conversion in accordance with the provisions hereof, cash as provided in paragraph D.4. hereof in respect of any fraction of a share of Class D Stock otherwise issuable upon such conversion and payment of any accrued and unpaid dividends thereon.

#### L. Mandatory Conversion.

1. Each share of Class R Stock (and fraction thereof) outstanding as of the Mandatory Conversion Date shall, automatically, and without further action by or on behalf of the Corporation, the Corporation's transfer agent or the holder of such share of Class R Stock, be converted (the "Mandatory Conversion") into shares of Class D Stock (and cash in lieu of any fractions of shares of Class D Stock as provided in paragraph D.4. hereof) at the Conversion Ratio in effect as of such Mandatory Conversion Date.

2. All holders of record of shares of Class R Stock (or fractions thereof) will be given written notice at least ten (10) days prior to the Mandatory Conversion Date stating the place designated for mandatory conversion of all of such shares of Class R Stock pursuant to this paragraph L. Such notice shall be sent by mail, first class, postage prepaid, to each record holder of shares of Class R Stock (or fractions thereof) at such holder's address appearing on the stock register. On or before the Mandatory Conversion Date, each holder of Class R Stock shall surrender his or its certificate or certificates for all such shares (or fractions thereof) to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of Class D Stock and cash in lieu of any fractional shares of Class D Stock to which such holder is entitled pursuant to this paragraph L. On the date fixed for conversion, all rights with respect to the Class R Stock so converted will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Class D Stock into which such Class R Stock has been converted, cash as provided in paragraph D.4. hereof in respect of any fraction of a share of Class D Stock otherwise issuable upon such conversion and payment of any accrued and unpaid dividends thereon. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his attorneys duly authorized in writing. All certificates evidencing shares of Class R Stock (or fractions thereof) which are required to be surrendered for conversion in accordance with the provisions hereof shall, from and after the date fixed for conversion, be deemed to have been retired and canceled and the shares of Class R Stock (and fractions thereof) represented thereby converted into Class D Stock for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. As soon as practicable after the date of such Mandatory Conversion and the surrender of the certificate or certificates for Class R Stock as aforesaid, the Corporation shall cause to be issued and delivered to such holder, or on such holder's written order, a certificate or certificates for the number of full shares of Class D Stock issuable on such conversion in accordance with the provisions hereof, cash as provided in paragraph D.4. hereof in respect of any fraction of a share of Class D Stock otherwise issuable upon such conversion and payment of any accrued and unpaid dividends thereon.

M. Mandatory Redemption. If the Class C Exchange (i) is abandoned by the Board of Directors prior to the Class C Exchange, or (ii) has not occurred by the close of business on the Mandatory Redemption Date, the Corporation shall redeem (to the extent funds are legally available therefor), all shares of Class R Stock (and fractions thereof) then outstanding for a per share price equal to the par value thereof (such amount is hereinafter referred to as the "Redemption Price"). Such Redemption Price shall be paid to each record holder of Class R Stock as of the Mandatory Redemption Date, promptly after such date, by certified or bank cashier's check, sent by mail, first class, postage prepaid, to each

record holder of shares of Class R Stock at such holder's address appearing on the stock register. If the Corporation is unable at such date to redeem all shares of Class R Stock (and fractions thereof) because funds are not legally available therefor, then the Corporation shall redeem such shares as soon thereafter as funds are legally available for redemption of such shares.

N. Taxes. The Corporation shall pay all documentary stamp taxes attributable to the initial issuance of Class R Stock and of the shares of Class D Stock issuable upon conversion of Class R Stock; provided that the Corporation shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue of any certificates representing shares of Class R Stock (or fractions thereof) or Class D Stock in a name other than the holder of the certificate or certificates surrendered upon conversion of Class R Stock, and the Corporation shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

In witness whereof, Peter Kiewit Sons', Inc. has caused this Certificate of Amendment to be signed by Matthew J. Johnson, its Vice President this 8th day of December, 1997.

**Peter Kiewit Sons', Inc.**

*By: /s/ Matthew J. Johnson  
Name: Matthew J. Johnson  
Title: Vice President*

## SEPARATION AGREEMENT

This Separation Agreement (this "Agreement") is entered into as of December 8, 1997 by and among Peter Kiewit Sons', Inc., a Delaware corporation ("PKS"), Kiewit Diversified Group Inc., a Delaware corporation ("KDG"), PKS Holdings, Inc., a Delaware corporation ("PKS Holdings"), and Kiewit Construction Group Inc., a Delaware corporation ("KCG", and together with PKS, KDG, and PKS Holdings, collectively the "Parties" or individually a "Party").

### Recitals

The Board of Directors of PKS has approved, by a unanimous vote of the Board, a series of transactions intended to separate the construction businesses of PKS and the diversified businesses of PKS into two separate and independent companies, and the stockholders of PKS have ratified the action of the PKS Board. PKS, KDG (the subsidiary of PKS that holds, directly or indirectly, all of the diversified businesses of PKS), KCG (the subsidiary of PKS that holds, directly or indirectly, all of the construction businesses of PKS) and PKS Holdings (a subsidiary of PKS formed to acquire from PKS all of the capital stock of KCG in connection with the separation) want to provide for the principal corporate transactions necessary to consummate the separation, the relationships among the Parties after the separation, the allocation of risks and responsibilities among the Parties after the separation and certain other matters.

The Parties hereby agree as follows:

### Agreement

#### ARTICLE I DEFINITIONS

1.01 General. Terms used but not elsewhere defined in this Agreement have the following meanings:

**Affiliate:** with respect to any Person, a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person; provided, however, that for purposes of this Agreement, no member of either Group will be deemed to be an Affiliate of any member of the other Group.

**Asset:** any and all assets and properties, whether real, personal or mixed, tangible or intangible, wherever located, and whether or not recorded or reflected or required to be recorded on the books and records or financial statements of any Person, including, without limitation, the following: (i) cash, cash equivalents, bank accounts, lock boxes and other deposit arrangements, notes, deposits, letters of credit, performance and surety bonds, trade accounts and other accounts and notes receivable (whether current or non-current); (ii) certificates of deposit, banker's acceptances, stock, debentures, evidences of indebtedness, certificates of interest or participation in profit-sharing agreements, collateral-trust certificates, preorganization certificates or subscriptions, capital contributions, joint venture and partnership interests, transferable shares, investment contracts, voting-trust certificates, fractional undivided interests in oil, gas or other mineral rights, puts, calls, straddles, options and other securities or equity interests of any kind or in any Person;

(iii) trade secrets, confidential information, registered and unregistered trademarks, service marks, service names, trade styles and trade names and associated goodwill; statutory, common law and registered copyrights; domestic and foreign patents, applications for any of the foregoing, rights to use the foregoing and other rights in, to and under the foregoing; (iv) rights under leases, contracts, licenses, permits, distribution arrangements, sales and purchase agreements, other agreements and business arrangements; (v) real estate, all interests in real estate of whatever nature and buildings and other improvements thereon; (vi) leasehold improvements, fixtures, trade fixtures, machinery, equipment (including transportation and office equipment), tools, dies and furniture; (vii) office supplies, production supplies, spare parts, other miscellaneous supplies and other tangible property of any kind; (viii) raw materials, work-in-process, finished goods, consigned goods and other inventories; (ix) prepayments or prepaid expenses; (x) claims, causes of action, choses in action, rights of recovery and rights of set-off of any kind; (xi) the right to receive mail, payments on accounts receivable and other communications; (xii) lists of advertisers, records pertaining to advertisers and accounts, personnel records, lists and records pertaining to suppliers and agents, and books, ledgers, files and business records of every kind, whether in paper, microfilm, microfiche, computer tape or disk, magnetic tape or any other form; (xiii) advertising materials and other printed or written materials; (xiv) goodwill as a going concern and other intangible properties; (xv) employee contracts, including any rights thereunder to restrict an employee from competing in certain respects; (xvi) licenses and authorizations issued by any governmental authority; (xvii) all apparatus, computers and other electronic data processing equipment, fixtures, machinery, equipment, furniture, office equipment, automobiles, trucks, aircraft, rolling stock, vessels, motor vehicles and other transportation equipment, special and general tools, test devices, prototypes and models and other tangible personal property; (xviii) all written technical information, data, specifications, research and development information, engineering drawings, operating and maintenance manuals, and materials and analyses prepared by consultants and other third parties; (xix) all computer applications, programs and other software, including operating software, network software, firmware, middleware, design software, design tools, systems documentation and instructions (excluding, for purposes of the definition of Construction Assets, any property of PKSIS);

(xx) all cost information, sales and pricing data, customer prospect lists, supplier records, customer lists, customer and vendor data, correspondence and lists, product literature, artwork, design, development and manufacturing files, vendor and customer drawings, (xxi) formulations and specifications, quality records and reports and other books, records, studies, surveys, reports, plans and documents; and (xxii) except as otherwise expressly provided herein, all rights under insurance policies and all rights in the nature of insurance, indemnification or contribution.

Certificate Amendments: the Initial Certificate Amendment and the Post-Transaction Certificate Amendment.

**Class C Stock:** the Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock of PKS, par value \$.0625 per share.

**Class D Stock:** the Class D Diversified Group Convertible Exchangeable Common Stock of PKS, par value \$.0625 per share.

**Class R Stock:** the Class R Convertible Common Stock of PKS, par value \$.01 per share, proposed to be authorized pursuant to the Initial Certificate Amendment and issued pursuant to the Class R Distribution.

**Class R Distribution:** the distribution, as a dividend, by PKS of the Class R Stock pursuant to Section 3.06.

**Class R Distribution Record Date:** January 2, 1998, or such other date occurring after the Debenture Conversion Date but before the Excess Purchase Date, which is selected by the PKS Board as the record date for determining holders of record of Class C Stock entitled to receive the Class R Distribution.

**Code:** the Internal Revenue Code of 1986, as amended, or any successor legislation, together with the rules and regulations promulgated thereunder.

**Construction Assets:** all of the Assets utilized immediately prior to the Exchange Date by any member of the Construction Group in connection with the Construction Business.

**Construction Business:** all of the businesses and operations conducted at, or at any time before, the Exchange Date by PKS or any Subsidiary of PKS, the principal focus of which are or were construction or construction management activities.'

**Construction Group:** PKS Holdings, KCG and the Subsidiaries of KCG as of the Exchange Date.

**Construction Indemnitees:** any member of the Construction Group, any Construction Individual and any Affiliate of any member of the Construction Group.

**Construction Individual:** any individual who at any time prior to the Exchange Date was a director, officer or employee of any member of the Construction Group, but solely to the extent that any Loss incurred by such Person is incurred in that capacity.

**Construction Liabilities:** all of the Liabilities arising out of or resulting from the Construction Business, and any Liability which any member of the Construction Group is obligated to assume pursuant to Section 5.02.

**Construction Securities Transactions:** the offer to sell or the sale of Class C Stock, PKS Holdings Stock or debentures convertible into Class C Stock or PKS Holdings Stock.

**Diversified Assets:** all of the Assets utilized immediately prior to the Exchange Date by any member of the Diversified Group in connection with the Diversified Business.

**Diversified Business:** all of the businesses and operations conducted at, or at any time before, the Exchange Date, by PKS, other than the Construction Business.

**Diversified Group:** PKS, KDG and all of the Subsidiaries of KDG as of the Exchange Date.

**Diversified Indemnitees:** any member of the Diversified Group, any Diversified Individual and any Affiliate of any member of the Diversified Group.

**Diversified Individual:** any individual who at any time prior to the Exchange Date was a director, officer or employee of any member of the Diversified Group, but solely to the extent that any Loss incurred by such Person is incurred in that capacity.

**Diversified Liabilities:** all of the Liabilities arising out of or resulting from the Diversified Business, and any Liability which any member of the Diversified Group is obligated to assume pursuant to Section 5.02.

**Diversified Securities Transaction:** the offer to sell or the sale of Class D Stock, Class R Stock or debentures convertible into Class D Stock, including the issuance of any stock option convertible into Class D Stock.

**Dividend Condition:** with respect to the distribution in connection with the Class R Distribution and the distribution in connection with the Share Exchange, a determination by the PKS Board that such distribution by PKS will (a) comply with the PKS Certificate, as then amended and/or restated, (b) will be made out of surplus, within the meaning of Section 170 of the Delaware General Corporation Law and (c) will not result in the insolvency of PKS under applicable fraudulent conveyance or fraudulent transfer statutes.



**Exchange Act:** the Securities Exchange Act of 1934, together with the rules and regulations promulgated thereunder.

**Exchange Date:** the date on which the Share Exchange is made, which will be a date determined by the PKS Board that occurs after satisfaction of all of the conditions set forth in Section 2.08.

**Exchange Record Date:** the date selected by the PKS Board for determining holders of record of Class C Stock entitled to receive PKS Holdings Stock in the Share Exchange.

**Group:** either of the Construction Group or the Diversified Group.

**Indemnifying Party:** a Person who or which is obligated under Article IV to provide indemnification.

**Indemnitee:** a Person entitled to indemnification under Article IV.

**Indemnity Payment:** an amount that an Indemnifying Party is required to pay to an Indemnitee pursuant to Article IV.

**Information:** all information whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney- client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), computer data and other technical, financial, employee or business information.

**Initial PKS Certificate Amendment:** an amendment to the PKS Certificate in the form of Appendix E-I to the Joint Prospectus/Proxy Statement.

**Joint Prospectus/Proxy Statement:** the joint prospectus/proxy statement included in the Registration Statement and mailed to the holders of Class C Stock and Class D Stock in connection with the Transaction.

**Liabilities:** all debts, liabilities and obligations, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever or however arising, and whether or not the same would properly be reflected on a balance sheet, including all related costs and expenses.

**Losses:** all losses, Liabilities, damages, actions, claims, suits, demands, proceedings, inquiries, investigations, judgments or settlements of any nature or kind, known or unknown, fixed, accrued, absolute or contingent, liquidated or unliquidated, including all related costs and expenses (legal, accounting or otherwise as such costs are incurred) suffered by an Indemnitee.

**PKS Board:** the board of directors of PKS (or the executive committee of the board of directors of PKS, if the executive committee of the board of directors of PKS has the authority to take the action required under this Agreement).

**PKS Certificate:** the Restated Certificate of Incorporation of PKS, as in effect on the date of this Agreement.

**PKS Holdings Certificate Amendment:** an amendment to and restatement of the Certificate of Incorporation of PKS Holdings in the form of Appendix D to the Joint Prospectus/Proxy Statement.

**PKS Holdings Stock:** the common stock of PKS Holdings, \$.01 par value.

**PKS Stockholders:** the holders of Class C Stock, the holders of Class D Stock and, if applicable, the holders of Class R Stock, taken together.

**PKSIS:** PKS Information Services, Inc., a Delaware corporation, and a Subsidiary of KDG.

**Person:** an individual, a partnership, a limited partnership, a joint venture, a limited liability company, a corporation, a trust, an unincorporated organization, any other entity or a government or any department or agency thereof.

**Post-Transaction PKS Certificate Amendment:** an amendment to and restatement of the PKS Certificate, as amended by the Initial Certificate Amendment, in the form of Appendix E-II to the Joint Prospectus/Proxy Statement.

**Registration Statement:** the registration statement filed by PKS and PKS Holdings on Form S-4 (Registration No. 333-34627) pursuant to the Securities Act, as amended from time to time.

**Representative:** with respect to any Person, any of such Person's affiliates, directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

SEC: the Securities and Exchange Commission.

Secretary of State: the Secretary of State of the State of Delaware.

Securities Act: the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

Service: the United States Internal Revenue Service.

Separation Transactions: the transactions described in Section 3.01 through 3.08 of this Agreement.

Share Exchange: the exchange of PKS Holdings Stock for Class C Stock in accordance with the Exchange Provision (as defined in Section 3.09).

Special Meeting: the special meeting of stockholders of PKS held on December 8, 1997 to consider the matters described in Section 2.02.

Stock Option Plan Amendment: an amendment to and restatement of the 1995 Class D Stock Plan of PKS in the form approved by the PKS Board on October 22, 1997, as amended by the Executive Committee of the PKS Board on November 10, 1997.

Subsidiary: with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries controls or owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote on the election of members to the board or similar governing body.

Tax: as defined in the Tax Allocation Agreement.

Tax Allocation Agreement: a tax allocation agreement between the Diversified Group and the Construction Group to be entered into as of the Exchange Date, in form and substance mutually satisfactory to all of the Parties.

Termination Date: the date upon which the Transaction will be abandoned if not consummated, which will be October 15, 1998, unless that date is extended by a duly adopted resolution of the PKS Board.

Third-Party Claim: any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person who is not a member of a Group.

Transaction: all of the transactions contemplated by this Agreement, taken together.

## **ARTICLE II CONDITIONS TO TRANSACTION; ABANDONMENT**

2.01 Registration Statement/Joint Prospectus/Proxy Statement. PKS and PKS Holdings have prepared and filed the Registration Statement with the SEC, the SEC has declared the Registration Statement effective, and PKS and PKS Holdings have mailed the Joint Prospectus/Proxy Statement to all PKS Stockholders.

2.02. Special Meeting. At the Special Meeting, PKS submitted (i) the Transaction, (ii) the Initial PKS Certificate Amendment, (iii) the Post-Transaction PKS Certificate Amendment and (iv) the Stock Option Plan Amendment to votes of the PKS Stockholders, and each matter was ratified or approved by the requisite vote of the PKS Stockholders.

2.03 Ruling Request. PKS has submitted to the Service a request for certain rulings in connection with the Transaction (as amended from time to time by PKS, the "Ruling Request"). The PKS Board may determine, at any time after the date of this Agreement, to request an opinion of federal income tax counsel to PKS, confirming any or all of the matters subject to the Ruling Request, as the PKS Board deems appropriate (the "Tax Opinion"). If (a) either the Service denies the Ruling Request or the Service does not grant the Ruling Request before the Termination Date, and (b) the PKS Board has not requested and received the Tax Opinion on or before the Termination Date, the Parties will abandon the Transaction.

2.04 Nebraska Ruling Request. PKS is preparing for submission to the State of Nebraska Department of Revenue a request for certain rulings in connection with the Transaction (as amended from time to time by PKS, the "Nebraska Ruling Request"). The PKS Board may determine, at any time after the date of this Agreement, to request an opinion of Nebraska tax counsel to PKS, confirming any or all of the matters subject to the Nebraska Ruling Request, as the PKS Board deems appropriate (the "Nebraska Tax Opinion"). If (a) either the Nebraska Ruling Request is denied or is not granted before the Termination Date, and (b) the Nebraska Tax Opinion is not requested and received on or before the Termination Date, the PKS Board will review the benefits of the Transaction in light of the failure of the Nebraska Department of Revenue to approve the Nebraska Ruling Request or the failure of the PKS Board to request and receive the Tax Opinion, and will abandon the Transaction if the PKS Board determines, by a duly adopted resolution, that consummation of the Transaction is no longer in the best interest of all PKS

Stockholders.

2.05 Termination Date. The Parties will abandon the Transaction if the Share Exchange is not consummated on or before the Termination Date.

2.06 PKS Board Right to Defer, Modify or Abandon Transaction. Notwithstanding any other provision of this Agreement, (a) prior to consummation of the Transaction, the Parties will defer or modify the Transaction or this Agreement in any respect deemed appropriate by the PKS Board, and (b) the Parties will abandon the Transaction at any time if the PKS Board, by a duly adopted resolution, determines that consummation of the Transaction is no longer in the best interest of all PKS Stockholders. Nothing herein shall limit or otherwise affect the PKS Board's ability to proceed with the Transaction at a later date.

2.07 Consequences of Abandonment. If the Parties abandon the Transaction (whether pursuant to Section 2.03, 2.04, 2.05 or 2.06), Articles III, IV, V and VI of this Agreement will terminate and have no further force or effect, the Parties will not be obligated to consummate any of the Separation Transactions that have not then been consummated, and only this Section 2.07 and Articles I, VII and VIII of this Agreement will remain binding on the Parties and have any further force or effect.

2.08 Conditions to Share Exchange. The Share Exchange will be consummated only if (a) PKS has received either the rulings subject to the Ruling Request and/or the Tax Opinion, (b) the Dividend Condition has been satisfied with respect to the Share Exchange, (c) the Separation Transactions have been consummated, and (d) the PKS Board has not determined to abandon the Transaction. The condition set forth in clause (a) of the preceding sentence shall not be waived.

### **ARTICLE III THE SEPARATION TRANSACTIONS; THE SHARE EXCHANGE**

3.01 1997 Class C Stock Conversions. (a) Under Section VI.D.(10) of the PKS Certificate, holders of Class C Stock may convert any or all of their Class C Stock into Class D Stock by tendering a written conversion notice to PKS between October 15, 1997 and December 15, 1997 (the "1997 Conversion Period"). Under Section VI.D.(10)(f) of the PKS Certificate, PKS may elect, in lieu of effecting the conversion, to purchase any shares of Class C Stock so tendered by providing written notice to the tendering stockholders of such election. If PKS makes such an election, the tendering stockholder may withdraw the tender of the Class C Stock if he is then eligible under Section VI.D.(1) of the PKS Certificate to own Class C Stock (an "Eligible Class C Stockholder").

(b) PKS intends to permit conversion of no more than 3,000,000 shares of Class C Stock (the "Conversion Cap") tendered during the 1997 Conversion Period and to repurchase (on a pro rata basis among tendering holders of Class C Stock) shares of Class C Stock tendered in excess of the Conversion Cap ("Excess Class C Stock"). PKS will notify holders of Excess Class C Stock of their pro rata share of Excess Class C Stock promptly after the end of the 1997 Conversion Period, and will permit holders of Excess Class C Stock who have indicated to PKS that they intend to remain Eligible Shareholders through April 1, 1998 to withdraw Excess Class C Stock in accordance with Section VI.D.(10)(f) of the Certificate by providing written notice of withdrawal on or before the fifteenth calendar day after the date of such notice.

(c) PKS will purchase any Excess Class C Stock not withdrawn pursuant to Section 3.01(b), and will permit holders of any such Excess Class C Stock to elect either (i) to receive cash in exchange for Excess Class C Stock so purchased in accordance with Section VI.D.(10)(f) of the PKS Certificate, or

(ii) to receive unsecured promissory notes of PKS, maturing on January 15, 1999 and bearing interest, payable at maturity, at a rate of no less than 6% per annum ("Short Term Notes"), in exchange for Excess Class C Stock. Each Short Term Note will provide that the obligations under the Short Term Note will be assumed by PKS Holdings if the Share Exchange is consummated. PKS will not consummate the purchase of any Excess Class C Stock until after the Class R Distribution Record Date, and all holders of such Excess Class C Stock will be entitled to receive the Class R Distribution with respect to such Excess Class C Stock.

(d) If PKS purchases Excess Class C Stock and the Transaction is abandoned, PKS will file, within 90 calendar days after the date upon which the Transaction is abandoned, a Form S-8 registration statement under the Securities Act for an offering of Class D Stock to holders of purchased Excess Class C Stock. Upon filing of that registration statement, PKS will offer to each such holder the opportunity to elect, within 30 calendar days of the filing, to purchase, at the Class D Per Share Price (as defined in the PKS Certificate) as of January 1, 1998, a number of shares of Class D Stock equal to the number of shares of Class D Stock into which his purchased Excess Class C Stock could have been converted on the Conversion Date but for the application of the Conversion Cap. The PKS Board may permit holders to offset the purchase price for such shares of Class D Stock against the outstanding principal amount and accrued interest payable pursuant to a Short Term Note.

(e) On the date of consummation of the purchase of all Excess Class C Stock (the "Excess Purchase Date"), KCG will distribute to PKS cash in an amount equal to all cash payments for Excess Class C Stock pursuant to Sections 3.01(b)(i).

(f) On the Exchange Date, PKS Holdings will assume all of the obligations of PKS under each Short Term Note, if any.

(g) Within 30 calendar days after the expiration of the 1997 Conversion Period, KCG will distribute to PKS, and PKS will contribute to KDG, cash in an amount equal to the aggregate Class C Per Share Price (as defined in the PKS Certificate) of the Class C Stock converted into Class D Stock during the 1997 Conversion Period (subject to adjustment following delivery of audited financial statements for PKS for 1997, in a

manner consistent with past practice).

3.02 Accelerated Conversion of Debentures. (a) PKS has outstanding Series 1993 through Series 1996 Class C Convertible Debentures (the "Debentures"). The Debentures are convertible into Class C Stock, during a one month period in the fifth year of their terms, at a rate specified in the Debentures. PKS will accelerate the conversion period for the Debentures to permit holders of the Debentures ("Converting Debenture Holders") to tender for conversion, during a ten day period beginning on December 16, 1997 and ending on December 25, 1997 (the "Debenture Conversion Period"), any or all Debentures into Class C Stock at the otherwise applicable conversion rate. PKS will issue all Class C Stock with respect to all Debentures so elected to be converted on December 26, 1997 (the "Debenture Conversion Date"). All Converting Debenture Holders will be entitled to receive the Class R Distribution with respect to Class C Stock issued upon conversion of the Debentures. Any Debentures not tendered for conversion during the Debenture Conversion Period will remain outstanding and governed by the original terms of the Debentures, and holders of any such Debentures will not be entitled to receive the Class R Distribution with respect to the Debentures or the related Class C Stock. If the Transaction is consummated, PKS and PKS Holdings will use their best efforts to agree upon an arrangement whereby the financial benefits and burdens associated with any Debentures remaining outstanding will be borne by PKS Holdings.

(b) KCG or one of its Subsidiaries will make available to each Converting Debenture Holder on the Debenture Conversion Date, a loan in an amount equal to the principal amount of each Debenture (a "Debenture Loan"). Each Debenture Loan will be evidenced by a non-interest bearing promissory note and secured pursuant to a pledge agreement in such forms as determined by KCG. The entire principal balance of each Debenture Loan will be due and payable on the earlier of the last day of the conversion period of the related Debenture, as originally issued and before any modification pursuant to Section 3.02(a), on the date of the sale or other disposition by the Converting Debenture Holder of the related Class C Stock to PKS (other than pursuant to the Share Exchange), or (if the Share Exchange is consummated) the related PKS Holdings Stock to PKS Holdings, or the termination of employment of the holder.

3.03 1997 Debentures. PKS issued, on or about November 1, 1997, its Series 1997 Class C Convertible Debentures (the "1997 Debentures"). Each 1997 Debenture will provide that if the Share Exchange is consummated, the 1997 Debentures automatically will become, without any action by PKS, PKS Holdings or the holder thereof, a debenture of PKS Holdings (the "Replacement Debentures") convertible into the number of shares of PKS Holdings Stock as it was previously convertible into Class C Stock, and that PKS will no longer have any obligation or liability under the 1997 Debentures. On or before the Exchange Date, PKS and PKS Holdings will agree to a mutually acceptable arrangement pursuant to which PKS Holdings will assume, or otherwise become liable for, the obligations of PKS under the related Indenture.

3.04 Sales of Class C Stock by Eligible Class C Stockholders. (a) Under Section VI.D.3(a) of the PKS Certificate, PKS is obligated to purchase, at the Class C Per Share Price, any Class C Stock tendered for purchase during the first fifteen calendar days of each month. On the Exchange Date, PKS will deliver to PKS Holdings a schedule that sets forth the name of each Eligible Class C Stockholder (determined as of the Exchange Date) from whom PKS has purchased Class C Stock ("Purchased Class C Stock") between the Class R Distribution Date and the Exchange Date (a "Selling Shareholder"), the date of such purchase, the number of shares of Class C Stock so purchased and the total amount paid to each such Eligible Class C Shareholder for all shares of Class C Stock so purchased.

(b) PKS Holdings will promptly notify PKS if PKS Holdings sells PKS Holdings Stock to any Selling Shareholder at any time between the Exchange Date and the first anniversary of the Exchange Date (a "Subsequent Sale"). PKS Holdings will take any action reasonably requested by PKS to ensure that any Class R Stock distributed to the Selling Shareholder with respect to Purchased Class C Stock becomes attached to such shares of PKS Holdings Stock purchased in a Subsequent Sale on a pro rata basis, as contemplated by the Certificate Amendments.

(c) In connection with Subsequent Sales of PKS Holdings Stock to Canadians ("Canadian Shareholders"), PKS Holdings or a Subsidiary thereof may offer to provide loans to such Canadian Shareholders, on terms acceptable to all Parties. Within 30 calendar days after the date of each such loan, PKS Holdings will provide PKS with a schedule that sets forth, in detail reasonably acceptable to PKS, the terms and conditions of any and all such loans.

3.05 Initial Certificate Amendment. PKS will file the Initial Certificate Amendment with the Secretary of State as promptly as practicable after the Special Meeting.

3.06 Class R Distribution. (a) Subject to the satisfaction of the Dividend Condition with respect to the Class R Distribution, PKS will declare a dividend, payable to holders of Class C Stock as of the Class R Distribution Record Date, of .8 of one share of Class R Stock for each share of Class C Stock held as of the Class R Distribution Record Date.

(b) PKS will record the Class R Distribution, and register all persons entitled to the Class R Distribution as holders of Class R Stock, on the books and records maintained by or on behalf of PKS for the registration of ownership of the capital stock of PKS, effective as of the Class R Distribution Record Date. PKS will not issue certificates or other instruments to evidence Class R Stock unless and until the Share Exchange is consummated. If the Share Exchange is consummated, PKS will issue and distribute certificates evidencing the Class R Stock. If the Class R Distribution is consummated, but the Transaction is later abandoned, PKS will exercise its rights to repurchase all of the Class R Stock under Section IX.M of the Initial Certificate Amendment as promptly as practicable after abandonment of the Transaction.

3.07 PKSIS Reorganization. On or before the Exchange Date, KDG will cause PKSIS to undertake such corporate reorganization as is then described in or contemplated by the Ruling Request.

3.08 PKS Holdings Transactions. (a) From the date of this Agreement to the Exchange Date, KCG will make such distributions to PKS as are necessary to permit PKS to make such capital contributions and provide such other funds to PKS Holdings as may be necessary or desirable to

permit PKS Holdings to perform and discharge its obligations under this Agreement.

(b) On or before the Exchange Date, PKS, in its capacity as the sole shareholder of PKS Holdings, (i) will adopt the PKS Holdings Certificate Amendment, and (ii) will elect to the board of directors of PKS Holdings those persons designated as directors of PKS Holdings in the Joint Prospectus/Proxy Statement, with such substitutions or additions as may be approved by the PKS Board after the date of this Agreement.

(c) On the Exchange Date, PKS Holdings will file the PKS Holdings Certificate Amendment with the Secretary of State.

(d) On the Exchange Date, PKS will make a capital contribution to PKS Holdings of (i) all of the capital stock of KCG held by PKS, and (ii) such other assets as agreed to by the Parties and described on a Schedule to be attached to the Agreement on or before the Exchange Date. On the Exchange Date, PKS Holdings will distribute to PKS a sufficient number of shares of PKS Holdings Stock, evidenced by a single certificate, so that, together with such shares previously issued to PKS, PKS will hold shares of PKS Holdings Stock equal to the number of shares of Class C Stock outstanding on the Exchange Record Date.

**3.09 Share Exchange.** (a) Not more than 60 calendar days, but not less than 30 calendar days, prior to the Exchange Date, PKS shall give each holder of Class C Stock the notice contemplated by Section III.D.(3)(a) of the PKS Certificate (the "Exchange Provision"). Each notice will set forth the Exchange Record Date and the information required by the Exchange Provision, and will establish such procedures for the Share Exchange as are permitted by the Exchange Provision and otherwise deemed appropriate by PKS.

(b) On the Exchange Date, PKS will exchange, pursuant to the Exchange Provision, one share of the PKS Holdings Common Stock received pursuant to Section 3.11(a) for each share of Class C Common Stock outstanding as of the Exchange Date. On and after the Exchange Date, all rights of holders of Class C Stock will be governed by the Exchange Provisions.

(c) The Share Exchange will be consummated only after consummation of all of the Separation Transactions intended to be consummated on the Exchange Date.

**3.10 Post-Transaction Certificate Amendment.** If the Share Exchange is consummated, PKS will file the Post-Transaction Certificate Amendment with the Secretary of State on the Exchange Date.

**3.11 Certificate Surrender and Distribution.** (a) As promptly as practicable after the Exchange Date, PKS Holdings will deliver to PKS, in exchange for the PKS Holdings Stock certificate described in Section 3.08(d), certificates for PKS Holdings Stock in names and denominations sufficient to permit PKS to distribute certificates for PKS Holdings Stock to each holder of Class C Stock in the same denominations as the Class C Stock then held by such holder, subject, in each case, to surrender by such holder in accordance with the Exchange Provision of the certificates evidencing the related shares of Class C Stock.

(b) PKS will coordinate delivery of share certificates with any lending institution to which shares of Class C Stock have been pledged. PKS will arrange for delivery of the shares of Class C Stock to be exchanged and will, if directed in writing by the holder of such shares of Class C Stock, deliver shares of PKS Holdings Stock and Class R Stock directly to such lending institution.

**3.12 Class R Stock Provisions.** (a) So long as any shares of Class R Stock remain outstanding, PKS will take all necessary action (i) to obtain and keep effective any and all permits, consents and approvals of governmental agencies and authorities and to make filings under federal and state securities acts and laws, which may be or become requisite in connection with the issuance, sale, transfer and delivery of the shares of Class D Stock issued upon conversion of shares of Class R Stock, and (ii) if the Class D Stock is Publicly Traded (as defined in the PKS Certificate), to have the shares of Class D Stock, immediately upon their issuance upon conversion of the shares of Class R Stock, listed on each national securities exchange, the NASDAQ National Market or the NASDAQ Small Cap Market on which the Class D Stock is then listed or traded. So long as any shares of Class R Stock remain outstanding and if required in order to comply with the Securities Act or state securities laws, PKS will file such post-effective amendments to the Registration Statement as may be necessary to permit the Corporation to deliver to each person converting shares of Class R Stock a prospectus meeting the requirements of Section 10(a)(3) of the Securities Act and otherwise complying therewith, and, if required in order to comply with the Securities Act or state securities laws, will deliver such a prospectus to each such person.

(b) PKS will not, by amendment of the PKS Certificate, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any voluntary action, seek to avoid the observance or performance of any of its obligations with respect to the Class R Stock.

(c) After the date upon which the Class R Stock becomes convertible into Class D Stock, and in order to provide holders of Class R Stock a means to determine the Conversion Ratio when the Class D Stock is Publicly Traded (as both such terms are defined in the PKS Certificate), PKS shall establish reasonable measures intended to enable holders of Class R Stock to obtain information at any time during normal business hours.

## **ARTICLE IV INDEMNIFICATION**

**4.01 Indemnification.** (a) From and after the Exchange Date, PKS and KDG will indemnify, defend and hold harmless each Construction

Indemnatee from and against all Losses incurred or suffered by any Construction Indemnatee arising out of or due to, directly or indirectly, (i) any breach by PKS or KDG of any obligation under this Agreement, (ii) the Diversified Assets, (iii) the Diversified Business, (iv) Diversified Securities Transactions, (v) Diversified Liabilities, (vi) the Covent Liabilities (as defined in Section 5.10(f)) and (vii) such other matters as are specifically agreed by the Parties and described on a Schedule attached to the Agreement on or before the Exchange Date.

(b) From and after the Exchange Date, PKS Holdings and KCG will indemnify, defend and hold harmless each Diversified Indemnatee from and against all Losses incurred or suffered by any Diversified Indemnatee arising out of or due to, directly or indirectly, (i) any breach by PKS Holdings or KCG of any obligation under this Agreement, (ii) the Construction Assets, (iii) the Construction Business, (iv) Construction Securities Transactions, (v) Construction Liabilities, and (vi) such other matters as are specifically agreed by the Parties and described on a Schedule attached to the Agreement on or before the Exchange Date.

(c) This Section 4.01 shall not apply to any matter or item specifically covered by indemnification or risk allocation provisions of the Continuing Agreements.

(d) If an Indemnatee realizes a Tax benefit or detriment by reason of having incurred a Loss for which such Indemnatee receives an Indemnity Payment from an Indemnifying Party or by reason of receiving an Indemnity Payment, such Indemnatee shall pay to such Indemnifying Party an amount equal to the Tax benefit, or such Indemnifying Party shall pay to such Indemnatee an additional amount equal to the Tax detriment (taking into account any Tax detriment resulting from the receipt of such additional amounts), as the case may be. If, in the opinion of counsel to an Indemnifying Party reasonably satisfactory in form and substance to the affected Indemnatee, there is a substantial likelihood that the Indemnatee will be entitled to a Tax benefit by reason of an Indemnifiable Loss, the Indemnifying Party promptly shall notify the Indemnatee and the Indemnatee promptly shall take any steps (including the filing of such returns, amended returns or claims for refunds consistent with the claiming of such Tax benefit) that, in the reasonable judgment of the Indemnifying Party, are necessary and appropriate to obtain any such Tax benefit. If, in the opinion of counsel to an Indemnatee reasonably satisfactory in form and substance to the affected Indemnifying Party, there is a substantial likelihood that the Indemnatee will be subjected to a Tax detriment by reason of an Indemnification Payment, the Indemnatee promptly shall notify the Indemnifying Party and the Indemnatee promptly shall take any steps (including the filing of such returns or amended returns or the payment of Tax underpayments consistent with the settlement of any Liability for Taxes arising from such Tax detriment) that, in the reasonable judgment of the Indemnatee, are necessary and appropriate to settle any Liabilities for Taxes arising from such Tax detriment. If, following a payment by an Indemnatee or an Indemnifying Party pursuant to this Section 4.01(d) in respect of a Tax benefit or detriment, there is an adjustment to the amount of such Tax benefit or detriment, then each of the Indemnifying Party and the Indemnitees shall make appropriate payments to the other to reflect such adjustments.

(e) The amount which an Indemnifying Party is required to pay to any Indemnatee pursuant to this Section 4.01 will be reduced (including retroactively) by any insurance proceeds and other amounts actually recovered by such Indemnatee in reduction of the related Loss, it being understood and agreed that the members of each Group will use their commercially reasonable efforts to collect any such proceeds or other amounts to which they are entitled, without regard to whether it is the Indemnifying Party hereunder. If an Indemnatee receives an Indemnity Payment in respect of an Indemnifiable Loss and subsequently receives insurance proceeds or other amounts in respect of such Indemnifiable Loss, then such Indemnatee shall pay to such Indemnifying Party an amount equal to the difference between (i) the sum of the amount of such Indemnity Payment and the amount of such insurance proceeds or other amounts actually received and (ii) the amount of such Loss, adjusted (at such time as appropriate adjustment can be determined) in each case to reflect any premium adjustment attributable to such claim.

(f) No person other than an Indemnatee is intended to be a beneficiary of the indemnification provisions set forth above, and no insurer will be relieved thereby of any obligation to pay any claims to which it is obligated or be entitled to any right of subrogation with respect to any amount paid hereunder.

4.02 Procedure for Indemnification. (a) If any Indemnatee determines that it is or may be entitled to indemnification by any Indemnifying Party (other than in connection with any Third Party Claim), the Indemnatee will deliver to the Indemnifying Party a written notice specifying, to the extent reasonably practicable, the basis for its claim for indemnification and the amount for which the Indemnatee reasonably believes it is entitled to be indemnified. Within 60 calendar days after receipt of such notice, the Indemnifying Party will pay the Indemnatee such amount in cash or other immediately available funds unless the Indemnifying Party objects to the claim for indemnification or the amount by written notice setting forth the grounds therefor within such 60 calendar day period. If the Indemnifying Party does not give the Indemnified Party written notice objecting to such indemnity claim and setting forth the grounds therefor within 60 calendar days after receipt of such notice, the Indemnifying Party will be deemed to have acknowledged its liability for such claim and the Indemnatee may exercise any and all of its rights under applicable law to collect such amount.

(b) If any Indemnatee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification, such Indemnatee will give such Indemnifying Party notice thereof promptly after becoming aware of such Third- Party Claim; provided, however, that the failure of any Indemnatee to give such notice will not relieve any Indemnifying Party of its obligations under this Article IV, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice will describe such Third-Party Claim in reasonable detail and, if practicable, will indicate the estimated amount of the Indemnifiable Loss that has been or may be sustained by such Indemnatee.

(c) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably satisfactory to the Indemnatee), may elect to defend any Third- Party Claim. If an Indemnifying Party elects to defend a Third- Party Claim, then, within fifteen calendar days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third-

Party Claim so requires), such Indemnifying Party will notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party will pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party will not be liable to such Indemnitee under this Article IV for any legal or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof; provided, however, that such Indemnitee will have the right to employ one law firm as counsel to represent such Indemnitee (which firm shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim or there may be defenses available to such Indemnitee which are different from or in addition to those available to such Indemnifying Party, and in that event (i) the reasonable fees and expenses of such separate counsel shall be paid by such Indemnitee and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to run its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnitee of its election as provided in this Section 4.02 within the period of fifteen calendar days described above, such Indemnitee may defend, compromise and settle such Third-Party Claim; provided, however, that no such Indemnitee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be withheld unreasonably. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that in the reasonable judgment of the Indemnifying Party, is likely to adversely affect the Indemnitee.

(d) If for any reason the indemnification provided by this Agreement is unenforceable, the Indemnifying Party will contribute to the amount payable by the Indemnitee as a result of the related losses an amount appropriate to reflect equitable considerations.

4.03 Remedies Cumulative. The remedies provided in this Article IV will be cumulative and will not preclude assertion by any Indemnitee of any other rights or the seeking of any other remedies against any Indemnifying Party.

## **ARTICLE V ADDITIONAL COVENANTS**

5.01 Further Assurances. Each of the Parties will use its best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable laws, regulations and agreements to consummate and make effective the Transactions. Each Party will cooperate with the other Parties, and execute and deliver, or use its best efforts to cause to be executed and delivered, all instruments, including instruments of conveyance, assumption, assignment and transfer, and to make all filings with, and to obtain all consents, approvals or authorizations of, any governmental or regulatory authority or any other Person under any permit, license, agreement, indenture or other instrument, and take all such other actions as such Party may reasonably be requested to take by any other Party, consistent with the terms of this Agreement, in order to effectuate the provisions and purposes of this Agreement.

5.02 Transfer of Assets; Assumption of Liabilities. (a) The Parties intend that, upon consummation of the Share Exchange, (i) one or more members of the Construction Group, and not any member of the Diversified Group, will hold all right, title and interest in and to all Construction Assets, and that one or more members of the Construction Group, and not any member of the Diversified Group, will have the sole liability for Construction Group Liabilities; and (ii) one or more members of the Diversified Group, and not any member of the Construction Group, will hold all right, title and interest in and to all Diversified Assets, and one or more members of the Diversified Group, and not any member of the Construction Group, will have the sole liability for all Diversified Group Liabilities.

(b) Prior to the Exchange Date, each Party will take any action, and will cause their Subsidiaries to take any action, requested by any member of the other Group entitled under Section 5.02(a) to obtain an Asset or to be relieved of a Liability, reasonably necessary to transfer any such Asset or to assume any such Liability. If any such transfer or assumption of Assets or Liabilities is not consummated on or before the Exchange Date, the Party retaining such Asset or Liability will hold such Asset in trust for the use and benefit of the Party entitled thereto (at the expense of the Party entitled thereto), or will retain such Liability for the account of the Party by whom such Liability is to be assumed pursuant hereto, as the case may be, and will take such other action as may be reasonably requested by the Party to whom such Asset is to be transferred (including licensing, contracting and leasing arrangements), or by whom such Liability is to be assumed, in order to place such Party, insofar as reasonably possible, in the same position as if such Asset or Liability had been transferred as contemplated hereby. If and when any such Asset or Liability becomes transferable, such transfer will be effected as promptly as possible.

(c) Notwithstanding any other provision of this Agreement, this Agreement will not constitute an agreement to transfer any Asset or assume any Liability if an assignment of the Asset or the assumption of the Liability violates any law, rule or regulation or constitutes a breach of any agreement relating to such Asset or Liability.

5.03 No Representations or Warranties. Each Group understands and agrees that no member of the other Group is, in this Agreement, representing or warranting in any way as to the Assets, the Business or the Liabilities of the Group or as to any consents or approvals required in connection with the consummation of the transactions contemplated by this Agreement, it being agreed and understood that each Group is taking all of its Assets "as is, where is" and that each Group will bear the economic and legal risk that the title of any member of the Group to any Assets shall be other than good and marketable and free from encumbrances.

5.04 Terminated Agreements. On or before the Exchange Date, the Parties will agree to a schedule of agreements, contracts and arrangements

that will terminate and have no further force or effect as of the Exchange Date. Each Party shall, at the reasonable request of another Party, take or cause to be taken, such other actions as may be necessary to effect the termination of such agreements.

**5.05 Continuing Agreements.** Neither this Agreement nor the Share Exchange shall modify, amend or otherwise affect any agreements contemplated by Section 5.11 or Section 5.12 or any other agreement between a member or members of the Construction Group, on one hand, and a member or members of the Diversified Group, on the other hand (together, the "Continuing Agreements"), except for those agreements terminated pursuant to the provisions of Section 5.04. If there is a conflict between this Agreement and a Continuing Agreement, the Continuing Agreement shall control.

**5.06 Intercompany Accounts.** Effective as of the close of business on the day prior to the Exchange Date, all intercompany receivables or payables and loans then existing between any member of one Group and any member of the other Group will be settled by way of payment, cancellation or capital contribution.

**5.07 HSR Act.** PKS Holdings will file any notification and report forms and other material required by the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") with respect to the shares of PKS Holdings Stock to be distributed in the Share Exchange prior to the Exchange Date, and will seek early termination of the waiting period under the HSR Act.

**5.08 Kiewit Name.** (a) Not later than the first business day after the Exchange Date (i) PKS will change its corporate name to another name not including "PKS" or "Kiewit" as part of the name, and, (ii) except as provided in Section 5.08(b), will cause all of its Subsidiaries to change their corporate names if necessary to corporate names not including "PKS" or "Kiewit" as part of the name. As soon as reasonably practicable after the Exchange Date, and except as provided in Section 5.08(b), PKS will use its best efforts to, and will cause its Subsidiaries to use their best efforts to, cease using "PKS" or "Kiewit" in connection with the business activities of the Diversified Group.

(b) Notwithstanding Section 5.08(a), (i) the members of the Diversified Group will have the right to use "PKS" or "Kiewit" for a period of one year from the Exchange Date to the extent reasonably necessary in accordance with its past practice in connection with legal, regulatory or contract matters relating to Diversified Group business activities in existence on the Exchange Date, and (ii) PKSIS and its current information services Subsidiaries will not be required to comply with Section 5.08(a), and will have the right to continue to use "PKS" in accordance with its past practice in connection with its businesses until the second anniversary of the Exchange Date.

(c) As of the Exchange Date, PKS assigns, and will cause each of its Subsidiaries to execute any agreement or instrument reasonably requested by PKS Holdings to assign, any and all of its right, title and interest in and to any corporate name, trademark or tradename using "PKS" or "Kiewit," and any and other proprietary rights to those names or related symbols.

**5.09 Sales of Class C Stock.** Except as contemplated by Section 3.02, PKS will not offer to sell, sell or issue any Class C Stock between the date of this Agreement and the Class R Record Date.

**5.10 Insurance.** (a) As of the Exchange Date, directors and officers of the members of the Construction Group will no longer be covered by the directors and officers liability insurance maintained by PKS for directors and officers of PKS and its subsidiaries (the "PKS D&O Policy") for acts occurring on and after the Exchange Date. PKS Holdings will obtain, effective not later than the Exchange Date, directors and officers liability insurance for all directors and officers of the members of the Construction Group, on such terms and conditions and providing such coverages as PKS Holdings deems appropriate. PKS shall obtain a separate directors and officers liability insurance policy ("Tail Policy") for all present and past directors and officers of the Construction Group in effect for a minimum of 5 years from the Exchange Date. The cost of the premiums payable with respect to the Tail Policy shall be allocated 82.5% to the Diversified Group and 17.5% to the Construction Group.

(b) No Party shall, without the consent of the other Parties, provide any insurance carrier with a release, or amend, modify or waive any rights under any such policy or agreement, if such release, amendment, modification or waiver would adversely affect any rights or potential rights of another Group; provided, however, that the foregoing shall not preclude a Party either from presenting any claim or from exhausting any policy limit.

(c) This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of the Parties in respect of any insurance policy or any other contract or policy of insurance.

(d) From and after the Exchange Date, PKS Holdings shall be entitled to the benefit of any reserves held by any insurance carrier with respect to the Construction Liabilities, and PKS shall be entitled to the benefit of any reserves held by any insurance carrier with respect to the Diversified Liabilities.

(e) On or before the Exchange Date, the Parties will agree upon the insurance policies in which PKS is the lead named insured which will be amended to substitute PKS Holdings as the lead named insured effective as of the Exchange Date. Each Party shall, at the reasonable request of another Party, take or cause to be taken, such other actions as may be necessary to effectuate such change.

(f) By agreement dated November 30, 1992 (the "Transfer Agreement"), Covent Vermont Insurance Company ("Covent"), then a subsidiary of KDG, transferred to Global Surety and Insurance Co. ("Global"), a subsidiary of KCG, all reinsurance business liabilities held by Covent ("Covent Liabilities"), in exchange for certain cash payments and other consideration. It is the intent of the Parties to reverse the transfer of the Covent Liabilities, thereby returning to KDG all responsibility originally held by Covent for the Covent Liabilities, and releasing Global of any



and all further liability and responsibility for the Covent Liabilities. In this regard, the Parties agree to work together to effect such reversal, effective as soon as possible.

(g) Notwithstanding any other provision hereof, each Group shall retain all rights of any insured party under each insurance policy and insurance contract owned or maintained by PKS under which any member of such Group is a named insured, including any right of indemnity and the right to be defended by or at the expense of the insurer. Each Party shall pay its allocable share of any retrospectively-rated premiums arising out of any claims made by such Party under such insurance policies.

(h) The Parties agree to cooperate and provide reasonable assistance to each other with regard to any dispute with any third party (including insurers or third-party administrators) regarding any matter related to any of the above insurance policies.

5.11 Unresolved Matters. The Parties agree to negotiate in good faith and enter into on or before the Exchange Date, mutually acceptable agreements or arrangements with respect to certain unresolved matters, including the matters described below (the "Unresolved Matters"), and will amend and restate this Agreement to the extent necessary or desirable to conform with those agreements or arrangements. The unresolved matters include: (i) the lease by KDG of office space from KCG in the KCG headquarters building at Kiewit Plaza, Omaha, Nebraska; (ii) the provision by KCG of aircraft flight and maintenance services to KDG; (iii) the provision by KCG of interim stock registrar and transfer agent services to PKS; (iv) the treatment of employees of KDG who are participants prior to the Exchange Date in the 401(k) and profit sharing plans maintained by KCG; (v) the administration of the Kiewit Royalty Trust; (vi) the ownership of Kiewit Investment Management Corp. (vii) modifications to the mine management agreement dated January 8, 1992 by and between Kiewit Coal Properties Inc. and Kiewit Mining Group Inc.; and (viii) administration of insurance claims with respect to policies maintained for the benefit of both Business Groups prior to the Exchange Date.

5.12 Tax Allocation Agreement. The Parties agree to negotiate in good faith and enter into the Tax Allocation Agreement on or before the Exchange Date.

## **ARTICLE VI INFORMATION**

6.01 Access to Information. (a) As soon as practicable following the Exchange Date, and to the extent requested, each Group shall provide to the other Group any documents, contracts, books, records and data (including but not limited to minute books, stock registers, stock certificates and documents of title) in its possession relating to such other Group or such other Group's business and affairs; provided that if any such documents, contracts, books, records or data relate to both Groups or the business and operations of both Groups, each such Group shall provide to the other Group true and complete copies of such documents, contracts, books, records or data.

(b) After the Exchange Date, each Group will afford to the other Group and to the other Group's Representatives reasonable access and duplicating rights during normal business hours to all Information within such Group's possession relating to such other Group's businesses, insofar as such access is reasonably required by such other Group. In addition, PKS Holdings shall have access during such time to Information of historical significance that relates to the Construction Business. Without limiting the foregoing, Information may be requested under this Section for audit, accounting, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

6.02 Production of Witnesses. After the Exchange Date, each Group will use reasonable efforts to make available to the other Group its Representatives as witnesses to the extent that any such Person may reasonably be required in connection with any legal, administrative or other proceedings in which the requesting Party may from time to time be involved and will otherwise cooperate with the other Group, to the extent reasonably required in connection with any such proceeding.

6.03 Retention of Records. Except as otherwise required by law or agreed in writing, or as otherwise provided in the Continuing Agreements, each Group will retain, for a period of at least ten years following the Distribution Date, all significant Information in such Group's possession or under its control relating to the business of the other Group and, after the expiration of such ten year period, prior to destroying or disposing of any such Information, (a) the Group proposing to dispose of or destroy any such Information shall provide no less than 90 calendar days' prior written notice to the other Group, specifying the Information proposed to be destroyed or disposed of, and (b) if, prior to the scheduled date for such destruction or disposal, the other Group requests in writing that any of the Information proposed to be destroyed or disposed of be delivered to such other Group, the Group proposing to dispose of or destroy such Information promptly shall arrange for the delivery of the requested Information to a location specified by, and at the expense of, the requesting Group.

6.04 Reimbursement. Each Group providing information or witnesses to the other Group, or otherwise incurring any expense under Section 6.01, 6.02 or 6.03, including costs and expenses paid to third parties for storage of Information on behalf of the other Group, will be entitled to receive from the other Group, upon the presentation of invoices therefor, payment for all out-of-pocket costs and expenses as may be reasonably incurred in providing such information, witnesses or cooperation.

6.05 Confidentiality. From and after the Exchange Date, each Group will hold, and shall use its reasonable best efforts to cause its Representatives to hold, in confidence all Information concerning the other Party obtained by it prior to the Exchange Date or furnished to it by such other Party pursuant to this Agreement or the Continuing Agreements, and will not release or disclose such Information to any other Person, except its Representatives, who will be bound by the provisions of this Section; provided, however, that each Group may disclose such Information to the extent that (a) disclosure in the opinion of such Group's counsel, is required or advisable under applicable law (including the federal securities laws), or (b) such Group can show that such Information was (i) available to such Group on a nonconfidential basis prior to

its disclosure by the other Group, (ii) in the public domain through no fault of such Group or (iii) lawfully acquired by such Party from other sources after the time that it was furnished to such Party pursuant to this Agreement or the Continuing Agreements. Notwithstanding the foregoing, each Group will be deemed to have satisfied its obligations under this Section with respect to any Information if it exercises the same care with regard to such Information as it takes to preserve confidentiality for its own similar Information.

## **ARTICLE VII EXPENSES**

7.01 General. The Parties have agreed to allocate the financial burden of Covered Expenses 82.5% to the Diversified Group and 17.5% to the Construction Group (the "Expense Sharing Ratio"), whether the Transaction is consummated or abandoned. All other costs or expenses incurred by any Party in connection with the Transaction will be borne by the Party incurring the cost or expense.

7.02 Covered Expenses. (a) The following costs and expenses incurred by any Party will be considered to be "Covered Expenses":

(i) fees and expenses of U.S. corporate counsel to PKS, Willkie Farr & Gallagher, Canadian corporate counsel to PKS, Blake, Cassels & Graydon, and Delaware counsel to PKS, Morris, Nichols, Arsht & Tunnel, in each case to the extent allocated to the Transaction in accordance with Section 7.02(c);

(ii) fees and expenses of U.S. tax counsel to PKS, Skadden Arps, Slate, Meagher & Flom, Canadian tax counsel to PKS, Blake, Cassels & Graydon, and Nebraska tax counsel to PKS, McGrath, North, Mullin & Kratz, P.C., in each case to the extent allocated to the Transaction in accordance with Section 7.02(c);

(iii) fees and expenses of the certified public accountants for PKS, Coopers & Lybrand, to the extent allocated to the Transaction in accordance with Section 7.02(c);

(iv) fees and expenses of Gleacher NatWest, financial advisor to PKS, incurred pursuant to the engagement letter of Gleacher NatWest dated as of June 1, 1997, to the extent allocated to the Transaction in accordance with Section 7.02(c);

(v) all registration fees or other similar expenses payable to the SEC, any state securities commission, or the Service, and all fees and expenses in connection with any filing under the HSR Act;

(vi) all costs and expenses incurred in connection with the printing and distribution of the Joint Prospectus/Proxy Statement;

(vii) all costs and expenses of the proxy solicitation and the Special Meeting;

(viii) a non-accountable cost allowance in an amount to be mutually agreed upon by the Parties for costs and expenses incurred by PKS Holdings in connection with the Debenture Loans; and

(ix) a non-accountable cost allowance in an amount to be mutually agreed upon by the Parties for costs and expenses incurred by PKS Holdings in connection with certain loans to its Canadian shareholders.

(b) The Parties acknowledge that certain of the fees and expenses of the advisors described in (i), (ii), (iii) and (iv) of Section 7.02(a) are to be incurred solely for the account of certain of the Parties, and will not be considered to be Covered Expenses. Each such Advisor will allocate its fees and expenses between Covered Expenses and costs and expenses incurred solely for the account of one of the Parties, and such allocation will be binding on each of the Parties.

7.03 Actual Payment of Covered Expenses. KCG will make actual payment of the Covered Expenses described in items (viii) and (ix) of Section 7.02(a). KDG will make actual payment of all other Covered Expenses ("Other Covered Expenses").

7.04 Covered Expense True-Up. KDG will prepare and submit to KCG, within 120 calendar days after the date of abandonment of the Transaction or the Exchange Date, as the case may be, a schedule of the Other Covered Expenses, together with such supporting documentation with respect to the Other Covered Expenses as KCG reasonably requests. Within five calendar days after the submission of that schedule, KDG will pay KCG in cash an amount sufficient to ensure that the financial burden of the Covered Expenses has been allocated between KCG and KDG in proportion to the Expense Sharing Ratio.

## **ARTICLE VIII MISCELLANEOUS**

8.01 Complete Agreement. This Agreement, the Exhibits and Schedules hereto and the agreements and other documents referred to herein will constitute the entire agreement between the Parties with respect to the subject matter hereof and will supersede all previous negotiations, commitments and writings with respect to such subject matter.

8.02 Survival of Agreements. All covenants and agreements of the Parties contained in this Agreement will survive the Share Exchange.

8.03 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Nebraska (other than the laws regarding choice of laws and conflicts of laws) as to all matters, including matters of validity, construction, effect, performance and remedies.

8.04 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by cable telegram, telex or other standard form of telecommunications, or by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

**If to PKS or KDG:**

Vice President - Legal

Kiewit Diversified Group Inc. Suite 200  
3555 Farnam Street  
Omaha, NE 68131

with a copy to:

President  
Kiewit Diversified Group Inc. Suite 200  
3555 Farnam Street  
Omaha, NE 68131

**If to PKS Holdings:**

General Counsel  
Kiewit Construction Group Inc. 1000 Kiewit Plaza  
Omaha, NE 68131

with a copy to:

President  
Kiewit Construction Group Inc. 1000 Kiewit Plaza  
Omaha, NE 68131

8.05 Amendment and Modifications. This Agreement may be amended, modified or supplemented, and any provision of this Agreement may be waived, only by a written agreement signed by all of the Parties.

8.06 Successors and Assigns; No Third-Party Beneficiaries. This Agreement and all of the provisions hereof will be binding upon and inure to the benefit of the Parties, their successors and permitted assigns, but neither this Agreement nor any of the rights, interest and obligations hereunder may be assigned by any Party without the prior written consent of each of the other Parties (which consent shall not be unreasonably withheld). This Agreement is solely for the benefit of the Parties (and Indemnitees) and is not intended to confer any rights or remedies upon any other Persons.

8.07 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

8.08 Interpretation. (a) The Article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the Parties and shall not in any way affect the meaning or interpretation of this Agreement.

(b) The Parties intend that the Share Exchange will be a distribution pursuant to Section 355(a) and Section 368(a)(1)(D) of the Code, and all provisions of this Agreement will be so interpreted.

8.09 Legal Enforceability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction. Each Party acknowledges that money damages would be an inadequate remedy for any breach of the provisions of this Agreement and agrees that the obligations of the Parties under this Agreement will be specifically enforceable.

8.10 Dispute Resolution. Except to the extent that a Party seeks injunctive relief to enforce any particular provision of this Agreement, if, in the event of any dispute or controversy arising out of this Agreement, its performance, or breach, the Parties are unable to settle the dispute themselves, within thirty (30) calendar days after the dispute arises, then the dispute shall be referred for resolution by agreement between the Chief Executive Officer of PKS Holdings and the President of PKS. In the event that the foregoing officers are unable to resolve such dispute

within thirty (30) calendar days, then the Parties shall be free to pursue any other rights or remedies to which they may be entitled.

8.11 Schedules. All schedules referred to herein are a part of this Agreement as if fully set forth herein.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

**PETER KIEWIT SONS', INC.**

*By /s/ Walter Scott, Jr.  
Walter Scott, Jr., President*

*KIEWIT DIVERSIFIED GROUP INC.*

*By /s/ James Q. Crowe  
James Q. Crowe, President*

*PKS HOLDINGS, INC.*

*By /s/ Kenneth E. Stinson  
Kenneth E. Stinson, President*

*KIEWIT CONSTRUCTION GROUP INC.*

*By /s/ Kenneth E. Stinson  
Kenneth E. Stinson, President*

**SEPARATION AGREEMENT SCHEDULES**

The schedules listed below, dated March 31, 1998 ("Schedules"), are attached to the Separation Agreement by and among Peter Kiewit Sons', Inc., Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc. dated as of December 8, 1997, as amended pursuant to a March 18, 1998 Amendment to Separation Agreement (as amended, the "Separation Agreement"). Subsequent to the execution of the Separation Agreement, KDG changed its name to Level 3 Communications, Inc. and merged into Peter Kiewit Sons', Inc., and Peter Kiewit Sons', Inc. changed its name to Level 3 Communications, Inc. In addition, PKS Holdings, Inc. changed its name to Peter Kiewit Sons', Inc. For purposes of these Schedules, the Parties identities prior to such transactions shall be preserved. Capitalized terms used in the Schedules shall have the meanings specified in the Separation Agreement.

1. Schedule 3.08(d) - Capital Contributions
2. Schedule 4.01(a) - Diversified Group Indemnification Obligations
3. Schedule 4.01(b) - Construction Group Indemnification Obligations
4. Schedule 5.04 - Terminated Agreements

**Schedule 3.08(d)**

**Capital Contributions**

Except as otherwise provided in the Separation Agreement, and the Continuing Agreements, the unconsolidated (determined without regard to the merger of KDG with and into PKS), Assets and Liabilities of PKS as of March 31, 1998 shall be allocated as provided in this Schedule.

1. PKS's remaining 10% interest in the Falcon 900 shall be contributed to PKS Holdings prior to the Exchange Date.
2. PKS's interest in the Falcon 20 shall be retained by PKS and allocated to KDG.
3. PKS's interest in the Leasehold Improvements on the 15th Floor of the Kiewit Plaza Building shall be contributed to PKS Holdings prior to the Exchange Date.
4. PKS's obligations for Stockholder Notes shall be assumed by PKS Holdings.
5. PKS's obligation for the Series 1997 Convertible Debentures shall be assumed by PKS Holdings, as provided in the Separation Agreement.
6. PKS's obligation for Deferred Compensation shall be assumed by KDG.

7. All LB 775 Refunds and any other tax items shall be allocated to PKS Holdings and KDG as provided in the Tax Sharing Agreement.

8. The proceeds from the sale of a 40% interest in the Falcon 900 to Bitterroot, Inc. shall be contributed to KDG prior to the Exchange Date.

Effective immediately prior to the Exchange Date, PKS Holdings shall distribute to PKS, or PKS shall contribute to PKS Holdings, an amount mutually agreed upon by the parties to equitably reflect the value of Assets and Liabilities remaining after the foregoing allocations of Assets and Liabilities.

#### **Schedule 4.01(a)**

##### **Diversified Group Indemnification Obligations**

Notwithstanding anything in the Separation Agreement to the contrary, PKS and KDG will be liable for, and shall indemnify and hold each Construction Indemnatee harmless from and against: (a) all Losses incurred or suffered by any Construction Indemnatee arising out of or due to, directly or indirectly, the Series 1993 Class D Convertible Debentures of PKS and (b) 50% of the Losses incurred or suffered by any Construction Indemnatee arising out of or due to, directly or indirectly, the offer to sell or the sale of any security of PKS prior to January 1, 1992.

The Parties further agree that any and all Losses arising out of or due to, directly or indirectly, Kiewit Investment Management Corp., the March 31, 1998 Stock Redemption Agreement between Level 3 Holdings Inc. and Kiewit Investment Management Corp. or the mine management agreement dated January 8, 1992 by and between Kiewit Coal Properties Inc. and Kiewit Mining Group Inc. shall not be covered by the indemnification provisions of the Separation Agreement.

#### **Schedule 4.01(b)**

##### **Construction Group Indemnification Obligations**

Notwithstanding anything in the Separation Agreement to the contrary, PKS Holdings and KCG will be liable for, and shall indemnify and hold each Diversified Indemnatee harmless from and against: (a) all Losses incurred or suffered by any Diversified Indemnatee arising out of or due to, directly or indirectly, any Series of Class C Convertible Debentures of PKS and (b) 50% of the Losses incurred or suffered by any Diversified Indemnatee arising out of or due to, directly or indirectly, the offer to sell or the sale of any security of PKS prior to January 1, 1992.

For purposes of this Schedule 4.01(b) and Section 4.01(b) of the Separation Agreement, "Losses" shall not include any losses, Liabilities, damages, actions, claims, suits, demands, proceedings, inquiries, investigations, judgments or settlements, costs or expenses which arise from or as a result of any registration, sale, attempted sale, or other issuance of any securities of PKS, any future Affiliate or Subsidiary of PKS or any member of the Diversified Group, or any inability to or delay in the registration, sale or issuance of such securities, in each case, occurring after the Exchange Date.

The Parties further agree that any and all Losses arising out of or due to, directly or indirectly, Kiewit Investment Management Corp., the March 31, 1998 Stock Redemption Agreement between Level 3 Holdings Inc. and Kiewit Investment Management Corp. or the mine management agreement dated January 8, 1992 by and between Kiewit Coal Properties Inc. and Kiewit Mining Group Inc. shall not be covered by the indemnification provisions of the Separation Agreement.

#### **Schedule 5.04**

##### **Terminated Agreements**

Any Administrative Services Agreement between any member of the Construction Group and any member of the Diversified Group.

## AMENDMENT TO SEPARATION AGREEMENT

This Amendment to Separation Agreement ("Amendment") is made and entered into as of the 18th day of March, 1998, by and among Peter Kiewit Sons', Inc., a Delaware corporation ("PKS"), Level 3 Communications, Inc. (formerly, Kiewit Diversified Group Inc.), a Delaware corporation ("Level 3"), PKS Holdings, Inc., a Delaware corporation ("PKS Holdings") and Kiewit Construction Group Inc., a Delaware corporation ("KCG," and together with PKS, Level 3, and PKS Holdings, collectively the "Parties" or individually a "Party").

**PRELIMINARY STATEMENT.** The Parties have previously entered into a Separation Agreement dated as of December 8, 1997 (the "Separation Agreement"), with respect to a series of transactions (collectively, the "Transaction") intended to separate the construction businesses of PKS and the diversified businesses of PKS into two separate and independent companies. The Parties desire to amend the Separation Agreement to provide for the modification of certain cost allocation provisions thereof, in the event of the occurrence of certain specified events.

NOW, THEREFORE, in consideration of the premises, the Parties hereby agree as follows:

1. Section 1.01 of the Separation Agreement is hereby amended by adding the following definitions:

"Conversion Event: the issuance of shares of Class D Stock in exchange for all of the outstanding shares of Class R Stock pursuant to the approval by the PKS Board, or any successor, of a "Forced Conversion" ( as defined in the PKS Certificate)."

"Forced Conversion Date: the date of issuance of shares of Class D Stock pursuant to the Conversion Event."

2. Section 3.06(b) of the Separation Agreement is hereby amended in its entirety to read as follows:

"(b) PKS will record the Class R Distribution, and register all persons entitled to the Class R Distribution as holders of Class R Stock, on the books and records maintained by or on behalf of PKS for the registration of ownership of the capital stock of PKS, effective as of the Class R Distribution Record Date. PKS will not issue certificates or other instruments to evidence Class R Stock unless and until the Share Exchange is consummated, and in any event, no sooner than June 30, 1998. If the Share Exchange is consummated, PKS will issue and distribute certificates evidencing the Class R Stock. If the Class R Distribution is consummated, but the Transaction is later abandoned, PKS will exercise its rights to repurchase all of the Class R Stock under Section IX.M of the Initial Certificate Amendment as promptly as practicable after abandonment of the Transaction."

3. Section 7.01 of the Separation Agreement is amended in its entirety to read as follows:

"7.01 General. The Parties have agreed to allocate the financial burden of Covered Expenses 82.5% to the Diversified Group and 17.5% to the Construction Group (the "Expense Sharing Ratio"), whether the Transaction is consummated or abandoned; provided, however, that in the event that the Forced Conversion Date occurs on or before July 15, 1998, the Expense Sharing Ratio shall be modified so that the Construction Group incurs 100% of the Covered Expenses. In such event, the Construction Group will reimburse the Diversified Group for any Covered Expenses paid by the Diversified Group prior to the Forced Conversion Date. All other costs or expenses incurred by any Party in connection with the Transaction will be borne by the Party incurring the cost or expense."

4. A paragraph shall be added as Section 7.02 (c) of the Separation Agreement and shall read in its entirety as follows:

"(d) The Parties acknowledge that in the event the Forced Conversion Date occurs on or before July 15, 1998, and the Expense Sharing Ratio is modified as provided in Section 7.01 above, any success fees, mark-ups, bonuses, equity participation or amounts in excess of regularly billable hours, payable to the advisors described in (i), (ii), (iii) and (iv) of Section 7.02(a), shall be incurred solely for the account of the Diversified Group, and shall not be considered to be Covered Expenses.

5. Section 7.04 of the Separation Agreement is amended in its entirety to read as follows:

"7.04 Covered Expense True-Up. KDG will prepare and submit to KCG, within 120 calendar days after the date of abandonment of the Transaction or the Exchange Date, as the case may be, a schedule of the Other Covered Expenses, together with such supporting documentation with respect to the Other Covered Expenses as KCG reasonably requests. Within five calendar days after the submission of that schedule, KDG or KCG, as the case may be, will pay KCG or KDG, as the case may be, in cash, an amount sufficient to ensure that the financial burden of the Covered Expenses has been allocated between KCG and KDG in proportion to the Expense Sharing Ratio."

6. Unless otherwise specified, capitalized terms used herein shall have the meanings specified in the Separation Agreement.

7. Any other changes or modifications to the Separation Agreement necessary to conform such agreement to this Amendment are hereby deemed to be made. In all other respects, not inconsistent with this Amendment, the terms of the Separation Agreement, not specifically or by necessary implication amended or modified hereby, shall be and remain in full force and effect as modified hereby.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be duly executed as of the date first above written.

**PETER KIEWIT SONS', INC.**

By: /s/ Walter Scott, Jr.  
Walter Scott, Jr., President

LEVEL 3 COMMUNICATIONS, INC.

By: /s/ James Q. Crowe  
James Q. Crowe, President

PKS HOLDINGS, INC.

By: /s/ Kenneth E. Stinson  
Kenneth E. Stinson, President

KIEWIT CONSTRUCTION GROUP INC.

By: /s/ Kenneth E. Stinson  
Kenneth E. Stinson, President

**PETER KIEWIT SONS', INC.**

Kiewit Diversified Group Inc.  
PKS Information Services, Inc.  
PKS Systems Integration, Inc.  
LexiBridge Corporation  
PKS Systems Integration (Ireland) Ltd.

PKS Systems Integration (Brazil), Inc.

PKS Systems Integration (UK) Limited AmSoft Information Services Limited AmSoft Information Services (India) Private Limited PKS Healthcare Systems, Inc.  
Integrated Medical Networks L.L.C. PKS Computer Services, Inc.  
PKS Information Services do Brasil Ltda. NET Twenty-One, Inc.  
Level 3 Communications, LLC  
Kiewit Diversified Holdings Inc.  
Kiewit Infrastructure Corp.

United Infrastructure Company

Kiewit SR91 Corp.  
Kiewit SR91 L.P.  
Express Lanes, Inc.  
Kiewit Telecom Holdings Inc.  
RCN Corporation  
Cable Michigan, Inc.  
Commonwealth Telephone Enterprises, Inc. Kiewit Investment Management Corp. Peter Kiewit Sons' Co.

Kiewit Telecommunication Management Company

KFS Financial LLC  
Retirement Foundations Inc.  
Retirement Foundations Agency Inc. Gateway Opportunity Fund  
CompuCook  
**DKA**

KMI Continental Land Resources, Inc.

KMI Continental High Value, Inc. KMI Continental Lease 1, Inc.  
KMI Continental Area 1, Inc.  
Continental Holdings Inc.  
Continental Forest Investments, Inc. Continental Mineral Sales, Inc. Continental Land Sales, Inc.  
KMI Continental Timberlands, Inc. KMI Continental Lignite, Inc.  
KMI Continental Jeffersonville, Inc. Continental Kiewit Inc.  
CCC Canada Holding, Inc.  
CFS Management Company  
KMI Continental (Wakefield), Inc. KMI Continental Lake City, Inc. Kiewit Energy Group Inc.  
Kiewit Coal Properties Inc.  
Decker Coal Company, A Joint Venture Black Butte Coal Company, A Joint Venture Rosebud Coal Sales Company  
Big Horn Coal Company  
Kiewit Texas Mining Company Walnut Creek Mining Company, A Partnership BioClean Fuels Inc.  
Kiewit Energy Company  
CalEnergy Company, Inc.  
Kiewit Energy U.K. Inc.  
CE Electric Holdings  
CE Electric UK plc  
Northern Electric plc  
American Pacific Finance Company II Kiewit Energy Pacific Holdings Corp.  
Kiewit Energy International (Bermuda) Ltd.  
CE Luzon Geothermal Power Company, Inc.

(Philippines)

**CE Casecnan Water & Energy Company, Inc.**  
(Philippines)



Himpurna California Energy Ltd. (Bermuda) Patuha Power, Ltd. (Bermuda) Bali Energy, Ltd. (Bermuda) Slupo I B.V.

PKS Holdings, Inc.  
Kiewit Construction Group Inc.  
Kiewit Construction Company  
Kiewit Pacific Co.  
Kiewit Western Co.  
Grow Tunneling Corp.  
ME Holdings Inc.  
Mass. Electric Construction Co.

Mass. Electric Securities Corp., Inc.

Kiewit Engineering Co.  
Ben Holt Company  
The Ben Holt International Co., Inc. Kennebec Construction Company Kiewit Industrial Co.

Southern Electrical Contractors, Inc.

Kiewit International Services Ltd. (inactive) Kiewit International Inc.  
Kiewit International Services Inc. Peter Kiewit Sons Co. Ltd.

Canaan Corridor Constructors Corp.

Les Entreprises Kiewit Ltee  
Kiewit Management Limited  
Kiewit Asphalt Ventures Ltd.  
MIL Offshore Inc.  
Kiewit Engineering Canada Ltd.

Kiewit Industrial Canada Ltd.  
V.K. Mason Construction Ltd.

V.K. Mason Inc.  
Kiewit Mining Group Inc.  
Kiewit Alabama Mining Company  
Kiewit Mining Services Inc.  
United Metro Materials Inc.  
Western Equipment Co.

Sierra Ready Mix and Materials Co.

Show Low Ready Mix, Inc.  
Show Low Acquisition Company Quality Ready Mix, Inc.  
Global Surety & Insurance Co.  
Midwest Agencies, Inc.  
Kiewit Support Services, Inc. (inactive) Construcciones Kiewit, S.A. de C.V.

Kiewit Mazon Constructores, S.A. de C.V.  
Servitec de Sonora, S.A. de C.V.

Gilbert Southern Corp.

Guernsey Stone and Construction Company

Twin Mountain Rock Company  
Twin Mountain Construction II Company Bentson Contracting Company  
Gilbert Central Corp.  
Gilbert Western Corp.

Gilbert Texas Construction Corp.

Gilbert Industrial Corporation  
Gulf Marine Fabricators, Inc.  
Aker Gulf Marine (Partnership)

### **Consent of Independent Accountants**

We consent to the incorporation by reference in the registration statement of Peter Kiewit Sons', Inc. on Form S-8 (File No. 333-42465) of our reports dated March 30, 1998 on our audits of the consolidated financial statements of Peter Kiewit Sons', Inc., the financial statements and financial statement schedule of Kiewit Construction and Mining Group, a business group of Peter Kiewit Sons', Inc., and the financial statements of Diversified Group, a business group of Peter Kiewit Sons', Inc. as of December 27, 1997 and December 28, 1996 and for each of the three years in the period ended December 27, 1997 which reports are included in this Annual Report on Form 10-KA.

**Coopers & Lybrand L.L.P.**

Omaha, Nebraska  
April 22, 1998

### **Consent of Independent Accountants**

We consent to the incorporation by reference in the registration statement of Peter Kiewit Sons', Inc. on Form S-8 (File No. 333-42465) of our report dated March 13, 1998, on our audits of the consolidated financial statements and financial statement schedules of RCN Corporation and Subsidiaries as of December 31, 1997 and 1996, and for the years ended December 31, 1997, 1996 and 1995, which report is incorporated by reference in this Annual Report on Form 10-KA.

**Coopers & Lybrand L.L.P.**

Philadelphia, Pennsylvania  
April 22, 1998

## ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-K for the period ending December 27, 1997 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 27 1997
PERIOD END	DEC 27 1997
CASH	87
SECURITIES	700
RECEIVABLES	42
ALLOWANCES	0
INVENTORY	4
CURRENT ASSETS	1,494
PP&E	412
DEPRECIATION	228
TOTAL ASSETS	2,779
CURRENT LIABILITIES	247
BONDS	137
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	9
OTHER SE	2,226
TOTAL LIABILITY AND EQUITY	2,779
SALES	222
TOTAL REVENUES	332
CGS	106
TOTAL COSTS	175
OTHER EXPENSES	114
LOSS PROVISION	0
INTEREST EXPENSE	15
INCOME PRETAX	31
INCOME TAX	(48)
INCOME CONTINUING	83
DISCONTINUED	165
EXTRAORDINARY	0
CHANGES	0
NET INCOME	248
EPS PRIMARY	\$.74 <sup>1</sup>
EPS DILUTED	\$.74 <sup>2</sup>

<sup>1</sup> \$.74 REPRESENTS CLASS D STOCK EARNINGS PER SHARE, CLASS C STOCK EARNINGS PER SHARE; \$15.99.

<sup>2</sup> \$.74 REPRESENTS CLASS D STOCK EARNINGS PER SHARE, CLASS C STOCK EARNINGS PER SHARE; \$15.35.

**ARTICLE 5**

This schedule contains summary information extracted from the SEC documents filed for the periods herein indicated and is qualified in its entirety by reference to such financial statements.

RESTATED:

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS	9 MOS	6 MOS	3 MOS	12-MOS
FISCAL YEAR END	DEC 28 1996	DEC 28 1996	DEC 28 1996	DEC 28 1996	DEC-30-1995
PERIOD END	DEC 28 1996	SEP 30 1996	JUN 30 1996	MAR 31 1996	DEC-30-1995
CASH	320	449	426		367 457
SECURITIES	451	555	555		615 604
RECEIVABLES	377	383	369		301 341
ALLOWANCES	20	10	18		22 12
INVENTORY	18	16	17		19 18
CURRENT ASSETS	1,404	1,692	1,638		1,556 1,666
PP&E	1,581	1,573	1,540		1,393 1,377
DEPRECIATION	774	750	735		717 710
TOTAL ASSETS	3,548	3,595	3,496		3,384 3,463
CURRENT LIABILITIES	631	720	633		594 666
BONDS	332	333	374		371 370
PREFERRED MANDATORY	0	0	0		0 0
PREFERRED	0	0	0		0 0
COMMON	2	2	2		2 2
OTHER SE	1,801	1,743	1,680		1,617 1,605
TOTAL LIABILITY AND EQUITY	3,548	3,595	3,496		3,384 3,463
SALES	2,490	1,850	1,183		555 2,547
TOTAL REVENUES	2,904	2,157	1,387		656 2,902
CGS	2,129	1,607	1,042		503 2,230
TOTAL COSTS	2,412	1,816	1,183		576 2,474
OTHER EXPENSES	232	180	125		59 266
LOSS PROVISION	0	0	0		0 0
INTEREST EXPENSE	37	24	15		8 25
INCOME PRETAX	305	220	118		39 245
INCOME TAX	84	85	46		14 (11)
INCOME CONTINUING	221	134	71		25 244
DISCONTINUED	0	0	0		0 0
EXTRAORDINARY	0	0	0		0 0
CHANGES	0	0	0		0 0
NET INCOME	221	134	71		25 244
EPS PRIMARY	\$10.13 <sup>1</sup>	\$7.18 <sup>3</sup>	\$3.46 <sup>5</sup>		\$.66
F7	\$7.78 <sup>9</sup>				
EPS DILUTED	\$9.76 <sup>2</sup>	\$6.97 <sup>4</sup>	\$3.36 <sup>6</sup>		\$.65
F8	\$7.62 <sup>10</sup>				

<sup>1</sup> \$10.13 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$4.86.

<sup>2</sup> \$9.76 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$4.85.

<sup>3</sup> \$7.18 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$2.52

<sup>4</sup> \$6.97 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$2.52.

<sup>5</sup> \$3.46 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$1.54.

<sup>6</sup> \$3.36 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$1.54.

<sup>7</sup> \$.66 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$.77.

<sup>8</sup> \$.65 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$.77.

<sup>9</sup> \$7.78 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share; \$6.45.

<sup>10</sup> \$7.62 represents Class C Stock Earnings Per Share, Class D Stock Earnings Per Share \$6.44.

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### Business Description

### Market for Common Equity and Related Stockholder Matters

### Selected Financial Data

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

### Financial Statements and Supplementary Data

## KIEWIT CONSTRUCTION & MINING GROUP

Kiewit Construction Group Inc. ("KCG") is primarily engaged in the construction business. KCG is a wholly owned subsidiary of Peter Kiewit Sons', Inc. ("PKS"). KCG is a Delaware corporation formed in 1985. PKS is a Delaware corporation formed in 1941. Both have principal offices in Omaha, Nebraska.

PKS has two principal classes of common stock, Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class C stock") and Class D Diversified Group Convertible Exchangeable Common Stock par value \$.0625 per share (the Class D stock"). The value of Class C stock is linked to the Company's construction and materials operations (the "Construction Group"). The value of Class D stock is linked to the operations of Level 3 Communications, Inc., a wholly owned subsidiary of PKS (the "Diversified Group"), under the terms of the Company's charter. All Class C shares and historically most Class D shares have been owned by current and former employees of the Company and their family members.

On December 8, 1997, the Company's stockholders ratified the decision of the Company's Board of Directors (the "PKS Board") to separate the business conducted by the Construction Group and the business conducted by the Diversified Group (collectively, the "Business Groups") into two independent companies. In connection with the consummation of this transaction, the PKS Board declared a dividend of eight-tenths of one share of the Company's newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock") with respect to each outstanding share of Class C stock. The Class R stock is convertible in shares of Class D stock pursuant to a defined formula. In addition, the Company has announced that effective March 31, 1998, the Company, through a resolution of the PKS Board, shall cause each outstanding share of Class C stock to be mandatorily exchanged (the "Share Exchange") pursuant to provisions of the PKS Restated Certificate of Incorporation (the "PKS Certificate") for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. ("PKS Holdings"), a recently formed, direct, wholly owned subsidiary of PKS, to which the eight-tenths of one share of Class R Stock would attach (collectively, the "Transaction"). In connection with the consummation of the Transaction, the Company will change its name to Level 3 Communications, Inc. and PKS Holdings, Inc. will change its name to Peter Kiewit Sons', Inc. The Company has announced that the PKS Board has approved in principle a plan to force conversion of all 6,538,231 shares of Class R Stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made at that time. The decision may be made not to force conversion if it were decided that conversion is not in the best interest of the then stockholders of the Company.

The Transaction is intended to separate the Business Groups into two independent companies. The PKS Board believes that separation of the Business Groups will (i) permit Level 3 to attract and retain the senior management and employees needed to implement and develop Level 3's expansion plan (which is discussed below), (ii) enable Level 3 to access the capital markets in order to fund its expansion plan on more advantageous terms than would be available to Level 3 as part of the Company, (iii) enable Level 3 to pursue strategic investments and acquisitions, as part of the expansion plan, which could be foreclosed to Level 3 as part of the Company and (iv) allow the directors and management of each Business Group to focus their attention and financial resources on that Business Group's business. Except for the anticipated effect of the Transaction on the management of the construction business, the PKS Board does not believe that the Transaction will have any other significant effect on the construction business.

Additional financial information about the construction segment, including revenue, operating earnings, identifiable assets, capital expenditures and depreciation, depletion and amortization, as well as foreign operations information, is contained in Note 3 to Kiewit Construction & Mining Group's financial statements.

## KIEWIT CONSTRUCTION GROUP

### CONSTRUCTION OPERATIONS

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc. (collectively, "KCG"). KCG and its joint ventures perform construction services for a broad range of public and private customers primarily in the United States and Canada. New contract awards during 1997 were distributed among the following construction markets: transportation (including highways, bridges, airports, railroads, and mass transit) -- 62%, power, heat, cooling -- 18%, commercial buildings -- 8%, water supply -- 2%, mining -- 2%, sewage and waste disposal -- 1% and other markets -- 7%.

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

**Contract Types.** KCG performs its construction work under various types of contracts, including fixed unit or lump-sum price, guaranteed maximum price, and cost-reimbursable contracts. Contracts are either competitively bid and awarded or negotiated. KCG's public contracts generally provide for the payment of a fixed price for the work performed. Profit on a fixed-price contract is realized on the difference between the contract price and the actual cost of construction, and the contractor bears the risk that it may not be able to perform all the work for the specified amount. Construction contracts generally provide for progress payments as work is completed, with a retainage to be paid when performance is substantially complete. Construction contracts frequently contain penalties or liquidated damages for late completion and infrequently provide bonuses for early completion.

**Government Contracts.** Public contracts accounted for 74% of the combined prices of contracts awarded to KCG during 1997. Most of these contracts were awarded by government and quasi-government units under fixed price contracts after competitive bidding. Most public contracts are subject to termination at the election of the government. In the event of termination, the contractor is entitled to receive the contract price on completed work and payment of termination related costs.

**Backlog.** At the end of 1997, KCG had backlog (anticipated revenue from uncompleted contracts) of \$3.9 billion, an increase from \$2.3 billion at the end of 1996. Of current backlog, approximately \$1.0 billion is not expected to be completed during 1998. In 1997 KCG was low bidder on 226 jobs with total contract prices of \$3.5 billion, an average price of \$15.3 million per job. There were 19 new projects with contract prices over \$25 million, accounting for 76% of the successful bid volume.

**Competition.** A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, timeliness, experience, and financial strength. The construction industry is highly competitive and lacks firms with dominant market power. In 1997 Engineering News Record, a construction trade publication, ranked KCG as the 9th largest U.S. contractor in terms of 1996 revenue and 12th largest in terms of 1996 new contract awards. It ranked KCG 1st in the transportation market in terms of 1996 revenue.

**Joint Ventures.** KCG frequently enters into joint ventures to efficiently allocate expertise and resources among the venturers and to spread risks associated with particular projects. In most joint ventures, if one venturer is financially unable to bear its share of expenses, the other venturers may be required to pay those costs. KCG prefers to act as the sponsor of its joint ventures. The sponsor generally provides the project manager, the majority of venturer-provided personnel, and accounting and other administrative support services. The joint venture generally reimburses the sponsor for such personnel and services on a negotiated basis. The sponsor is generally allocated a majority of the venture's profits and losses and usually has a controlling vote in joint venture decision making. In 1997 KCG derived 70% of its joint venture revenue from sponsored joint ventures and 30% from non-sponsored joint ventures. KCG's share of joint venture revenue accounted for 28% of its 1997 total revenue.

**Demand.** The volume and profitability of KCG's construction work depends to a significant extent upon the general state of the economies of the United States and Canada, and the volume of work available to contractors. Fluctuating demand cycles are typical of the industry, and such cycles determine to a large extent the degree of competition for available projects. KCG's construction operations could be adversely affected by labor stoppages or shortages, adverse weather conditions, shortages of supplies, or governmental action. The volume of available government work is affected by budgetary and political considerations. A significant decrease in the amount of new government contracts, for whatever reasons, would have a material adverse effect on KCG.

**Locations.** KCG structures its construction operations around 20 principal operating offices located throughout the U.S. and Canada, with headquarters in Omaha, Nebraska. Through its decentralized system of management, KCG has been able to quickly respond to changes in the local markets. At the end of 1997, KCG had current projects in 33 states and 6 Canadian provinces. KCG also participates in the construction of geothermal power plants in the Philippines and Indonesia.

**Properties.** KCG has 20 district offices, of which 16 are in owned facilities and 4 are leased. KCG owns or leases numerous shops, equipment yards, storage facilities, warehouses, and construction material quarries. Since construction projects are inherently temporary and location-specific, KCG owns approximately 950 portable offices, shops, and transport trailers. KCG has a large equipment fleet, including approximately 4,500 trucks, pickups, and automobiles, and 2,000 heavy construction vehicles, such as graders, scrapers, backhoes, and cranes.

## **MATERIALS OPERATIONS**

Several KCG subsidiaries, primarily in Arizona and Oregon, produce construction materials, including ready-mix concrete, asphalt, sand and gravel. KCG also has quarrying operations in New Mexico and Wyoming, which produce landscaping materials and railroad ballast. Kiewit Mining Group Inc. ("KMG"), a subsidiary of KCG, provides mine management services to Kiewit Coal Properties Inc., a subsidiary of PKS. KMG also owns a 48% interest in an underground coal mine near Pelham, Alabama.

## **OTHER MATTERS**

Under a 1992 mine management agreement, Kiewit Coal Properties Inc. ("KCP"), a subsidiary of Level 3, pays a KCG subsidiary an annual fee

equal to 30% of KCP's adjusted operating income. The fee in 1997 was \$32 million. The Business Groups are currently discussing a potential revision to the mine management agreement for periods following the Transaction.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

**Market Information.** As of December 27, 1997, the Company's common stock is not listed on any national securities exchange or the Nasdaq National Market. However, the Class D stock is currently quoted on the National Association of Securities Dealers, Inc.'s OTC Bulletin Board. During the fourth quarter of 1997, the only quarter during which this trading occurred, the range of the high and low bid information for the Class D stock was \$24.60 to \$29.00. The Company has announced that the common stock of Level 3 Communications, Inc. (renamed from Peter Kiewit Sons', Inc. in connection with the Transaction) will begin trading on the Nasdaq National Market on April 1, 1998.

**Company Repurchase Duty.** Pursuant to the current terms of the PKS Certificate, the Company is generally required to repurchase shares at a formula price upon demand. Under the PKS Certificate effective January 1992, the Company has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock ("Class B"), Class C stock, and Class D stock. There are no outstanding Class B stock; the last Class B stock were converted into Class D stock on January 1, 1997. Class C stock can be issued only to Company employees and can be resold only to the Company at a formula price based on the year-end book value of the Construction Group. The Company is generally required to repurchase Class C stock for cash upon stockholder demand. Class D stock has a formula price based on the year-end book value of the Diversified Group. The Company must generally repurchase Class D stock for cash upon stockholder demand at the formula price, unless the Class D stock become publicly traded.

**Formula values.** The formula price of the Class D stock is based on the book value of Level 3 and its subsidiaries, plus one-half of the book value, on a stand-alone basis, of the parent company, PKS. The formula price of the Class C stock is based on the book value of the Construction Group and its subsidiaries, plus one-half of the book value of the unconsolidated parent company. A significant element of the Class C formula price is the subtraction of the book value of property, plant, and equipment used in construction activities (\$122 million in 1997).

**Conversion.** Under the PKS Certificate, Class C stock is convertible into Class D stock at the end of each year. Between October 15 and December 15 of each year a Class C stockholder may elect to convert some or all of his or her shares. Conversion occurs on the following January 1. The conversion ratio is the relative formula prices of Class C and Class D stock determined as of the last Saturday in December, that is, the last day in the Company's fiscal year. Class D stock may be converted into Class C stock only as part of an annual offering of Class C stock to employees. Instead of purchasing the offered shares for cash, an employee owning Class D stock may convert such shares into Class C stock at the applicable conversion ratio.

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

**Dividends and Prices.** During 1996 and 1997 the Company declared or paid the following dividends on its common stock. The table also shows the stock price after each dividend payment or other valuation event.

Dividend Declared	Dividend Paid	Dividend Per Share	Class	Price Adjusted	Stock Price
Oct. 27, 1995	Jan. 5, 1996	\$0.60	C	Dec. 30, 1995	\$32.40
Apr. 26, 1996	May 1, 1996	0.60	C	May 1, 1996	31.80
Oct. 25, 1996	Jan. 4, 1997	0.70	C	Dec. 28, 1996	40.70
Apr. 23, 1997	May 1, 1997	0.70	C	May 1, 1997	40.00
Oct. 22, 1997	Jan. 5, 1998	0.80	C	Dec. 27, 1997	51.20

The Company's current dividend policy is to pay a regular dividend on Class C stock of about 15% to 20% of the prior year's ordinary earnings of the Construction Group, with any special dividends to be based on extraordinary earnings. Although the PKS Board announced in August 1993 that the Company did not intend to pay regular dividends on Class D stock for the foreseeable future, the PKS Board declared a special dividend of \$0.50 per share of Class D stock in both October 1995 and 1996.

A dividend of 4 shares of Class D Stock for each share of Class D Stock was effected on December 26, 1997.

**Stockholders.** On March 15, 1998, and after giving effect to a dividend of 4 shares of Class D Stock for each outstanding share of Class D stock effected on December 26, 1997, the Company had the following numbers of stockholders and outstanding shares for each class of its common stock:

Class of Stock	Stockholders	Shares Outstanding
B	-	-
C	996	7,681,020
D	2,121	146,943,752

**Recent Sales of Unregistered Securities.** On April 1, 1997, the Company sold 10,000 shares of Class D stock to Charles Harper and Robert



Daugherty and 8,000 shares of Class D stock to Peter Kiewit Jr. at a sale price of \$49.50 per share. Each of Messrs Harper, Daugherty and Kiewit are members of the PKS Board of Directors. The sale was effected pursuant to an exemption from registration under the Securities Act of 1933 contained in Section 4(2) of such Act.

## SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Kiewit Construction & Mining and Diversified Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	1997	1996	1995	1994	1993
	Fiscal Year Ended				
Results of Operations:					
Revenue	\$ 2,764	\$ 2,303	\$ 2,330	\$ 2,175	\$ 1,783
Net earnings	155	108	104	77	80
Per Common Share:					
Net earnings					
Basic	15.99	10.13	7.78	4.92	4.63
Diluted	15.35	9.76	7.62	4.86	4.59
Dividends (1)	1.50	1.30	1.05	0.90	0.70
Stock price (2)	51.20	40.70	32.40	25.55	22.35
Book value	64.38	51.02	42.90	31.39	27.43
Financial Position:					
Total assets	1,341	1,038	976	967	889
Current portion of long-term debt	5	-	2	3	4
Long-term debt, less current portion	22	12	9	9	10
Stockholders' equity (3)	652	562	467	505	480

(1) The 1997, 1996, 1995, 1994 and 1993 dividends include \$.80, \$.70, \$.60, \$.45 and \$.40 for dividends declared in 1997, 1996, 1995, 1994 and 1993, respectively, but paid in January of the subsequent year.

(2) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.

(3) Ownership of the Class C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class C Stock at the amount computed, when put to PKS by a stockholder, pursuant to the Certificate of Incorporation. The aggregate redemption value of the Class C Stock at December 27, 1997 was \$527 million.

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

The financial statements of the Construction & Mining Group (the "Group") include the financial position, results of operations and cash flows for the construction business of Peter Kiewit Sons', Inc. and certain PKS corporate assets and liabilities and related transactions. The Group's share of corporate assets and liabilities and related transactions includes amounts to reflect certain financial activities, corporate general and administrative costs and income taxes. See Notes 1 and 5 to the Group's financial statements.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to the Group. When used in this document, the words "anticipate", "believe", "estimate" and "expect" and similar expressions, as they relate to the Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Group with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document.

### Results of Operations 1997 vs. 1996

**Construction.** The Construction and Mining Group's operations can be separated into two components; construction and materials. Construction revenues increased \$414 million during 1997 compared to 1996. The consolidation of ME Holding Inc. (due to the increase in ownership from 49% to 80%) ("ME Holding") contributed \$261 million, almost two-thirds of the increase. In addition to ME Holding, several large projects and joint ventures became fully mobilized during the latter part of the year and were well into the "peak" construction phase.

Material revenues increased 19% to \$290 million in 1997 from \$243 million in 1996. The acquisition of additional plant sites accounts for 22% of the increase in sales. The remaining increase was a result of the strong market for material products in Arizona. This raised sales volume

from existing plant sites and allowed for slightly higher selling prices. The inclusion of \$10 million of revenues from the Oak Mountain facility in Alabama also contributed to the increase.

Contract backlog at December 1997 was \$3.9 billion of which 7% is attributable to foreign operations located primarily in Indonesia and Canada. Domestic projects are spread geographically throughout the U.S. Included in backlog is \$668 million for the "I-15" project awarded in late March. The Group is the sponsoring partner on the design-build joint venture reconstructing 16 miles of Interstate 15 through the Salt Lake City, Utah area. It is expected to be completed in December 2001 and includes an optional 10- year maintenance contract.

In September, a Presidential Decree was issued in Indonesia affecting the start-up dates for a number of private power projects. As a result of the Decree and the continued fluctuations in the value of the Indonesian currency, several projects in Indonesia for CalEnergy Company, Inc. ("CalEnergy"), included in contract backlog at \$76 million, could be terminated by the Indonesian government or CalEnergy. The Group does not anticipate that termination will have a material adverse effect as payment has been received for all work performed and the costs of demobilizing the projects would not be significant.

Construction margins increased to 13% of revenue in 1997 as compared to 10% in 1996. The favorable resolution of project uncertainties, several change order settlements, and cost savings or early completion bonuses received during the year contributed to this increase.

Material margins decreased from 10% of revenue in 1996 to 4% in 1997. Losses at the Oak Mountain facility in Alabama were the source of the decrease. The materials margins from sources other than Oak Mountain remained stable as higher unit sales and selling prices were offset by increases in raw materials costs.

General and Administrative Expenses. General and administrative expenses increased 11% in 1997 after deducting \$17 million of expenses attributable to ME Holding. Compensation and profit sharing expenses increased \$9 million and \$2 million, respectively, from 1996. The increase in these costs is a direct result of higher construction earnings.

Investment Income. Investment income declined 16% in 1997 to \$16 million. The decrease is primarily attributable to the consolidation of ME Holding in 1997. In 1996, equity earnings attributable to ME Holding was \$4 million. Partially offsetting this decline was a slight increase in income from the sale of marketable securities.

Interest Expense. The decline in interest expense is due to the absence of short-term borrowings which were repaid in 1996.

Other Income. Other income is primarily comprised of gains and losses on the disposition of construction equipment and mine management fees paid by the Diversified Group. A \$6 million increase in gains on the sale of equipment and additional miscellaneous income were partially offset by a decline in mine management fee income.

Provision for Income Taxes. The effective income tax rates in 1997 and 1996 differ from the expected statutory rate of 35% primarily due to state income taxes and prior year tax adjustments.

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

Construction. Revenue from construction decreased 1% to \$2,303 million in 1996. This resulted from the completion of several

major projects during the year, while many new contracts were still in the start-up phase. The Group's share of joint venture revenue remained at 30% of total revenues in 1996. Contract backlog at December 28, 1996 was \$2.3 billion, of which 4% was attributable to foreign operations, principally Canada and the Philippines. Projects on the west coast accounted for 42% of the total backlog. Revenue from materials increased by less than 1% in 1996. Increased demand for aggregates in the Arizona market was offset by a decline in precious metal sales. The Group sold its gold and silver operations in Nevada to Kinross Gold Corporation ("Kinross") and essentially liquidated its metals inventory in 1995.

Opportunities in the construction and materials industry continued to expand along with the economy. Because of the increased opportunities, the Group was able to be selective in the construction projects it pursued. Gross margins for construction increased from 8% in 1995 to 10% in 1996. This resulted from the completion of several large projects and increased efficiencies in all aspects of the construction process. Gross margins for materials declined from 13% in 1995 to 10% in 1996. The lack of higher margin precious metals sales in 1996 combined with slightly lower construction materials margins produced the reduction in operating margin.

General and Administrative Expenses. General and administrative expenses increased 1% in 1996. Increases in compensation and travel expenses were partially offset by lower insurance, computer operations and other administrative expenses.

Investment Income. Investment income increased 12% in 1996 compared to 1995. The increase was primarily due to ME Holding's equity earnings increasing from \$2 million in 1995 to \$4 million in 1996 and \$2 million from other equity investments. Partially offsetting this increase was a slight decline in interest income, due to a decrease in the average cash balance during the year.

Interest Expense. The increase in interest expense of \$2 million in 1996 was primarily attributable to the short-term borrowings outstanding during the year.

Other, net. In 1995, the exchange of the Group's gold and silver operations in Nevada for 4,000,000 shares of common stock of Kinross led to a \$21 million gain for the Group. The gain was the difference between the Group's book value in the gold and silver operations and the market value of the Kinross shares at the time of the exchange. Other income was also primarily comprised of mine management fees from the Diversified Group, of \$37 million and \$30 million in 1996 and 1995, and gains on the disposition of property, plant and equipment and other assets of \$17 million and \$12 million in 1996 and 1995.

Provision for Income Taxes. The effective income tax rate for 1996 differed from the statutory rate of 35% primarily because of adjustments to prior year tax provisions and state taxes. In 1995, the rate was higher than 35% due primarily to state income taxes.

#### Financial Condition - December 27, 1997

Working capital for the Group increased 30% to \$478 million in 1997. Cash provided by operations, of \$154 million, was

partially offset by investing and financing activities. Investing activities include capital expenditures of \$107 million and investments and acquisitions of \$21 million. Partially funding these activities was the net sale of securities for \$34 million and \$36 million from the sale of property, plant and equipment. Financing activities include \$72 million to convert Class C Stock to Class D Stock and \$12 million paid in dividends. These financing uses were partially offset by \$34 million of proceeds from the sale of common stock, \$8 million of proceeds from long-term borrowings and \$9 million of distributions from investments.

The Group anticipates investing between \$40 and \$75 million annually in its construction business. In 1997, the Group invested \$107 million in new equipment. This amount is higher than normal primarily due to \$25 million of equipment purchases for a highway project located in a part of the country where existing equipment was not available. The Group is also exploring opportunities to acquire additional materials businesses. Other long-term liquidity uses include the payment of income taxes, repurchases 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 1997, the PKS Board of Directors declared a dividend of \$.80 per share on Class C Stock, payable on January 5, 1998. Also in January 1998, approximately 2.3 million shares of Class C Stock, with a redemption value of \$122 million, were converted into Class D Stock. During the first quarter of 1998, the Group also repurchased \$25 million of stock from Class C shareholders. In order to partially fund these financing activities, the Group borrowed \$20 million in January, 1998. The Group expects to repay these borrowings during the first half of 1998.

The separation of the Group from the Diversified Group, as described below, will prohibit the conversion of Class C Stock to Class D Stock in the future.

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group from the Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

### KIEWIT CONSTRUCTION & MINING GROUP

#### Index to Financial Statements and Financial Statement Schedule

#### Report of Independent Accountants

Financial Statements as of December 27, 1997 and December 28, 1996 and for the three years ended December 27, 1997:

Statements of Earnings  
Balance Sheets  
Statements of Cash Flows  
Statements of Changes in Stockholders' Equity Notes to Financial Statements

## Financial Statement Schedule for the three years ended December 27, 1997:

### II - Valuation and Qualifying Accounts and Reserves

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

### REPORT OF INDEPENDENT ACCOUNTANTS

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

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

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

In our opinion, the financial statements referred to above, when read in conjunction with the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries, present fairly, in all material respects, the financial position of Kiewit Construction & Mining Group as of December 27, 1997 and December 28, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 27, 1997 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

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

Omaha, Nebraska  
March 30, 1998

### KIEWIT CONSTRUCTION & MINING GROUP

#### Statements of Earnings For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Revenue	\$ 2,764	\$ 2,303	\$ 2,330
Cost of Revenue	(2,427)	(2,079)	(2,127)
	-----	-----	-----
	337	224	203
General and Administrative Expenses	(147)	(117)	(116)
	-----	-----	-----
Operating Earnings	190	107	87
Other Income (Expense):			
Investment Income	16	19	17
Interest Expense	(3)	(4)	(2)
Other, net	59	58	62
	-----	-----	-----
	72	73	77
Earnings Before Income Taxes	262	180	164
Provision for Income Taxes	(107)	(72)	(60)
	-----	-----	-----
Net Earnings	\$ 155	\$ 108	\$ 104
	=====	=====	=====
Net Earnings Per Share:			
Basic	\$ 15.99	\$ 10.13	\$ 7.78

	=====	=====	=====
Diluted	\$ 15.35	\$ 9.76	\$ 7.62
	=====	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Balance Sheets December 27, 1997 and December 28, 1996

(dollars in millions)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 232	\$ 173
Marketable securities	26	54
Receivables, less allowance of \$9 and \$17	430	289
Costs and earnings in excess of billings on uncompleted construction contracts	119	80
Investment in construction joint ventures	176	91
Deferred income taxes	61	64
Other	13	13
	-----	-----
Total Current Assets	1,057	764
Property, Plant and Equipment, at cost:		
Land	18	15
Buildings	40	37
Equipment	585	542
	-----	-----
	643	594
Less accumulated depreciation and amortization	(446)	(429)
	-----	-----
Net Property, Plant and Equipment	197	165
Other Assets	87	109
	-----	-----
	\$1,341	\$ 1,038
	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Balance Sheets December 27, 1997 and December 28, 1996 (continued)

(dollars in millions)	1997	1996
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$37 and \$33	\$ 208	\$ 164
Current portion of long-term debt	5	-
Accrued construction costs and billings in excess of revenue on uncompleted contracts	217	112
Accrued insurance costs	76	81
Other	73	40
	-----	-----
Total Current Liabilities	579	397
Long-term Debt, less current portion	22	12
Other Liabilities	77	67
Minority Interest	11	-
Stockholders' Equity (Redeemable Common Stock, \$527 million aggregate redemption value):		
10,132,343 shares outstanding in 1997 and		
11,006,641 shares outstanding in 1996		

Common equity	670	568
Foreign currency adjustment	(7)	(5)
Unrealized holding loss	(11)	(1)
	-----	-----
Total Stockholders' Equity	652	562
	-----	-----
	\$1,341	\$1,038
	=====	=====

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Cash Flows

For the three years ended December 27, 1997

(dollars in millions)	1997	1996	1995
Cash flows from operations:			
Net earnings	\$ 155	\$ 108	\$ 104
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	66	61	56
Gain on sale of property, plant and equipment and other investments	(24)	(17)	(33)
Equity (earnings) loss, net	2	(8)	(3)
Change in other noncurrent liabilities	18	18	6
Deferred income taxes	-	(6)	-
Change in working capital items:			
Receivables	(113)	37	-
Costs and earnings in excess of billings on uncompleted construction contracts	(39)	(1)	23
Investment in construction joint ventures	(82)	(18)	(4)
Other current assets	7	2	(3)
Accounts payable	27	(18)	3
Accrued construction costs and billings in excess of revenue on uncompleted contracts	102	1	5
Other liabilities	27	11	4
Other	8	(7)	(6)
	-----	-----	-----
Net cash provided by operations	154	163	152
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	73	160	82
Purchases of marketable securities	(39)	(157)	(42)
Proceeds from sale of property, plant and equipment	36	25	15
Capital expenditures	(107)	(72)	(79)
Investments and acquisitions, net of cash acquired	(21)	(6)	(10)
Distributions from investees	9	6	8
Sale of note receivable and other	-	14	-
	-----	-----	-----

Net cash used in investing activities \$ (49) \$ (30) \$ (26)

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Cash Flows

For the three years ended December 27, 1997  
(continued)

(dollars in millions)	1997	1996	1995
Cash flows from financing activities:			
Long-term debt borrowings	\$ 8	\$ 3	\$ 3

Short-term debt borrowings, net	-	(45)	45
Payments on long-term debt, including current portion	-	(2)	(4)
Issuances of common stock	34	27	24
Repurchases of common stock	(2)	(5)	(3)
Dividends paid	(12)	(12)	(13)
Exchange of Class C Stock for Class D Stock, net	(72)	(20)	(155)
	-----	-----	-----
Net cash used in financing activities	(44)	(54)	(103)
Effect of exchange rates on cash	(2)	-	1
	-----	-----	-----
Net change in cash and cash equivalents	59	79	24
Cash and cash equivalents at beginning of year	173	94	70
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 232	\$ 173	\$ 94
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Taxes paid	\$ 94	\$ 78	\$ 69
Interest paid	2	2	2
Noncash investing activity:			
Disposition of gold operations in exchange for Kinross common stock, net	\$ -	\$ -	\$ 21

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Statements of Changes in Stockholders' Equity For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Common equity:			
Balance at beginning of year	\$ 568	\$ 471	\$ 513
Issuances of stock	34	27	24
Repurchases of stock	(2)	(5)	(3)
Exchange of Class C Stock for Class D Stock, net	(72)	(20)	(155)
Net earnings	155	108	104
Dividends (per share: \$1.50 in 1997, \$1.30 in 1996 and \$1.05 in 1995)(a)	(13)	(13)	(12)
	-----	-----	-----
Balance at end of year	670	568	471
Other equity adjustments:			
Balance at beginning of year	(6)	(4)	(8)
Foreign currency adjustment	(2)	-	2
Unrealized holding (loss) gain	(10)	(2)	2
	-----	-----	-----
Balance at end of year	(18)	(6)	(4)
	-----	-----	-----
Total stockholders' equity	\$ 652	\$ 562	\$ 467
	=====	=====	=====

(a) Dividends include \$.80, \$.70, and \$.60 for dividends declared in 1997, 1996 and 1995 but paid in January of the subsequent year.

See accompanying notes to financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Notes to Financial Statements

#### (1) Basis of Presentation

The Class C Stock and the Class D Stock are designed to provide stockholders with separate securities reflecting the performance of Peter Kiewit Sons', Inc.'s ("PKS") construction and materials businesses ("Construction & Mining Group") and its other businesses ("Diversified Group"), respectively. Dividends on the Class C Stock are limited to the legally available funds of PKS less the Class D formula value which is

to be reduced by any dividends on Class D Stock declared during the current year. Subject to this limitation, the Board of Directors intends to declare and pay dividends on the Class C Stock based primarily on the Construction & Mining Group's separately reported financial condition and results of operations.

The financial statements of the Construction & Mining Group include the financial position, results of operations and cash flows for PKS' construction and materials businesses held by its wholly-owned subsidiary, Kiewit Construction Group Inc., and certain PKS corporate assets and liabilities and related transactions. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements.

Although the financial statements of PKS' Construction & Mining Group and Diversified Group separately report the assets, liabilities and stockholders' equity of PKS attributed to each such group, legal title to such assets and responsibility for such liabilities will not be affected by such attribution. Holders of Class C Stock and Class D Stock are stockholders of PKS. Accordingly, the PKS consolidated financial statements and related notes should be read in conjunction with these financial statements. (See Note 3)

## (2) Summary of Significant Accounting Policies

### **Principles of Group Presentation**

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

In 1997, the Group increased its ownership in ME Holding Inc. ("ME Holding") an electrical contractor, from 49% to 80%. The Group consolidated ME Holding in its 1997 financial statements and accounted for it using the equity method in 1996 and 1995.

The Group invests in various portfolios of the Kiewit Mutual Fund, ("KMF"), a registered investment company. KMF is not consolidated in the Group's financial statements.

### **Construction Contracts**

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

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

The Group recognizes revenue on long-term construction contracts and joint ventures on the percentage-of-completion method based upon engineering estimates of the work performed on individual contracts. Provisions for losses are recognized on uncompleted contracts when they become known. Claims for additional revenue are recognized in the period when allowed. It is at least reasonably possible that engineering estimates of the work performed on individual contracts will be revised in the near term.

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

### **Depreciation and Amortization**

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

### **Foreign Currencies**

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



## Earnings Per Share

In 1997, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". The Statement establishes standards for computing and presenting earnings per share and requires the restatement of prior per share data presented. Basic earnings per share have been computed using the weighted average number of shares outstanding during each period. Diluted earnings give effect to convertible debentures considered to be dilutive common stock equivalents. Dilutive potential common shares are calculated in accordance with the "if converted" method. This method assumes that the after-tax interest expense associated with the debentures is an addition to income and the debentures are converted into equity with the resulting common shares being aggregated with the weighted average shares outstanding.

	1997	1996	1995
Net income available to common shareholders (in millions)	\$ 155	\$ 108	\$ 104
Add: Interest expense, net of tax effect associated with convertible debentures	1	—*	—*
Net income for diluted shares	\$ 156	\$ 108	\$ 104
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	9,728	10,656	13,384
Additional dilutive shares assuming conversion of convertible debentures	441	437	312
Total number of shares used to compute diluted earnings per share	10,169	11,093	13,696
Net Income			
Basic earnings per share	\$ 15.99	\$ 10.13	\$ 7.78
Diluted earnings per share	\$ 15.35	\$ 9.76	\$ 7.62

\*Interest expense attributable to convertible debentures was less than \$1 million in 1996 and 1995.

## Income Taxes

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

## Use of Estimates

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

## Recently Issued Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements.

Also in 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data.

These statements are effective for financial statements for periods beginning after December 15, 1997. Management does not expect adoption of these statements to materially affect the Group's financial statements.

## Reclassifications

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

year presentation.

## Fiscal Year

The Group's fiscal year ends on the last Saturday in December. There were 52 weeks in fiscal years 1997, 1996 and 1995.

### (3) Reorganization

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group from the Diversified Group through a spin-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified Group was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by PKS of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

### (4) Acquisitions:

In April, 1997 the Group and a partner each invested \$15 million to acquire a 96% interest in Oak Mountain Energy LLC, ("Oak Mountain"). Oak Mountain then acquired the existing assets of an underground coal mine located in Alabama for approximately \$18 million and assumed approximately \$14 million of related liabilities. Oak Mountain used cash and \$18 million of nonrecourse bank borrowings to retire the existing debt and develop and modernize the mine.

Oak Mountain's results are consolidated with those of the Group on a pro-rata basis since the date of acquisition. Due to higher than anticipated costs in modernizing and operating the mine, Oak Mountain incurred operating losses in 1997. Production at the mine has been significantly below anticipated levels, and as a result of this and other factors, Oak Mountain is not in compliance with certain covenants of the bank borrowings. Those events caused the Group to assess whether its investment is impaired. Upon considering estimated cash flow levels, including additional funding necessary to operate the mine, and assessments of the fair value of the net assets of the mine based upon potential recovery through a sale, the Group recognized an impairment loss of \$8 million. This loss along with the operating losses, reduced the Group's investment to zero. The impairment has been included in Cost of Revenue in the Statement of Earnings.

In 1997, the Group paid \$5 million to increase its ownership in ME Holding from 49% to 80%. The Group's investment in ME Holding exceeds its proportionate share of ME Holding equity by \$3 million. The goodwill is being amortized over 5 years.

Construction revenue for ME Holding was \$247 million in 1996, however the net operating results of ME Holding was not significant relative to the Group's results in 1996.

### (5) Corporate Activities

## Financial Structure

PKS, in addition to specifically attributable items, has corporate assets, liabilities and related income and expense which are not separately identified with the ongoing operations of the Group or the Diversified Group. The items attributable to the Group and the Group's 50% portion of PKS are as follows:

(dollars in millions)	1997	1996
Cash and cash equivalents	\$ 8	\$ 8
Marketable securities	3	5
Property, plant and equipment, net	5	5
Other assets	2	2
	-----	-----
Total Assets	\$ 18	\$ 20
	=====	=====
Accounts payable	\$ 10	\$ 8
Long-term debt and other noncurrent liabilities	17	13
	-----	-----
Total Liabilities	\$ 27	\$ 21
	=====	=====

Net investment expense \$ 1 \$ - \$ -

## Corporate General and Administrative Costs

A portion of PKS' corporate general and administrative costs has been allocated to the Group based upon certain measures of business activity, such as employment, investments and sales, which management believes to be reasonable. The allocations were \$1 million in 1997, 1996 and 1995.

## Income Taxes

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

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

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

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

### Cash and Cash Equivalents

Cash equivalents generally consist of funds invested in the Kiewit Mutual Fund-Money Market Portfolio and highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

### Marketable Securities and Non-current Investments

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

The following summarizes the amortized cost, unrealized holding gains and losses, and estimated fair values of marketable securities and marketable non-current investments at December 27, 1997 and December 28, 1996.

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1997				
Kiewit Mutual Fund:				
Short-term government	\$ 10	\$ -	\$ -	\$ 10
Intermediate term bond	1	-	-	1
Tax exempt	1	-	-	1
U.S. debt securities	14	-	-	14
	-----	-----	-----	-----
	\$ 26	\$ -	\$ -	\$ 26
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 30	\$ -	\$ (18)	\$ 12
	=====	=====	=====	=====
1996				
Kiewit Mutual Fund:				
Short-term government	\$ 22	\$ -	\$ -	\$ 22
Intermediate term bond	10	-	-	10
Tax exempt	9	-	-	9
U.S. debt securities	13	-	-	13
	-----	-----	-----	-----

	\$ 54	\$ -	\$ -	\$ 54
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 30	\$ -	\$ (2)	\$ 28
	=====	=====	=====	=====

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were each less than \$1 million in 1997, 1996 and 1995.

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
U.S. debt securities:		
less than 1 year	\$ 6	\$ 6
1-5 years	8	8
	-----	-----
	\$ 14	\$ 14
	=====	=====

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

### Long-term Debt

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

#### (7) Retainage on Construction Contracts

Receivables at December 27, 1997 and December 28, 1996 include approximately \$88 million and \$86 million of retainage on uncompleted projects, the majority of which is expected to be collected within one year. Included in accounts receivable are \$44 million and \$53 million of securities which are being held by the owners of various construction projects in lieu of retainage. These securities are carried at fair value which is determined based on quoted market prices for the securities on hand or for similar investments. Net unrealized holding gains and losses, if any, are reported as a separate component of stockholders' equity, net of tax.

#### (8) Investment in Construction Joint Ventures

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

Summary joint venture financial information follows:

Financial Position (dollars in millions)	1997	1996	
Total Joint Ventures			
Current assets	\$ 659	\$ 435	
Other assets (principally construction equipment)	123	47	
	-----	-----	
	782	482	
Current liabilities	(515)	(347)	
	-----	-----	
Net assets	\$ 267	\$ 135	
	=====	=====	
Group's Share			
Equity in net assets	\$ 156	\$ 73	
Receivable from joint ventures	20	18	
	-----	-----	
Investment in construction joint ventures	\$ 176	\$ 91	
	=====	=====	
Operations (dollars in millions)	1997	1996	1995
Total Joint Ventures			

Revenue	\$ 1,490	\$ 1,370	\$ 1,211
Costs	1,332	1,201	1,108
	-----	-----	-----
Operating income	\$ 158	\$ 169	\$ 103
	=====	=====	=====
Group's Share			
Revenue	\$ 786	\$ 689	\$ 691
Costs	690	621	625
	-----	-----	-----
Operating income	\$ 96	\$ 68	\$ 66
	=====	=====	=====

## (9) Other Assets

Other assets consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
ME Holding Inc.	\$ -	\$ 33
Equity securities of Kinross Gold Corporation (Note 6)	12	28
Aker-Gulf Marine	18	15
Goodwill	23	15
Deferred income taxes	12	2
Other	22	16
	-----	-----
	\$ 87	\$ 109
	=====	=====

Other assets include marketable equity securities classified as non-current, an equity method investment in a partnership which fabricates offshore oil platforms, and the net goodwill recognized in the APAC, ME Holdings and other acquisitions. In 1997 ME Holding is accounted for as a consolidated subsidiary. In 1996, ME Holding was accounted for using the equity method.

## (10) Long-Term Debt

At December 27, 1997 and December 28, 1996, long-term debt consisted of a portion of PKS' notes to former stockholders which have been allocated to the Group and the Diversified Group and convertible debentures as follows:

(dollars in millions)	1997	1996
6.25%-8.75% Convertible debentures, 2003-2007	\$ 13	\$ 10
BICC Cables Corp. Note	6	-
ME Holdings Note	5	-
Stockholder notes and other	3	2
	-----	-----
	27	12
Less current portion	5	-
	-----	-----
	\$ 22	\$ 12
	=====	=====

The convertible debentures are convertible during October of the fifth year preceding their maturity date. Each annual series may be redeemed in its entirety prior to the due date except during the conversion period. Debentures were converted into 51,314 and 59,935 shares of Class C Stock in 1997 and 1995, respectively. At December 27, 1997, 478,394 shares of Class C Stock are reserved for future conversions.

In 1997, ME Holding borrowed \$6 million from BICC Cables Corp. ("BICC"). BICC is affiliated with a joint venture partner of ME Holding. The note is payable in full in 1999 and requires quarterly interest payments at a rate equal to one month LIBOR. The proceeds from the note were used for working capital requirements.

In 1997, the Group issued a note payable in the amount of \$5 million, payable on demand to the minority shareholder, as part of the ME Holding acquisition. The note and accrued interest were paid on January 5, 1998.

Scheduled maturities of long-term debt through 2002 are as follows (in millions): 1998 - \$5; 1999 - \$7; 2000 - \$1; 2001 - \$1 and \$- in 2002.

## (11) Income Taxes

An analysis of the (provision) benefit for income taxes relating to earnings for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Current:			
U.S. federal	\$ (88)	\$ (62)	\$ (58)
Foreign	(9)	(5)	4
State	(10)	(11)	(6)
	-----	-----	-----
	(107)	(78)	(60)
Deferred:			
U.S. federal	1	7	6
Foreign	(1)	(3)	(7)
State	-	2	1
	-----	-----	-----
	-	6	-
	-----	-----	-----
	\$ (107)	\$ (72)	\$ (60)
	=====	=====	=====

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

(dollars in millions)	1997	1996	1995
United States	\$ 226	\$ 155	\$ 159
Foreign	36	25	5
	-----	-----	-----
	\$ 262	\$ 180	\$ 164
	=====	=====	=====

A reconciliation of the actual (provision) benefit for income taxes and the tax computed by applying the U.S. federal rate (35%) to the earnings before income taxes for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Computed tax at statutory rate	\$ (92)	\$ (63)	\$ (57)
State income taxes	(8)	(6)	(8)
Prior year tax adjustments	(5)	(4)	5
Other	(2)	1	-
	-----	-----	-----
	\$ (107)	\$ (72)	\$ (60)
	=====	=====	=====

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

The components of the net deferred tax assets for the years ended December 27, 1997 and December 28, 1996 were as follows:

(dollars in millions)	1997	1996
Deferred tax assets:		
Construction accounting	\$ 24	\$ 15
Investments in construction joint ventures	26	30
Insurance claims	31	32
Compensation - retirement benefits	8	6
Other	7	10
	-----	-----
Total deferred tax assets	96	93
Deferred tax liabilities:		
Investments in securities	1	7
Other	22	20
	-----	-----
Total deferred tax liabilities	23	27
	-----	-----
Net deferred tax assets	\$ 73	\$ 66
	=====	=====

## (12) Employee Benefit Plans

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

Substantially all employees of the Group are covered under the Group's profit sharing plans. The expense related to these plans was \$5 million in 1997 and \$3 million in 1996 and 1995.

## (13) Stockholders' Equity

Ownership of the Class C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class C Stock at the amount computed pursuant to the Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 27, 1997 were as follows:

	Class C Stock
Shares issued in 1995	1,021,875
Shares repurchased in 1995	6,228,934
Shares issued in 1996	896,604
Shares repurchased in 1996	770,368
Shares issued in 1997	893,924
Shares repurchased in 1997	1,768,222

#### (14) Industry and Geographic Data

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

Geographic Data (dollars in millions)	1997	1996	1995
Revenue:			
United States	\$ 2,594	\$ 2,017	\$ 2,007
Canada	90	175	237
Other	80	111	86
	-----	-----	-----
	\$ 2,764	\$ 2,303	\$ 2,330
	=====	=====	=====
Operating earnings:			
United States	\$ 153	\$ 86	\$ 70
Canada	10	7	7
Other	27	14	10
	-----	-----	-----
	\$ 190	\$ 107	\$ 87
	=====	=====	=====
Identifiable assets:			
United States	\$ 1,230	\$ 924	\$ 866
Canada	94	92	90
Other	17	22	20
	-----	-----	-----
	\$ 1,341	\$1,038	\$ 976
	=====	=====	=====

#### (15) Related Party Transaction

The Group performs certain mine management services for the Diversified Group. The income from these services was \$32 million in 1997, \$37 million in 1996 and \$30 million in 1995 and is recorded in other income in the statements of earnings.

#### (16) Other Matters

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

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

The Group leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancellable operating leases during the next 23 years aggregate \$18 million.

It is customary in the Group's industry to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Group in accordance with specified terms and conditions. The Group has informal arrangements with a number of banks to provide such commitments. As of December 27, 1997, the Group had outstanding letters of credit of approximately \$125 million.

#### (17) Subsequent Events

On December 31, 1997, the convertible debentures issued from 1993-1996 were converted to equity as part of the reorganization. In conjunction with this transaction, the Group provided non-interest bearing loans to the debenture holders for a period equal to the original terms of the debentures.

In January 1998, approximately 2.3 million shares of Class C Stock, with a redemption value of \$122 million, were converted into approximately 10.5 million shares of Class D Stock. During the first quarter of 1998, the Group also repurchased \$25 million of stock from Class C stockholders. In order to partially fund these financing activities, the Group incurred short-term borrowings of \$20 million in January, 1998. The Group expects to repay these borrowings during the first half of 1998.

## SCHEDULE II

### KIEWIT CONSTRUCTION & MINING GROUP

#### Valuation and Qualifying Accounts and Reserves

(dollars in millions)	Balance Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
Year ended December 27, 1997					
Allowance for doubtful trade accounts	\$ 17	\$ 3	\$ (11)	\$ -	\$ 9
Reserves:					
Insurance claims	81	7	(12)	-	76
Year ended December 28, 1996					
Allowance for doubtful trade accounts	\$ 10	\$ 12	\$ (5)	\$ -	\$ 17
Reserves:					
Insurance claims	79	22	(20)	-	81
Year ended December 30, 1995					
Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (2)	\$ -	\$ 10
Reserves:					
Insurance claims	75	18	(14)	-	79



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#### Level 3 COMMUNICATIONS, INC.

Level 3 Communications, Inc. ("Level 3") is engaged in the information services, telecommunications and coal mining businesses. Level 3 is a wholly owned subsidiary of Peter Kiewit Sons', Inc. ("PKS" or the "Company"). Level 3 is a Delaware corporation that was incorporated in 1985. The Company has two principal classes of common stock, Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 per share (the "Class C stock") and Class D Diversified Group Convertible Exchangeable Common Stock par value \$.0625 per share (the Class D stock"). The value of Class C stock is linked to the Company's construction and materials operations (the "Construction Group"). The value of Class D stock is linked to the operations of Level 3 (the "Diversified Group"), under the terms of the Company's charter (see Item 5 below). All Class C shares and historically most Class D shares have been owned by current and former employees of the Company and their family members. The Company was incorporated in Delaware in 1941 to continue a construction business founded in Omaha, Nebraska in 1884. The Company entered the coal mining business in 1943 and the telecommunications business in 1988. In 1995, the Company distributed to its Class D stockholders all of its shares of MFS Communications Company, Inc. ("MFS") (which was later acquired by WorldCom, Inc.). Through subsidiaries, the Company owns 48.5% of the common stock of Cable Michigan, Inc., 48.4% of Commonwealth Telephone Enterprises, Inc., formerly known as C-TEC Corporation ("C-TEC") and 46.1% of RCN Corporation (collectively, the "C-TEC Companies"), the three companies that resulted from the restructuring of C-TEC, which was completed in September 1997. RCN Corporation, Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc. are publicly traded companies and more detailed information about each of them is contained in their separate Annual Reports on Form 10-K. Prior to January 2, 1998, the Company was also engaged in the alternative energy business through its ownership of 24% of the voting stock of CalEnergy Company, Inc. ("CalEnergy") and certain international development projects in conjunction with CalEnergy.

On December 8, 1997, the Company's stockholders ratified the decision of the Company's Board of Directors (the "PKS Board") to separate the business conducted by the Construction Group and the business conducted by the Diversified Group (collectively, the "Business Groups") into two independent companies. In connection with the consummation of this transaction, the PKS Board declared a dividend of eight-tenths of one share of the Company's newly created Class R Convertible Common Stock, par value \$.01 per share ("Class R stock") with respect to each outstanding share of Class C stock. The Class R stock is convertible in shares of Class D stock pursuant to a defined formula. In addition, the Company has announced that effective March 31, 1998, the Company, through a resolution of the PKS Board, shall cause each outstanding share of Class C stock to be mandatorily exchanged (the "Share Exchange") pursuant to provisions of the PKS Restated Certificate of Incorporation (the "PKS Certificate") for one outstanding share of Common Stock, par value \$.01 per share, of PKS Holdings, Inc. ("PKS Holdings"), a recently formed, direct, wholly owned subsidiary of PKS, to which the eight-tenths of one share of Class R Stock would attach (collectively, the "Transaction"). In connection with the consummation of the Transaction, the Company will change its name to Level 3 Communications, Inc. and PKS Holdings, Inc. will change its name to Peter Kiewit Sons', Inc. The Company has announced that the PKS Board has approved in principle a plan to force conversion of all 6,538,231 shares of Class R Stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made at that time. The decision may be made not to force conversion if it were decided that conversion is not in the best interest of the then stockholders of the Company.

The Transaction is intended to separate the Business Groups into two independent companies. The PKS Board believes that separation of the Business Groups will (i) permit Level 3 to attract and retain the senior management and employees needed to implement and develop Level 3's expansion plan (which is discussed below), (ii) enable Level 3 to access the capital markets in order to fund its expansion plan on more advantageous terms than would be available to Level 3 as part of the Company, (iii) enable Level 3 to pursue strategic investments and acquisitions, as part of the expansion plan, which could be foreclosed to Level 3 as part of the Company and (iv) allow the directors and management of each Business Group to focus their attention and financial resources on that Business Group's business. Except for the anticipated effect of the Transaction on the management of the construction business, the PKS Board does not believe that the Transaction will have any other significant effect on the construction business.

For 1997, Level 3 reports financial information about three business segments: coal mining, energy generation and distribution, and telecommunications. Additional financial information about these segments, including revenue, operating earnings, equity earnings, identifiable assets, capital expenditures and depreciation, depletion and amortization, as well as foreign operations information, is contained in Note 3 to the Level 3's consolidated financial statements.

#### LEVEL 3 COMMUNICATIONS, INC.

Level 3 engages in the information services, telecommunications, coal mining and energy businesses, through ownership of operating subsidiaries, joint venture investments and ownership of substantial positions in public companies. Level 3 also holds smaller positions in a number of development stage or startup ventures.

## INFORMATION SERVICES

PKS Information Services, Inc. ("PKSIS") is a full service information technology company that provides computer operations outsourcing and systems integration services to customers located throughout the United States as well as abroad. Utilizing all computing environments from mainframes to client/server platforms, PKSIS offers custom-tailored computer outsourcing services. PKSIS also provides network and systems integration and network management services for various computer platforms. In addition, PKSIS develops, implements and supports applications software. Through its subsidiary NET Twenty-One, Inc., PKSIS' strategy is to focus on assisting its customers in "Web-enabling" legacy software applications, that is, migrating computer applications from closed computing and networking environments to network platforms using Transmission Control Protocol/Internet Protocol ("TCP/IP") technology that are then accessed using Web browsers.

The computer outsourcing services offered by PKSIS through its subsidiary PKS Computer Services, Inc. include networking and computing services necessary both for older mainframe-based systems and newer client/server-based systems. PKSIS provides its outsourcing services to clients that desire to focus their resources on core businesses, rather than expending capital and incurring overhead costs to operate their own computing environment. PKSIS believes that it is able to utilize its expertise and experience, as well as operating efficiencies, to provide its outsourcing customers with levels of service equal to or better than those achievable by the customer itself, while at the same time reducing the customer's cost for such services. This service is particularly useful for those customers moving from older computing platforms to more modern client/server networks.

PKSIS' systems integration services help customers define, develop and implement cost-effective information services. In addition, through PKS Systems Integration, Inc., PKSIS offers reengineering services that allow companies to convert older legacy software systems to modern networked computing systems, with a focus on reengineering software to enable older software application and data repositories to be accessed by Hypertext Markup Language (HTML)-based browsers ("Web browsers") over the Internet or over private or limited access TCP/IP networks.

PKSIS, through its Suite 2000-SM line of services, provides customers with a multi-phased service for converting programs and application so that date-related information is accurately processed and stored before and after the year 2000. Through the process of converting a customer's legacy software for year 2000 compliance, PKSIS is able to provide additional insight and advice to further stream-line and improve the customer's information systems.

PKSIS has established a software engineering facility at the National Technology Park in Limerick, Ireland, to undertake: large scale development projects; system conversions; and code restructuring and software re-engineering. PKSIS has also established relationships with domestic and international partners to provide such activities as well as establishing recently a joint venture in India.

PKSIS' subsidiary, LexiBridge Corporation of Shelton, Connecticut, provides customers with a combination of workbench tools and methodology that provide a complete strategy for converting mainframe-based application systems to client/server architecture, while at the same time ensuring year 2000 compliance.

In 1997, 93% of PKSIS' revenue was from external customers and the remainder was from affiliates.

Level 3 recently has determined to increase substantially the emphasis it places on and the resources devoted to its information services business, with a view to becoming a facilities-based provider (that is, a provider of information services that owns or leases a substantial portion of the plant, property and equipment necessary to provide those services) of a broad range of integrated information services to business (the "Expansion Plan"). Pursuant to the Expansion Plan, Level 3 intends to expand substantially its current information services business, through both the expansion of the business of PKSIS and the creation, through a combination of construction, purchase and leasing of facilities and other assets, of a substantial, facilities-based communications network that utilizes Internet Protocol or IP technology.

In order to grow and expand substantially the information services it provides, Level 3 has developed a comprehensive plan to construct, purchase and lease local and backbone facilities necessary to provide a wide range of communications services over a network that uses Internet Protocol based technology. These services include:

A number of business-oriented communications services using a combination of network facilities Level 3 would construct, purchase and lease from third parties, which services may include fax services that are transmitted in part over an Internet Protocol network and are offered at a lower price than public circuit-switched telephone network-based fax service and voice message storing and forwarding that are transmitted in part over the same Internet Protocol technology based network; and

After construction, purchase and lease of local and backbone facilities, a range of Internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security.

Level 3 believes that, over time, a substantial number of businesses will convert existing computer application systems (which run on standalone or networked computing platforms utilizing a wide variety of operating systems, applications and data repositories) to computer

systems that communicate using Internet Protocol and are accessed by users employing Web browsers. Level 3 believes that such a conversion will occur for the following reasons:

Internet Protocol has become a de facto networking standard supported by numerous hardware and software vendors and, as such, provides a common protocol for connecting computers utilizing a wide variety of operating systems;

Web browsers can provide a standardized interface to data and applications and thus help to minimize costs of training personnel to access and use these resources; and

As a packet-switched technology, in many instances, Internet Protocol utilizes network capacity more efficiently than the circuit-switched public telephone network.

Consequently, certain services provided over an Internet Protocol network maybe less costly than the same services provided over public switched telephone network.

Level 3 further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to Internet access with requisite quality and security levels.

Pursuant to the Expansion Plan, Level 3's strategy will be to attempt to meet this customer need by: (i) growing and expanding its existing capabilities in computer network systems, consulting, outsourcing, and software reengineering, with particular emphasis on conversion of legacy software systems to systems that are compatible with Internet Protocol networks and Web browsers access; and (ii) creating a national end-to-end Internet Protocol based network through a combination of construction, purchase and leasing of assets. Level 3 intends to optimize its international network to provide Internet based communications services to businesses at low cost and high quality, and to design its network, to the extent possible, to more readily include future technological upgrades than older, less flexible networks owned by competitors.

To implement its strategy, Level 3 has formulated a long term business plan that provides for the development of an end-to-end network optimized for the Internet Protocol. Initially, Level 3 will offer its services over facilities, both local and national, that are in part leased from third parties to allow for the offering of services during the construction of its own facilities. Over time, it is anticipated that the portion of Level 3's network that includes leased facilities will decrease and the portion of facilities that have been constructed, and are owned, by Level 3 will increase. Over the next 4 to 6 years, it is anticipated that the Level 3 network will encompass local facilities in approximately 40 North American markets, leased backbone facilities in approximately 10 additional North American markets, a national or inter-city network covering approximately 15,000 miles, the establishment of local facilities in approximately 10 European and 4 Asian markets and an inter-city network covering approximately 2,000 miles across Europe. Level 3 intends to design and construct its inter-city network using multiple conduits. Level 3 believes that the spare conduits will allow it to deploy future technological innovations and expand capacity without incurring significant overbuild costs. The foregoing description of the Level 3 network and the Expansion Plan constitutes a forward-looking statement. The actual configuration of the network, including the number of markets served and the expanse of the inter-city networks will depend on a variety of factors including Level 3's ability to: access markets; design fiber optic network backbone routes; attract and retain qualified personnel; design, develop and deploy enterprise support systems that will allow Level 3 to build and operate a packet switched network that interconnects with the public switched network, install fiber optic cable and facilities; obtain rights-of-way, building access rights, unbundled loops and required government authorizations, franchises and permits; and to negotiate interconnection and peering agreements.

The operations to be conducted as a result of the Expansion Plan will be subject to extensive federal and state regulation. Federal laws and Federal Communications Commission regulations apply to interstate telecommunications while state regulatory authorities exercise jurisdiction over telecommunications both originating and terminating within a state. Generally, implementation of the Expansion Plan will require obtaining and maintaining certificates of authority from regulatory bodies in most states where services are to be offered.

With respect to the Expansion Plan, Level 3 is devoting substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of Level 3. In that respect, the management of Level 3 has been conducting a comprehensive review of the existing Level 3 businesses to determine how those businesses will complement Level 3's focus on information services businesses as a result of the Expansion Plan. For example, the management of Level 3 negotiated the sale of its energy interests (see "- CalEnergy" below) because it believed that the ongoing ownership by Level 3 of an interest in an energy businesses was not compatible with its focus on the information services business, and because sale of those assets provided a substantial portion of the money necessary to fund the early stages of the Expansion Plan.

In addition, the Construction Group and Level 3 are currently discussing a restructuring of the current mine management arrangement between the two Business Groups. Level 3 also is reviewing its involvement in a number of start-up and development stage businesses and recently completed the sale of its interest in United Infrastructure Company ("UIC"). Level 3 is also currently discussing with the Construction Group the sale of Kiewit Investment Management Corp. to the Construction Group. Level 3 has no current intention, however, to sell, dispose or otherwise alter its ownership interest in the C-TEC Companies.

## **C-TEC COMPANIES**

On September 30, 1997, C-TEC completed a tax-free restructuring, which divided C-TEC into three public companies: C-TEC, which changed its name to Commonwealth Telephone Enterprises, Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan").

Businesses of the C-TEC Companies. Commonwealth Telephone owns the following businesses: Commonwealth Telephone Company (the rural local exchange carrier business); Commonwealth Communications (the communications engineering business); the Pennsylvania competitive local exchange carrier business; and long distance operations in certain areas of Pennsylvania. RCN owns the following businesses: its competitive telecommunications services operations in New York City and Boston; its cable television operations in New York, New Jersey and Pennsylvania; its 40% interest in Megacable S.A. de C.V., Mexico's second largest cable operator; and its long distance operations (other than the operations in certain areas of Pennsylvania). Cable Michigan owns and operates cable television systems in the State of Michigan and owns a 62% interest in Mercom, Inc., a publicly held Michigan cable television operator.

Ownership of the C-TEC Companies. In connection with the restructuring and as a result of the conversion of certain shares of C-TEC held by Level 3, Level 3 now holds 13,320,485 shares of RCN common stock, 3,330,119 shares of Cable Michigan common stock, and 8,880,322 shares of Commonwealth Telephone common stock. Such ownership represents 48.5% of the outstanding common stock of Cable Michigan, 48.4% of the outstanding common stock of Commonwealth Telephone and 46.1% of the outstanding common stock of RCN.

Each of the shares of RCN common stock, Cable Michigan common stock and Commonwealth Telephone Common Stock is traded on the National Association of Securities Dealers, Inc.'s National Market (the "Nasdaq National Market").

In its filings with the Securities and Exchange Commission, the board of directors of C-TEC concluded that the distributions were in the best interests of the shareholders because the distributions will, among other things, (i) permit C-TEC to raise financing to fund the development of the RCN business on more advantageous economic terms than the other alternatives available, (ii) facilitate possible future acquisitions and joint venture investments by RCN and Cable Michigan and possible future offerings by RCN, (iii) allow the management of each company to focus attention and financial resources on its respective business and permit each company to offer employees incentives that are more directly linked to the performance of its respective business, (iv) facilitate the ability of each company to grow in both size and profitability, and (v) permit investors and the financial markets to better understand and evaluate C-TEC's various businesses.

Accounting Method. Since the ownership by Level 3 of the equity and voting rights of each of RCN, Cable Michigan and Commonwealth Telephone at the end of 1997 was less than 50%, under generally accepted accounting principles, Level 3 uses the equity method to account for its investments in each of these companies. Under the equity method, Level 3 reports its proportionate share of each of Commonwealth Telephone's, RCN's and Cable Michigan's earnings, even though it has received no dividends from those companies. Level 3 keeps track of the carrying value of its investment in each of the C-TEC Companies. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. Level 3 purchased its C-TEC Companies shares at a premium over the book value of the underlying net assets. This premium is being amortized over a period of between 30 to 40 years. At December 27, 1997 the carrying value of Level 3's Commonwealth Telephone shares was \$75 million, RCN shares was \$214 million and Cable Michigan shares was \$46 million.

Description of the C-TEC Companies. RCN is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected markets in the Boston to Washington, D.C. corridor. Cable Michigan is a cable television operator in the State of Michigan which, as of December 31, 1997, served approximately 204,000 subscribers. These figures include the approximately 42,000 subscribers served by Mercom, a 62% owned subsidiary of Cable Michigan. Clustered primarily around the Michigan communities of Grand Rapids, Traverse City, Lapeer and Monroe (Mercom), Cable Michigan's systems serve a total of approximately 400 municipalities in suburban markets and small towns. Commonwealth Telephone Company is a Pennsylvania public utility providing local telephone service to a 19 county, 5,067 square mile service territory in Pennsylvania. The telephone company services approximately 259,000 main access lines. The company also provides network access, long distance, and billing and collection services to interexchange carriers. The telephone company's business customer base is diverse in size as well as industry, with very little concentration. Commonwealth Long Distance operates principally in Pennsylvania, providing switched services and resale of several types of services, using the networks of several long distance providers on a wholesale basis. Commonwealth Communications Inc. provides telecommunications engineering and facilities management services to large corporate clients, hospitals and universities throughout the Northeastern United States and sells, installs and maintains PBX systems in Pennsylvania and New Jersey. In January 1995, C-TEC purchased a 40% equity position in Megacable, Mexico's second largest cable television operator, serving approximately 174,000 subscribers in 12 cities.

For more information on the business of each of RCN, Cable Michigan and Commonwealth Telephone, please see the individual filings of Annual Reports on Form 10-K for each of such companies as filed with the Securities and Exchange Commission.

## **COAL MINING**

Level 3 is engaged in coal mining through its subsidiary, Kiewit Coal Properties Inc. ("KCP"). KCP has a 50% interest in three mines, which are operated by KCP. Decker Coal Company ("Decker") is a joint venture with Western Minerals, Inc., a subsidiary of The RTZ Corporation PLC. Black Butte Coal Company ("Black Butte") is a joint venture with Bitter Creek Coal Company, a subsidiary of Union Pacific Resources Group Inc. Walnut Creek Mining Company ("Walnut Creek") is a general partnership with Phillips Coal Company, a subsidiary of Phillips Petroleum Company. The Decker mine is located in southeastern Montana, the Black Butte mine is in southwestern Wyoming, and the Walnut Creek mine is in east-central Texas.

Production and Distribution. The coal mines use the surface mining method. During surface mining operations, topsoil is removed and stored for later use in land reclamation. After removal of topsoil, overburden in varying thicknesses is stripped from above coal seams. Stripping operations are usually conducted by means of large, earth-moving machines called draglines, or by fleets of trucks, scrapers and power shovels.

The exposed coal is fractured by blasting and is loaded into haul trucks or onto overland conveyors for transportation to processing and loading facilities. Coal delivered by rail from Decker originates on the Burlington Northern Railroad. Coal delivered by rail from Black Butte originates on the Union Pacific Railroad. Coal is also hauled by trucks from Black Butte to the nearby Jim Bridger Power Plant. Coal is delivered by trucks from Walnut Creek to the adjacent facilities of the Texas-New Mexico Power Company.

**Customers.** The coal produced from the KCP mines is sold primarily to electric utilities, which burn coal in order to produce steam to generate electricity. Approximately 89% of sales are made under long-term contracts, and the remainder are made on the spot market. Approximately 79%, 80% and 80% of KCP's revenues in 1997, 1996 and 1995, respectively, were derived from long-term contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). The primary customer of Walnut Creek is the Texas-New Mexico Power Company.

**Contracts.** Customers enter into long-term contracts for coal primarily to secure a reliable source of supply at a predictable price. KCP's major long-term contracts have remaining terms ranging from 1 to 30 years. A majority of KCP's long-term contracts provide for periodic price adjustments. The price is typically adjusted through the use of various indices for items such as materials, supplies, and labor. Other portions of the price are adjusted for changes in production taxes, royalties, and changes in cost due to new legislation or regulation. In most cases, these cost items are directly passed through to the customer as incurred. In most cases the price is also adjusted based on the heating content of the coal.

Decker has a sales contract with Detroit Edison Company that provides for the delivery of a minimum of 36 million tons of low sulphur coal during the period 1998 through 2005, with annual shipments ranging from 5.2 million tons in 1998 to 1.7 million tons in 2005.

KCP and its mining ventures have entered into various agreements with Commonwealth Edison Company ("Commonwealth"), which stipulate delivery and payment terms for the sale of coal. The agreements as amended provide for delivery of 88 million tons during the period 1998 through 2014, with annual shipments ranging from 1.8 million tons to 13.1 million tons. These deliveries include 15 million tons of coal reserves previously sold to Commonwealth. Since 1993, the amended contract between Commonwealth and Black Butte provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte mine, but with coal purchased from three unaffiliated mines in the Powder River Basin of Wyoming. The contract amendment allows Black Butte to purchase alternate source coal at a price below its production costs, and to pass the cost savings through to Commonwealth while maintaining the profit margins available under the original contract.

The contract between Walnut Creek and Texas-New Mexico Power Company provides for delivery of between 42 and 90 million tons of coal during the period 1989 through 2027. The actual tons provided will depend on the number of power units constructed and operated by TNP. The maximum amount KCP is expecting to ship in any one year is between 1.6 and 3.2 million tons.

KCP also has other sales commitments, including those with Sierra Pacific, Idaho Power, Solvay Minerals, Pacific Power & Light, Minnesota Power, and Mississippi Power, that provide for the delivery of approximately 13 million tons through 2005.

**Coal Production.** Coal production began at the Decker, Black Butte, and Walnut Creek mines in 1972, 1979, and 1989, respectively. KCP's share of coal mined in 1997 at the Decker, Black Butte, and Walnut Creek mines was 5.9, 1.0, and .9 million tons, respectively.

**Revenue.** KCP's total revenue in 1997 was \$222 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities was \$114 million, \$89 million, and \$17 million, respectively.

Under a 1992 mine management agreement, KCP pays a KCG subsidiary an annual fee equal to 30% of KCP's adjusted operating income. The fee in 1997 was \$32 million.

**Backlog.** At the end of 1997, the backlog of coal to be sold under KCP's long-term contracts was approximately \$1.4 billion, based on December 1997 market prices. Of this amount, \$213 million is expected to be sold in 1998.

**Reserves.** At the end of 1997, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 111, 39, and 31 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 46, 2, and 23 million tons, respectively. Assigned reserves represent coal that can be mined using KCP's current mining practices. Committed reserves (excluding alternate source coal) represent KCP's maximum contractual amounts. These coal reserve estimates represent total proved and probable reserves.

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

**Competition.** The coal industry is highly competitive. KCP competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than KCP, but also with alternative methods of generating electricity and alternative energy sources. In 1996, KCP's production represented 1.5% of total U.S. coal production. Demand for KCP's coal is affected by economic, political and regulatory factors. For example, recent "clean air" laws may stimulate demand for low sulphur coal. KCP's western coal reserves generally have a low sulphur content (less than one percent) and are currently useful principally as fuel for coal-fired steam-electric generating units.

KCP's sales of its western coal, like sales by other western coal producers, typically provide for delivery to customers at the mine. A significant portion of the customer's delivered cost of coal is attributable to transportation costs. Most of the coal sold from KCP's western mines is currently shipped by rail to utilities outside Montana and Wyoming. The Decker and Black Butte mines are each served by a single railroad. Many of their western coal competitors are served by two railroads and such competitors' customers often benefit from lower transportation costs because of competition between railroads for coal hauling business. Other western coal producers, particularly those in the Powder River Basin of Wyoming, have lower stripping ratios (that is, the amount of overburden that must be removed in proportion to the amount of minable coal) than the Black Butte and Decker mines, often resulting in lower comparative costs of production. As a result, KCP's production costs per ton of coal at the Black Butte and Decker mines can be as much as four and five times greater than production costs of certain competitors. KCP's production cost disadvantage has contributed to its agreement to amend its long-term contract with Commonwealth Edison Company to provide for delivery of coal from alternate source mines rather than from Black Butte. Because of these cost disadvantages, KCP does not expect that it will be able to enter into long-term coal purchase contracts for Black Butte and Decker production as the current long-term contracts expire. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

**Environmental Regulation.** The Company is required to comply with various federal, state and local laws and regulations concerning protection of the environment. KCP's share of land reclamation expenses in 1997 was \$3.6 million. KCP's share of accrued estimated reclamation costs was \$100 million at the end of 1997. The Company does not expect to make significant capital expenditures for environmental compliance in 1998. The Company believes its compliance with environmental protection and land restoration laws will not affect its competitive position since its competitors in the mining industry are similarly affected by such laws.

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

CalEnergy develops, owns, and operates electric power production facilities, particularly those using geothermal resources, in the United States, the Philippines, and Indonesia. In December 1996, CalEnergy and Level 3 acquired Northern Electric plc, an English electric utility company. CalEnergy is a Delaware corporation formed in 1971 and has its headquarters in Omaha, Nebraska. CalEnergy common stock is traded on the New York, Pacific, and London Stock Exchanges. In 1997, CalEnergy had revenue of \$2.3 billion and a net loss of \$84 million. At the end of 1997, CalEnergy had total assets of \$7.5 billion, debt of \$3.5 billion, and stockholders' equity of \$1.4 billion.

At the end of 1997, Level 3 owned approximately 24% of the common stock of CalEnergy. Under generally accepted accounting principles, an investor owning between 20% and 50% of a company's equity, generally uses the equity method. Under the equity method, Level 3 reports its proportionate share of CalEnergy's earnings, even though it has received no dividends from CalEnergy. Level 3 keeps track of the carrying value of its CalEnergy investment. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. At December 27, 1997 the carrying value of Level 3's CalEnergy shares was \$337 million. On January 2, 1998, Level 3 sold its entire interest in CalEnergy along with its interests in several development projects and Northern Electric plc. to CalEnergy for approximately \$1.16 billion.

### **OTHER BUSINESSES**

**SR91 Tollroad.** Level 3 has invested \$12 million for a 65% equity interest and \$4.3 million loan to California Private Transportation Company, L.P. which developed, financed, and currently operates the 91 Express Lanes, a ten mile, four lane tollroad in Orange County, California. The fully automated highway uses an electronic toll collection system and variable pricing to adjust tolls to demand. Capital costs at completion were \$130 million, \$110 million of which was funded with limited recourse debt. Revenue collected over the 35-year franchise period is used for operating expenses, debt repayment, and profit distributions. The tollroad opened in December 1995 and achieved operating break-even in 1996. Approximately 100,000 customers have registered to use the tollroad and weekday volumes typically exceed 29,000 vehicles per day.

**United Infrastructure Company.** UIC was an equal partnership between Kiewit Infrastructure Corp., a wholly owned subsidiary of Level 3, and Bechtel Infrastructure Enterprises, Inc. ("Bechtel"). UIC was formed in 1993 to develop North American infrastructure projects. During 1996, UIC began to focus primarily on water infrastructure projects, principally through U.S. Water, a partnership formed with United Utilities PLC, a U.K. company. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, on December 31, 1997 Level 3 sold its entire interest in UIC to Bechtel for \$10 million.

**Kiewit Mutual Fund.** Kiewit Mutual Fund, a Delaware business trust and a registered investment company, was formed in 1994. Initially formed to manage the Company's internal investments, shares in Kiewit Mutual Fund are now available for purchase by the general public. The Fund's investors currently include individuals and unrelated companies, as well as Company-affiliated joint ventures, pension plans, and subsidiaries. Kiewit Mutual Fund has six series: Money Market Portfolio, Government Money Market Portfolio, Short-Term Government Portfolio, Intermediate-Term Bond Portfolio, Tax-Exempt Portfolio, and the Equity Portfolio. In February 1997, the Fund adopted a master-feeder structure. Each of the Portfolios invests in a corresponding series of the Kiewit Investment Trust, which now manages the underlying securities holdings. The structure will allow smaller mutual funds and institutional investors to pool their assets with Kiewit Investment Trust, providing lower expense ratios for all participants. The registered investment adviser of Kiewit Investment Trust is Kiewit Investment Management Corp., a subsidiary of Level 3 (60%) and KCG (40%). At the end of 1997, Kiewit Mutual Fund had net assets of \$1.3 billion. As part of the strategic decision to concentrate on its information services business and the Expansion Plan, it is anticipated that Level 3 will sell its interest in Kiewit Investment Management Corp. to the Construction Group.

**Other.** In February 1997, Level 3 purchased an office building in Aurora, Colorado for \$22 million. By investing in real estate, Level 3 defers taxes on a portion of the \$40 million of taxable gain otherwise recognizable with respect to the Whitney Benefits litigation settlement in 1995. Level 3 may make additional real estate investments in 1998 with a view toward deferring the balance of that taxable gain. Level 3 has also

made investments in several development-stage companies, but does not expect earnings from these companies in 1998.

## **GENERAL INFORMATION**

Year 2000. PKS Computer Services, Inc., the computer outsourcing subsidiary of PKSIS, has developed a comprehensive approach to address the potential operational risks associated with the Year 2000, and began to implement remediation plans in 1997. As part of its plans PKS Computer Services is: working with its key suppliers to verify their operational viability through the Year 2000; reviewing building infrastructure components that may be affected by the Year 2000 issue, which components include fire alarms systems, security systems, and automated building controls; identifying hardware inventories that are affected by date logic that is not Year 2000 compliant, which hardware includes mainframe computers, mid-range computers, micro-computers, and network hardware. To the extent that vendors identify items that are not Year 2000 compliant, PKS Computer Services will work with the hardware vendor to develop a plan that will enable continuous operations through the Year 2000.

PKS Computer Services is responsible for providing an operating environment in which its customers applications are run. As a result, PKS Computer Services will confirm the system software inventories that it is responsible for managing. PKS Computer Services will then develop a plan with each of its customers that indicate that they intend to be customers in the year 2000 to provide for Year 2000 compliance.

PKS Computer Services believes that many of the required changes for hardware and operating environments will be included in the costs that are incurred for annual maintenance.

PKS Systems Integration LLC provides a wide variety of information technology services to its customers. In fiscal year 1997 approximately 80% of the revenue generated by PKSIS related to projects involving Year 2000 assessment and renovation services performed by PKS Systems Integration for its customers. These contracts generally require PKS Systems Integration to identify date affected fields in certain application software of its customers and, in many cases, PKS Systems Integration undertakes efforts to remediate those date-affected fields so that the applicable applications are able to process date-related information occurring on or before the Year 2000. Thus, Year 2000 issues affect many of the services PKS Systems Integration provides to its customers. This exposes PKS Systems Integration to potential risks that may include problems with services provided by PKS Systems Integration to its customers and the potential for claims arising under PKS Systems Integration customer contracts. PKS Systems Integration attempts to contractually limit its exposure to liability for Year 2000 compliance issues. However, there can be no assurance as to the effectiveness of such contractual limitations.

The expenses associated with this project by PKSIS, as well as the related potential effect on PKSIS's earnings is not expected to have a material effect on its future operating results or financial condition. There can be no assurance, however, that the Year 2000 problem, and any loss incurred by any customers of PKSIS as a result of the Year 2000 problem will not materially and adversely affect PKSIS and its business.

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

Employees. At the end of 1997, the Company and its majority-owned subsidiaries employed approximately 17,700 people - 16,200 in construction and materials operations, 500 by coal mining companies, 800 at PKSIS, and 200 in corporate and Level 3 positions. This does not include the employees of the C-TEC Companies.

## **MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

Market Information. As of December 27, 1997, the Company's common stock is not listed on any national securities exchange or the Nasdaq National Market. However, the Class D stock is currently quoted on the National Association of Securities Dealers, Inc.'s OTC Bulletin Board. During the fourth quarter of 1997, the only quarter during which this trading occurred, the range of the high and low bid information for the Class D stock was \$24.60 to \$29.00. The Company has announced that the common stock of Level 3 Communications, Inc. (renamed from Peter Kiewit Sons', Inc. in connection with the Transaction) will begin trading on the Nasdaq National Market on April 1, 1998.

Company Repurchase Duty. Pursuant to the current terms of the PKS Certificate, the Company is generally required to repurchase shares at a formula price upon demand. Under the PKS Certificate effective January 1992, the Company has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Exchangeable Common Stock ("Class B"), Class C stock, and Class D stock. There are no outstanding Class B stock; the last Class B stock were converted into Class D stock on January 1, 1997. Class C stock can be issued only to Company employees and can be resold only to the Company at a formula price based on the year-end book value of the Construction Group. The Company is generally required to repurchase Class C stock for cash upon stockholder demand. Class D stock has a formula price based on the year-end book value of the Diversified Group. The Company must generally repurchase Class D stock for cash upon stockholder demand at the formula price, unless the Class D stock become publicly traded.

Formula values. The formula price of the Class D stock is based on the book value of Level 3 and its subsidiaries, plus one-half of the book value, on a stand-alone basis, of the parent company, PKS. The formula price of the Class C stock is based on the book value of the Construction Group and its subsidiaries, plus one-half of the book value of the unconsolidated parent company. A significant element of the Class C formula price is the subtraction of the book value of property, plant, and equipment used in construction activities (\$122 million in 1997).

**Conversion.** Under the PKS Certificate, Class C stock is convertible into Class D stock at the end of each year. Between October 15 and December 15 of each year a Class C stockholder may elect to convert some or all of his or her shares. Conversion occurs on the following January 1. The conversion ratio is the relative formula prices of Class C and Class D stock determined as of the last Saturday in December, that is, the last day in the Company's fiscal year. Class D stock may be converted into Class C stock only as part of an annual offering of Class C stock to employees. Instead of purchasing the offered shares for cash, an employee owning Class D stock may convert such shares into Class C stock at the applicable conversion ratio.

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

**Dividends and Prices.** During 1996 and 1997 the Company declared or paid the following dividends on its common stock. The table also shows the stock price after each dividend payment or other valuation event.

Dividend Declared	Dividend Paid	Dividend Per Share	Class	Price Adjusted	Stock Price
Oct. 27, 1995	Jan. 5, 1996	0.50	D	Dec. 30, 1995	9.90*
Oct. 25, 1996	Jan. 4, 1997	0.50	D	Dec. 28, 1996	10.85*
			D	Dec. 27, 1997	11.65*

\* All stock prices for the Class D stock reflect a dividend of four shares of Class D stock for each outstanding share of Class D stock that was effective on December 26, 1997.

The Company's current dividend policy is to pay a regular dividend on Class C stock of about 15% to 20% of the prior year's ordinary earnings of the Construction Group, with any special dividends to be based on extraordinary earnings. Although the PKS Board announced in August 1993 that the Company did not intend to pay regular dividends on Class D stock for the foreseeable future, the PKS Board declared a special dividend of \$0.50 per share of Class D stock in both October 1995 and 1996.

A dividend of 4 shares of Class D Stock for each share of Class D Stock was effected on December 26, 1997.

**Stockholders.** On March 15, 1998, and after giving effect to a dividend of 4 shares of Class D Stock for each outstanding share of Class D stock effected on December 26, 1997, the Company had the following numbers of stockholders and outstanding shares for each class of its common stock:

Class of Stock	Stockholders	Shares Outstanding
B	-	-
C	996	7,681,020
D	2,121	146,943,752

**Recent Sales of Unregistered Securities.** On April 1, 1997, the Company sold 10,000 shares of Class D stock to Charles Harper and Robert Daugherty and 8,000 shares of Class D stock to Peter Kiewit Jr. at a sale price of \$49.50 per share. Each of Messrs Harper, Daugherty and Kiewit are members of the PKS Board of Directors. The sale was effected pursuant to an exemption from registration under the Securities Act of 1933 contained in Section 4(2) of such Act.

## SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the period 1993 to 1997 have been derived from audited financial statements. The historical financial information for the Diversified Group and Kiewit Construction & Mining Group supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
<b>Results of Operations:</b>					
Revenue (1)	\$ 332	\$ 652	\$ 580	\$ 537	\$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	93	113	140	33	181
<b>Per Common Share:</b>					
Earnings from continuing operations					
Basic	.66	.90	1.17	.27	1.74
Diluted	.66	.90	1.17	.27	1.74
Net earnings					
Basic	.74	.97	1.29	.32	1.82
Diluted	.74	.97	1.29	.32	1.81
Dividends (3)	-	.10	.10	-	.10
Stock price (4)	11.65	10.85	9.90	12.05	11.88



Book value	11.65	10.85	9.90	12.07	11.90
Financial Position:					
Total assets (1)	2,127	2,504	2,478	3,543	2,756
Current portion of long-term debt (1)	3	57	40	30	11
Long-term debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (5)	1,578	1,257	1,140	1,231	1,191

(1) In October 1993, the Group acquired 35% of the outstanding shares of C-TEC Corporation that had 57% of the available voting rights. At December 28, 1996, the Group owned 48% of the outstanding shares and 62% of the voting rights.

As a result of the C-TEC restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each of the three entities, and therefore accounted for each entity using the equity method in 1997. The Company consolidated C-TEC from 1993 to 1996.

In September 1995, the Group dividended its investment in MFS to Class D shareholders. MFS' results of operations have been classified as a single line item on the statements of earnings. MFS is consolidated in the 1993 and 1994 balance sheets.

In January 1994, MFS issued \$500 million of 9.375% Senior Discount Notes.

In September 1997, the Group agreed to sell its energy segment to CalEnergy Company, Inc. The transaction closed on January 2, 1998.

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

(3) The 1996, 1995 and 1993 dividends include \$.10 for dividends declared in 1996, 1995 and 1993 but paid in January of the subsequent year.

(4) Pursuant to the Certificate of Incorporation, the stock price calculation is computed annually at the end of the fiscal year.

(5) Unless Class D Stock becomes publicly traded, PKS is generally committed to purchase all Class D Stock at the amount computed, in accordance with the Certificate of Incorporation, when put to PKS by a stockholder. The aggregate redemption value of the Class D Stock at December 27, 1997 was \$1,578 million.

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

The financial statements of the Diversified Group ("the Group") include the financial position, results of operations and cash flows for the businesses of PKS other than its construction and materials businesses, and include certain PKS corporate assets and liabilities and related transactions. The Group's share of corporate assets and liabilities and related transactions includes amounts to reflect certain financial activities, corporate general and administrative costs, common stock transactions and income taxes. See Notes 1 and 6 to the Group's financial statements.

This document contains forward looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to the Group. When used in this document, the words "anticipate", "believe", "estimate" and "expect" and similar expressions, as they relate to the Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Group with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document.

#### Results of Operations 1997 vs. 1996

**Coal Mining.** Revenue from the Group's coal mines declined 5% in 1997 compared to 1996. Alternate source coal revenue declined by \$16 million in 1997. The mines primary customer, Commonwealth Edison, accelerated its contractual commitments in 1996 for alternate source coal, thus reducing its obligations in 1997. In addition to the decline in tonnage shipped, the price of coal sold to Commonwealth declined 1% in 1997. Revenue attributable to other contracts increased by approximately \$4 million. The actual amount of coal shipped to these customers increased 5% in 1997, but the price at which it was sold was 4% lower than 1996.

**Margin,** as a percentage of revenue, declined 11% from 1996 to 1997. Margins in 1996 were higher than normal due to the additional high margin alternate source coal sold to Commonwealth in 1996 and the refund of premiums from a captive insurance company that insured against black lung disease. The decline in Commonwealth shipments and an overall decline in average selling price adversely affected the results for 1997. If current market conditions continue, the Group will experience a decline in coal revenue and earnings after 1998 as certain long-term contracts begin to expire.

**Information Services.** Revenue increased by 124% to \$94 million in 1997 from \$42 million in 1996. Revenue from computer outsourcing services increased 20% to \$49 million in 1997 from \$41 million in 1996. The increase was due to new computer outsourcing contracts signed in 1997. Revenue for systems integration grew to \$45 million in 1997 from less than \$1 million in 1996. Strong demand for Year 2000 renovation services fueled the growth for systems integration's revenues.

Margin, as a percent of revenue, decreased to 28% in 1997 from 41% in 1996 for the computer outsourcing business. The reduction of the gross margin was due to up-front migration costs associated with new contracts and significant increases in personnel costs due to the tightening supply of computer professionals. Gross margin for the systems integration business was approximately 40% in 1997. A comparison to 1996 gross margin is not meaningful due to the start-up nature of the business.

**General and Administrative Expenses.** Excluding C-TEC, general and administrative expenses increased 20% to \$114 million in 1997. The increase was primarily attributable to a \$41 million increase in the information services business' general and administrative expenses. The majority of the increase is attributable to additional compensation expense that was incurred due to the conversion of a subsidiary's option and SAR plans to the Class D Stock option plan. The remainder of the increase relates to the increased expenses for new sales offices established in 1997 for the systems integration business and the additional personnel hired in 1997 to implement the expansion plan.

Exclusive of the information services business, general and administrative expenses decreased 26% to \$62 million in 1997. A decrease in professional services and the mine management fees were partially offset by increased compensation expense. Due to the favorable resolution of certain environmental and legal matters, costs that were previously accrued for these issues were reversed in 1997. Partially offsetting this reduction were legal, tax and consulting expenses associated with the CalEnergy transaction and the separation of the Construction and Mining Group and Diversified Group.

**Equity Losses.** The losses for the Group's equity investments increased from \$9 million in 1996 to \$43 million in 1997. Had the C-TEC entities been accounted for using the equity method in 1996, the losses would have increased to \$13 million. The expenses associated with the deployment and marketing of the advanced fiber networks in New York, Boston and Washington D.C., and the costs incurred in connection with the buyout of a marketing contract with minority shareholders are primarily responsible for the increase in equity losses attributable to RCN from \$6 million in 1996 to \$26 million in 1997. The Group's share of Cable Michigan's losses decreased to \$6 million in 1997 from \$8 million in 1996. This improvement is attributable to the gains recognized on the sale of Cable Michigan's Florida cable systems. Commonwealth Telephone's earnings were consistent with that of 1996. The Group recorded equity earnings of \$9 million in each year attributable to Commonwealth Telephone. The Group also recorded equity losses attributable to several developing businesses.

**Investment Income.** Investment income increased 7% in 1997 after excluding C-TEC's \$14 million of investment income in 1996. Gains recognized on the sale of marketable securities, primarily within the Kiewit Mutual Fund ("KMF"), increased from \$3 million in 1996 to \$9 million in 1997. In 1997, KMF repositioned the securities within its portfolios to more closely track the overall market. Partially offsetting these additional gains was a decline in interest income due to an overall reduction of yield earned by the KMF portfolios.

**Interest Expense.** Interest expense increased significantly in 1997 after excluding \$28 million of interest attributable to C-TEC in 1996. CPTC, the owner-operator of a privatized tollroad in California, incurred interest costs of approximately \$9 million and \$11 million in 1996 and 1997. In 1996, interest of \$5 million was capitalized due to the construction of the tollroad. Construction was completed in August 1996, and all interest incurred subsequent to that date was charged against earnings. Interest associated with the financing of the Aurora, Colorado property of \$1 million, also contributed to the increase in interest expense.

**Other Income.** Other income in 1996 includes \$2 million of other expenses attributable to C-TEC. Excluding these losses, other income declined from \$8 million in 1996 to \$1 million in 1997. The absence of gains on the sale of timberland properties and other assets, which accounted for \$6 million of income in 1996, is responsible for the decline.

**Income Tax (Provision) Benefit.** The effective income tax rate for 1997 is less than the expected statutory rate of 35% due primarily to prior year tax adjustments, partially offset by the effect of nondeductible compensation expense associated with the conversion of the information services option and SAR plans to the Class D Stock plan. In 1996, the effective rate was also lower than the statutory rate due to prior year tax adjustments. These adjustments were partially offset by nondeductible costs associated with goodwill amortization and taxes on foreign operations. In 1997 and 1996, the Group settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

**Discontinued Operations.** Income from discontinued operations increased to \$29 million in 1997 from \$9 million in 1996. The acquisition of Northern Electric in late 1996 and the commencement of operations at the Mahanagdong geothermal facility in July, 1997 were the primary factors that resulted in the increase.

In October 1997, CalEnergy sold approximately 19.1 million shares of its common stock. This sale reduced the Group's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Group's policy to recognize gains or losses on the sale of stock by its investees. The Group recognized an after tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted on July 31, 1997. The total after-tax impact to the Group, directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

## **Results of Operations 1996 vs. 1995**

**Coal Mining.** Revenue and net earnings improved primarily due to increased alternate source tons sold to Commonwealth Edison Company in 1996 and the liquidation of a captive insurance company which insured against black lung disease. Upon liquidation, the Group received a refund of premiums paid plus interest in excess of reserves established by the Group for this liability. Since 1993, the amended contract with Commonwealth provided that delivery commitments would be satisfied with coal produced by unaffiliated mines in the Powder River Basin in Wyoming. Coal produced at the Group's mines did not change significantly from 1995 levels

**Information Services.** Revenue increased 17% to \$42 million in 1996 from \$36 million in 1995. The increase was primarily due to new computer outsourcing contracts signed in 1996. Less than \$1 million of revenue was generated by the operations of the new systems integration business, started in February, 1996.

**Margin as a percent of revenue for the outsourcing business** decreased to 41% in 1996 from 45% in 1995. The reduction of the gross margin was primarily due to up-front migration costs for new customers which were recognized as an expense when incurred.

**Telecommunications.** Revenue for the telecommunications segment increased 13% to \$367 million for fiscal 1996. C-TEC's telephone group's \$10 million, or 8%, increase in sales and C-TEC's cable group's \$33 million or 26% increase in revenue were the primary contributors to the improved results. The increase in telephone group revenue is due to higher intrastate access revenue from the growth in access minutes, an increase of 13,000 access lines, and higher internet access and video conferencing sales. Cable group revenue increased primarily due to higher average subscribers and the effects of rate increases in April 1995 and February 1996. Subscriber counts increased primarily due to the acquisition of Pennsylvania Cable Systems, formerly Twin County Trans Video, Inc., in September 1995, and the consolidation of Mercom, Inc. since August 1995. Pennsylvania Cable Systems and Mercom account for \$23 million of the increase in cable revenue in 1996.

The 1996 operating expenses for the telecommunications business increased \$38 million or 18% compared to 1995. The telephone group experienced a 9% increase in expenses and the cable group's costs increased 31%. The increase for the telephone group was primarily attributable to higher payroll expenses resulting from additional personnel, wage increases and higher overtime. Also contributing to the increase, were fees associated with the internet access services and consulting services for a variety of regulatory and operational matters. The cable group's increase was due to increased depreciation, amortization and compensation expenses associated with the acquisition of Pennsylvania Cable Systems and the consolidation of Mercom's operations. Also contributing to the higher costs were rate increases for existing programming and the costs for additional programming.

**General and Administrative Expenses.** General and administrative expenses declined 5% to \$181 million in 1996. Decreases in expenses associated with legal and environmental matters were partially offset by higher mine management fees paid to the Construction & Mining Group, the costs attributable to C-TEC and the opening of the SR91 toll road. C-TEC's corporate overhead and other costs increased approximately 13% in 1996. This increase is attributable to costs associated with the development of the RCN business in New York and Boston, the acquisition of Pennsylvania Cable Systems, the consolidation of Mercom and the investigation of the feasibility of various restructuring alternatives.

**Equity Earnings, net.** Losses attributable to the Group's equity investments increased to \$9 million in 1996 from \$5 million in 1995. The additional losses were attributable to an enterprise engaged in the renewable fuels business and to C-TEC's investment in MegaCable S.A. de C.F., Mexico's second largest cable television operator.

**Investment Income, net.** Investment income increased 24% in 1996 compared to 1995. Increased gains on the sale of marketable and equity securities and interest income were partially offset by a slight decline in dividend income.

**Interest Expense, net.** Interest expense in 1996 increased 43% compared to 1995. The increase was primarily due to interest on the CPTC debt that was capitalized through July 1996, and C-TEC's redeemable preferred stock, issued in the Pennsylvania Cable Systems acquisition, that began accruing interest in 1996.

**Gain on Subsidiary's Stock Transactions, net.** The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Group in 1995.

**Other, net.** The decline of other income in 1996 was primarily attributable to the 1995 settlement of the Whitney Benefits litigation.

**Income Tax Benefit (Provision).** The effective income tax rate for 1996 differs from the statutory rate of 35% primarily because of adjustments to prior year tax provisions, partially offset by state taxes and nondeductible amounts associated with goodwill amortization. In 1995, the rate is lower than 35% due primarily to \$93 million of income tax benefits from the reversal of certain deferred tax liabilities originally recognized on gains from MFS stock transactions that are no longer required due to the tax-free spin-off of MFS, and adjustments to prior year tax provisions.

**Discontinued Operations.** Income from discontinued operations declined in 1996 by 36% to \$9 million. Losses attributable to the Group's interest in the Casecan project, additional development expenses for international activities, and the costs associated with the Northern Electric transaction were partially offset by increased equity earnings from CalEnergy.

### **Financial Condition - December 27, 1997**

The Group's working capital, excluding C-TEC and discontinued operations, increased \$392 million or 106% during 1997. This is due to the

\$182 million of cash generated by operations, primarily coal operations, and the significant financing activities described below.

Investing activities include \$452 million to purchase marketable securities, \$42 million of investments and \$26 million of capital expenditures, including \$14 million for the existing information services business and \$6 million for a corporate jet. The investments primarily include the Group's \$22 million investment in the Pavilion Towers office complex, located in Aurora, Colorado, and \$15 million of investments in developing businesses. Funding a portion of the activities was the sale of marketable securities for \$167 million.

Sources of financing include \$138 million from the issuance of Class D Stock, \$72 million from the exchange of Class C stock for Class D stock and \$16 million from the financing for Pavilion Towers. Uses consist primarily of \$12 million for the payment of dividends, and \$2 million of payments on long-term debt.

Prior to the execution of an agreement with CalEnergy in September, 1997, the Group invested \$31 million in the Dieng, Patuha and Bali power projects in Indonesia.

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a split-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitively abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

The Group has recently decided to substantially increase its emphasis on and resources to its information services to business. Pursuant to the plan, the Group intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

Using this network the Group intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at a lower price than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

The Group believes that over time, a substantial number of businesses will convert existing computer application systems to computer systems which communicate using TCP/IP and are accessed by users employing Web browsers. The Group further believes that businesses will prefer to contract for assistance in making this conversion with those vendors able to provide a full range of services from initial consulting to internet access with requisite quality and security levels.

The Group anticipates that the capital expenditures required to implement this expansion plan will be substantial. The Group estimates that these costs may be in excess of \$500 million in 1998 and could exceed \$1.5 billion in 1999. The Group's current financial condition, borrowing capacity and proceeds from the CalEnergy transaction described below should be sufficient for immediate implementing and investing activities including any acquisitions. However, the Group expects to raise capital from both the equity and debt markets due to the significant capital requirements of the information services expansion plan.

In connection with the Expansion Plan, the Group expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of the Group. In that respect, the management is conducting a comprehensive review of the existing Group businesses to determine how those businesses will complement the Group's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, the Group may dispose of that business.

In January 1998, the Group and CalEnergy closed the sale of the Group's energy assets to CalEnergy. The Group received proceeds of \$1,159 million and expects to recognize an after-tax gain of approximately \$324 million in 1998. The after-tax proceeds from this transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

In January 1998, Class C shareholders converted 2.3 million shares, with a redemption value of \$122 million, into 10.5 million shares of Class D Stock.

In February 1998, the Group announced that it was moving its corporate headquarters to Broomfield, Colorado, a northwest suburb of Denver. The campus facility is expected to encompass over 500,000 square feet of office space at a construction cost of over \$70 million. The Group is leasing space in the Denver area while the campus is under construction. The first phase of the complex is scheduled for completion in the summer of 1999.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVLT." The Nasdaq listing will follow the separation of the Group and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D Stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of the Group and the Construction Group. To replace that conversion right, Class C stockholders received shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by the Level 3 Board of Directors at that time. The Level 3 Board may choose not to force conversion if it were decided that conversion is not in the best interests of the stockholders of Level 3. If, as currently anticipated, the Level 3 Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If the Level 3 Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D Stock) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

## **DIVERSIFIED GROUP**

### **Index to Financial Statements**

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

Financial Statements as of December 27, 1997 and December 28, 1996 and for the three years ended December 27, 1997:

Statements of Earnings  
Balance Sheets  
Statements of Cash Flows  
Statements of Changes in Stockholders' Equity Notes to Financial Statements

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

## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

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

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

In our opinion, the financial statements referred to above, when read in conjunction with the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries, present fairly, in all material respects, the financial position of the Diversified Group as of December 27, 1997 and

December 28, 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 27, 1997 in conformity with generally accepted accounting principles.

## Coopers & Lybrand L.L.P.

Omaha, Nebraska  
March 30, 1998

### DIVERSIFIED GROUP

#### Statements of Earnings

For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Revenue	\$ 332	\$ 652	\$ 580
Cost of Revenue	(175)	(384)	(345)
	-----	-----	-----
	157	268	235
General and Administrative Expenses	(114)	(181)	(190)
	-----	-----	-----
Operating Earnings	43	87	45
Other (Expense) Income:			
Equity losses, net	(43)	(9)	(5)
Investment income, net	45	56	45
Interest expense, net	(15)	(33)	(23)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	1	6	125
	-----	-----	-----
	(12)	20	145
Equity Loss in MFS	-	-	(131)
	-----	-----	-----
Earnings Before Income Taxes, Minority Interest and Discontinued Operations	31	107	59
Income Tax Benefit (Provision)	48	(3)	79
Minority Interest in Net Loss (Income) of Subsidiaries	4	-	(12)
	-----	-----	-----
Income from Continuing Operations	83	104	126
Discontinued Operations:			
Income from Operations, net of income tax expense of (\$9), (\$9) and (\$8)	29	9	14
Gain on Subsidiary's Stock Transactions, net of income tax expense of (\$24)	44	-	-
Extraordinary Item - Windfall tax, net of income tax benefit of \$34	(63)	-	-
	-----	-----	-----
Income from Discontinued Operations	10	9	14
	-----	-----	-----
Net Earnings	\$ 93	\$ 113	\$ 140
	=====	=====	=====
Earnings Per Share:			
Continuing Operations:			
Basic	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Diluted	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Net Income:			
Basic	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====
Diluted	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====

See accompanying notes to financial statements.

### DIVERSIFIED GROUP

## Balance Sheets

December 27, 1997 and December 28, 1996

(dollars in millions)	1997	1996
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 87	\$ 147
Marketable securities	678	372
Restricted securities	22	17
Receivables, less allowance of \$-, and \$3	42	76
Investments in discontinued operations	643	608
Other	22	26
	-----	-----
Total Current Assets	1,494	1,246
 Property, Plant and Equipment, at cost:		
Land	15	18
Buildings and leasehold improvements	122	159
Equipment	275	810
	-----	-----
	412	987
Less accumulated depreciation and amortization	(228)	(345)
	-----	-----
Net Property, Plant and Equipment	184	642
 Investments	383	189
 Intangible Assets, net	21	353
 Other Assets	45	74
	-----	-----
	\$ 2,127	\$ 2,504
	=====	=====

See Note 19 for 1997 pro forma balance sheet information. See accompanying notes to financial statements.

## DIVERSIFIED GROUP

### Balance Sheets

December 27, 1997 and December 28, 1996

(continued)

(dollars in millions)	1997	1996
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 31	\$ 79
Current portion of long-term debt:		
Telecommunications	-	55
Other	3	2
Accrued reclamation and other mining costs	19	19
Deferred income taxes	15	5
Other	21	87
	-----	-----
Total Current Liabilities	89	247
 Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	137	113
 Deferred Income Taxes	83	148
 Accrued Reclamation Costs	100	98
 Other Liabilities	139	216
 Minority Interest	1	218

Stockholders' Equity (Redeemable Common Stock, \$1,578 million aggregated redemption value):		
135,517,140 shares outstanding in 1997 and		
115,901,215 shares outstanding in 1996		
Common equity	1,565	1,235
Foreign currency adjustment	-	(2)
Net unrealized holding gain	13	24
	-----	-----
Total Stockholders' Equity	1,578	1,257
	-----	-----
	\$ 2,127	\$ 2,504
	=====	=====

See Note 19 for 1997 pro forma balance sheet information. See accompanying notes to financial statements.

## DIVERSIFIED GROUP

### Statements of Cash Flows

For the three years ended December 27, 1997

(dollars in millions)	1997	1996	1995
Cash flows from continuing operations:			
Income from continuing operations	\$ 83	\$ 104	\$ 126
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Depreciation, depletion and amortization	24	132	96
Gain on sale of property, plant and equipment, and other investments	(9)	(3)	(7)
Gain on subsidiary's stock transactions, net	-	-	(3)
Compensation expense attributable to stock options	21	-	-
Equity losses, net	43	10	130
Minority interest in subsidiaries	(4)	-	12
Retirement benefits paid	(7)	(6)	(2)
Federal income tax refunds	146	-	35
Deferred income taxes	(103)	(68)	(152)
Change in working capital items:			
Receivables	(9)	(1)	11
Other current assets	(1)	6	-
Payables	(3)	9	(3)
Other liabilities	(5)	13	34
Other	6	-	(4)
	-----	-----	-----
Net cash provided by continuing operations	182	196	273
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	167	378	383
Purchases of marketable securities	(452)	(311)	(440)
Increase in restricted securities	(2)	(2)	(2)
Investments and acquisitions, net of cash acquired	(42)	(59)	(136)
Proceeds from sale of property, plant and equipment, and other investments	1	7	14
Capital expenditures	(26)	(117)	(118)
Other	3	(8)	(2)
	-----	-----	-----

Net cash used in investing activities \$ (351) \$ (112) \$ (301)

See accompanying notes to financial statements.

## DIVERSIFIED GROUP

### Statements of Cash Flows

For the three years ended December 27, 1997

(continued)



(dollars in millions)	1997	1996	1995
Cash flows from financing activities:			
Long-term debt borrowings	\$ 17	\$ 38	\$ 49
Payments on long-term debt, including current portion	(2)	(60)	(49)
Issuances of common stock	138	-	2
Issuances of subsidiaries' stock	-	1	-
Repurchases of common stock	-	(11)	(3)
Dividends paid	(12)	(11)	-
Exchange of Class C Stock for Class D Stock, net	72	20	155
	-----	-----	-----
Net cash provided by (used in) financing activities	213	(23)	154
Cash flows from discontinued operations:			
Discontinued energy operations	3	5	8
Investments in discontinued energy operations	(31)	(282)	(101)
Proceeds from sales of discontinued packaging operations	-	-	29
	-----	-----	-----
Net cash used in discontinued operations	(28)	(277)	(64)
Cash and cash equivalents of C-TEC in 1997 and MFS in 1995 at beginning of year	(76)	-	(22)
Effect of exchange rates on cash	-	-	2
	-----	-----	-----
Net change in cash and cash equivalents	(60)	(216)	42
Cash and cash equivalents at beginning of year	147	363	321
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 87	\$ 147	\$ 363
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Taxes paid	\$ 62	\$ 55	\$ 132
Interest paid	13	38	33
Noncash investing and financing activities:			
Conversion of CalEnergy convertible debentures to common stock	\$ -	\$ 66	\$ -
Dividend of investment in MFS	-	-	399
Issuance of C-TEC redeemable preferred stock for acquisition	-	-	39

See accompanying notes to financial statements.

## DIVERSIFIED GROUP

### Statements of Changes in Stockholders' Equity For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Common equity:			
Balance at beginning of year	\$ 1,235	\$ 1,125	\$ 1,238
Issuances of stock	138	-	5
Repurchases of stock	-	(11)	(3)
Exchange of Class C Stock for Class D Stock, net	72	20	155
Net earnings	93	113	140
Stock option plan activity	27	-	-
Dividend of investment in MFS	-	-	(399)
Dividends (per share: \$.10 in 1996 and 1995(a))	-	(12)	(11)
	-----	-----	-----
Balance at end of year	1,565	1,235	1,125
Other equity adjustments:			
Balance at beginning of year	22	15	(7)
Foreign currency adjustment	2	(1)	(1)
Net unrealized holding gain (loss)	(11)	8	23
	-----	-----	-----
Balance at end of year	13	22	15
	-----	-----	-----
Total stockholders' equity	\$ 1,578	\$ 1,257	\$ 1,140
	=====	=====	=====

(a) Dividend declared in 1996 and 1995 but paid in January of the subsequent year.

See accompanying notes to financial statements.

## **DIVERSIFIED GROUP**

### **Notes to Financial Statements**

#### **(1) Basis of Presentation**

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

The financial statements of the Diversified Group include the financial position, results of operations and cash flows for PKS' businesses other than its Construction & Mining Group businesses, held by a wholly-owned subsidiary, Level 3 Communications, Inc., (formerly Kiewit Diversified Group Inc.) and certain PKS corporate assets and liabilities and related transactions. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements.

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

#### **(2) Summary of Significant Accounting Policies**

### **Principles of Group Presentation**

These financial statements include the accounts of the Diversified Group ("the Group"). The Group's and Construction & Mining Group's financial statements, taken together, comprise all of the accounts included in the PKS consolidated financial statements. The Group's enterprises include information services, telecommunications (C-TEC entities), coal mining and California Private Transportation Company, L.P. ("CPTC"), the owner-operator of the SR91 toll road in southern California. The Group's only reportable segments are information services, telecommunications and coal mining.

On September 5, 1997, C-TEC Corporation ("C-TEC") announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies. The transaction was effective September 30, 1997. As a result of the restructuring plan, the Group owns less than 50% of the outstanding shares and voting rights of each entity, and therefore has accounted for each entity using the equity method as of the beginning of 1997. In accordance with Generally Accepted Accounting Principles, C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 financial statements.

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

The results of operations of MFS Communications Company, Inc. ("MFS"), (which later merged into WorldCom Inc.), prior to its spin-off in September 1995, have been classified as a single line item on the 1995 statement of earnings (See Note 5).

The Group invests in the portfolios of the Kiewit Mutual Fund, ("KMF"), a registered investment company. KMF is not consolidated in the Group's financial statements.

### **Coal Sales Contracts**

The Group's coal is sold primarily under long-term contracts with electric utilities, which burn coal in order to generate steam to produce electricity. A substantial portion of the Group's coal sales were made under long-term contracts during 1997, 1996 and 1995. The remainder of the Group's sales are made on the spot market where prices are substantially lower than those in the long-term contracts. As the long-term contracts expire, a higher proportion of the Group's sales will occur on the spot market.

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

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

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

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

### **Telecommunications Revenue**

In 1996 and 1995 C-TEC's most significant operating groups are its local telephone service and cable system operations. C-TEC's telephone network access revenues are derived from net access charges, toll rates and settlement arrangements for traffic that originates or terminates within C-TEC's local telephone company. Revenues from telephone services and basic and premium cable programming services are recorded in the month service is provided.

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

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

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

As noted above, the investment in C-TEC has been accounted for using the equity method in 1997. (See Note 9)

### **Information Services Revenue**

Information services revenue is primarily derived from the computer outsourcing business and the systems integration business. The Group provides outsourcing service, typically through contracts ranging from 3-5 years, to firms that desire to focus their resources on their core businesses. Under these contracts, the Group recognizes revenue in the month the service is provided. The systems integration business helps customers define, develop and implement cost-effective information systems. Revenue from these services is billed on a time and materials basis or percentage of completion basis depending on the extent of the services provided.

### **Depreciation and Amortization**

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

### **Intangible Assets**

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

### **Long Lived Assets**

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

### **Reserves for Reclamation**

The Group follows the policy of providing an accrual for reclamation of mined properties, based on the estimated cost of restoration of such properties, in compliance with laws governing strip mining. It is at least reasonably possible that the estimated cost of restoration will be revised in the near term.

## Foreign Currencies

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

## Subsidiary and Investee Stock Activity

The Group recognizes gains and losses from the sale, issuance and repurchase of stock by its subsidiaries and equity investees.

## Earnings Per Share

In 1997, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". The Statement establishes standards for computing and presenting earnings per share and requires the restatement of prior per share data presented. Basic earnings per share have been computed using the weighted average number of shares outstanding during each period. Diluted earnings per share is computed by including stock options and convertible debentures considered to be dilutive common stock equivalents.

Potentially dilutive stock options are calculated in accordance with the treasury stock method which assumes that proceeds from the exercise of all options are used to repurchase common stock at the average market value. The number of shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the options. The potentially dilutive convertible debentures are calculated in accordance with the "if converted" method. This method assumes that the after-tax interest expense associated with the debentures is an addition to income and the debentures are converted into equity with the resulting common shares being aggregated with the weighted average shares outstanding.

The following details the earnings per share calculations for Class D Stock:

	1997	1996	1995
Income from continuing operations available to common shareholders (in millions)	\$ 83	\$ 104	\$ 126
Add: Interest expense, net of tax effect associated with convertible debentures	-	-	-*
	-----	-----	-----
Income from continuing operations for fully diluted shares	83	104	126
Income from discontinued operations	10	9	14
	-----	-----	-----
Net Income	\$ 93	\$ 113	\$ 140
	=====	=====	=====
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	124,647	116,006	108,594
Additional dilutive stock options	539	311	-
Additional dilutive shares assuming conversion of convertible debentures	-	-	257
	-----	-----	-----
Total number of shares used to compute diluted earnings per share	125,186	116,317	108,851
	=====	=====	=====
Continuing Operations:			
Basic earnings per share	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Diluted earnings per share	\$ .66	\$ .90	\$ 1.17
	=====	=====	=====
Discontinued Operations:			
Basic earnings per share	\$ .08	\$ .07	\$ .12
	=====	=====	=====
Diluted earnings per share	\$ .08	\$ .07	\$ .12
	=====	=====	=====
Net Income:			
Basic earnings per share	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====
Diluted earnings per share	\$ .74	\$ .97	\$ 1.29
	=====	=====	=====

\*Interest expense attributable to convertible debentures was less than \$1 million in 1995.

### **Stock Dividend**

Effective December 26, 1997, the PKS Board of Directors approved a dividend of four shares of Class D Stock for every one share of Class D Stock held. All share information and per share data have been restated to reflect this dividend.

### **Income Taxes**

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

### **Use of Estimates**

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

### **Recently Issued Accounting Pronouncements**

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements.

Also in 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which changes the way public companies report information about segments. SFAS No. 131, which is based on the management approach to segment reporting includes requirements to report selected segment information quarterly, and entity wide disclosures about products and services, major customers, and geographic data.

These statements are effective for financial statements for periods beginning after December 15, 1997. Management does not expect adoption of these statements to materially affect the Group's financial statements.

### **Reclassifications**

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

### **Fiscal Year**

The Group's fiscal year ends on the last Saturday in December. There were 52 weeks in fiscal years 1997, 1996 and 1995.

### **(3) Reorganization**

In October 1996, the PKS Board of Directors directed PKS management to pursue a listing of Class D Stock as a way to address certain issues created by PKS' two-class capital stock structure and the need to attract and retain the best management for PKS' businesses. During the course of its examination of the consequences of a listing of Class D Stock, management concluded that a listing of Class D Stock would not adequately address these issues, and instead began to study a separation of the Construction and Mining Group and the Diversified Group. At the regular meeting of the Board on July 23, 1997, management submitted to the Board for consideration a proposal for separation of the Construction and Mining Group and Diversified Group through a split-off of the Construction and Mining Group ("the Transaction"). At a special meeting on August 14, 1997, the Board approved the Transaction.

The separation of the Construction and Mining Group and the Diversified was contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by PKS of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. On December 8, 1997, PKS' Class C and Class D shareholders approved the transaction and on March 5, 1998 PKS received a favorable ruling from the Internal Revenue Service. The Transaction is anticipated to be effective on March 31, 1998.

The Group has recently decided to substantially increase its emphasis on and resources to its information services business. Pursuant to the plan, the Group intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network ("the Expansion Plan").

Using this network the Group intends to provide (a) a range of internet access services at varying capacity levels and, as technology development allows, at specified levels of quality of service and security and (b) a number of business oriented communications services which may include fax service, which are transmitted in part over private or limited access Transmission Control Protocol/Internet Protocol ("TCP/IP") networks and are offered at lower prices than public telephone network-based fax service, and voice message storing and forwarding over the same TCP/IP-based networks.

#### (4) Discontinued Operations

In connection with the Expansion Plan, the Group expects to devote substantially more management time and capital resources to its information services business with a view to making the information services business, over time, the principal business of the Group. In that respect, management is conducting a comprehensive review of the existing Group businesses to determine how those businesses will complement the Group's focus on information services. If it is decided that an existing business is not compatible with the information services business and if a suitable buyer can be found, the Group may dispose of that business.

On September 10, 1997, the Group and CalEnergy Company, Inc. ("CalEnergy") entered into an agreement whereby CalEnergy contracted to purchase the Group's energy investments for \$1,155 million, subject to adjustments. These energy investments included approximately 20.2 million shares of CalEnergy common stock (assuming the exercise of 1 million options held by the Group), the Group's 30% ownership interest in CE Electric UK, plc ("CE Electric") and the Group's investments, made jointly with CalEnergy, in international power projects in Indonesia and the Philippines. The transaction was subject to the satisfactory completion of certain provisions of the agreement and closed on January 2, 1998. These assets comprised the energy segment of the Group. Therefore, the Group has reflected these assets, the earnings and losses attributable to these assets, and the related cash flow items as discontinued operations on the balance sheets, statements of earnings and cash flows for all periods presented.

In order to fund the purchase of these assets, CalEnergy sold, in October 1997, approximately 19.1 million shares of its common stock at a price of \$37.875 per share. This sale reduced the Group's ownership in CalEnergy to approximately 24% but increased its proportionate share of CalEnergy's equity. It is the Group's policy to recognize gains or losses on the sale of stock by its investees. The Group recognized an after-tax gain of approximately \$44 million from transactions in CalEnergy stock in the fourth quarter of 1997.

The Agreement with CalEnergy included a provision whereby CalEnergy and the Group shared equally any proceeds from the offering above or below a specified amount. The offering was conducted at a price above that provided in the agreement and therefore, the Group received additional proceeds of \$16 million at the time of closing.

The Group expects to recognize an after-tax gain on the disposition of its energy assets in 1998 of approximately \$324 million. The after-tax proceeds from the transaction of approximately \$967 million will be used to fund the expansion plan of the information services business.

The following is summarized financial information for discontinued operations:

Income from Discontinued Operations	1997	1996	1995
Operations			
Equity in:			
CalEnergy earnings, net	\$ 16	\$ 20	\$ 10
CE Electric earnings, net	17	(2)	-
International energy projects earnings, net	5	(5)	6
Investment income from CalEnergy	-	5	6
Income tax expense	(9)	(9)	(8)
	-----	-----	-----
Income from operations	\$ 29	\$ 9	\$ 14
	=====	=====	=====
CalEnergy Stock Transactions			
Gain on investee stock activity	\$ 68	\$ -	\$ -
Income tax expense	(24)	-	-
	-----	-----	-----
	\$ 44	\$ -	\$ -
	=====	=====	=====
Extraordinary Loss - Windfall Tax			
Group's share from CalEnergy	\$ (39)	\$ -	\$ -
Group's share from CE Electric	(58)	-	-
Income tax benefit	34	-	-
	-----	-----	-----
Extraordinary loss	\$ (63)	\$ -	\$ -
	=====	=====	=====
Investments in Discontinued Operations	1997	1996	

Investment in CalEnergy	\$ 337	\$ 292
Investment in CE Electric	135	176
Investment in international energy projects	186	149
Restricted securities	2	8
Deferred income tax liability	(17)	(17)
	-----	-----
Total	\$ 643	\$ 608
	=====	=====

At December 27, 1997, the Group owned 19.2 million shares or 24% of CalEnergy's outstanding common stock and had a cumulative investment in CalEnergy common stock of \$337 million. CalEnergy common stock is traded on the New York Stock Exchange. On December 27, 1997, the market value of the Group's investment in CalEnergy common stock was \$548 million.

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

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 2,271	\$ 576	\$ 399
Income before extraordinary item	52	92	62
Extraordinary item - Windfall tax	(136)	-	-
Group's share:			
Income before extraordinary item	18	22	13
Goodwill amortization	(2)	(2)	(3)
	-----	-----	-----
Equity in income of CalEnergy before extraordinary item	\$ 16	\$ 20	\$ 10
	=====	=====	=====
Extraordinary item - Windfall tax	\$ (39)	\$ -	\$ -
	=====	=====	=====
Financial Position (dollars in millions)	1997	1996	
Current assets	\$ 2,053	\$ 945	
Other assets	5,435	4,768	
	-----	-----	
Total assets	7,488	5,713	
Current liabilities	1,440	1,232	
Other liabilities	4,494	3,301	
Minority interest	134	299	
	-----	-----	
Total liabilities	6,068	4,832	
	-----	-----	
Net assets	\$ 1,420	\$ 881	
	=====	=====	
Group's share:			
Equity in net assets	\$ 337	\$ 267	
Goodwill	-	25	
	-----	-----	
Investment in CalEnergy	\$ 337	\$ 292	
	=====	=====	

In December 1996, CE Electric, which is 70% owned by CalEnergy and 30% owned by the Group, acquired majority ownership of the outstanding ordinary share capital of Northern Electric, plc. pursuant to a tender offer (the "Tender Offer") commenced in the United Kingdom by CE Electric in November 1996. As of March 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

As of December 27, 1997, CalEnergy and the Group had contributed to CE Electric approximately \$410 million and \$176 million, respectively, of the approximately \$1.3 billion required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The remaining funds necessary to consummate the Tender Offer were provided by a term loan and a revolving facility agreement obtained by CE Electric. The Group has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern Electric, plc. at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted in July 1997. The total after-tax impact to the Group, directly through its investment in CE Electric and indirectly through its interest in CalEnergy, was \$63 million.

The following is summarized financial information of CE Electric as of December 31, 1997 and December 31, 1996:

Operations (dollars in millions)	1997	1996
Revenue	\$ 1,564	\$ 37
Income before extraordinary item	58	-
Extraordinary item - Windfall tax	(194)	-
Group's share:		
Income before extraordinary item	\$ 17	\$ -
Management fee paid to CalEnergy	-	(2)
	-----	-----
	\$ 17	\$ (2)
	=====	=====
Extraordinary item - Windfall tax	\$ (58)	\$ -
	=====	=====
Financial Position (dollars in millions)	1997	1996
Current assets	\$ 419	\$ 583
Other assets	2,519	1,772
	-----	-----
Total assets	2,938	2,355
Current liabilities	1,166	785
Other liabilities	1,265	718
Preferred stock	56	153
Minority interest	-	112
	-----	-----
Total liabilities	2,487	1,768
	-----	-----
Net assets	\$ 451	\$ 587
	=====	=====
Group's Share:		
Equity in net assets	\$ 135	\$ 176
	=====	=====

CE Electric's 1995 and 1996 operating results prior to the acquisitions were not significant relative to the Group's results after giving effect to certain pro forma adjustments related to the acquisitions, primarily increased amortization and interest expense.

In 1993, the Group and CalEnergy formed a venture to develop power projects outside of the United States. Since 1993, construction has begun on the Mahanagdong, Casecnan and Dieng power projects. The Mahanagdong project is a 165 MW geothermal power facility located on the Philippine island of Leyte. The Casecnan project is a combined irrigation and 150 MW hydroelectric power generation facility located on the island of Luzon in the Philippines. Dieng Unit I is a 55 MW geothermal facility on the Indonesian island of Java. An additional five units are expected to be constructed on a modular basis at the Dieng site, as geothermal resources are developed. In June 1997, the Group and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to the Group.

Generally, costs associated with the development, financing and construction of the international energy projects have been capitalized by each of the projects and will be amortized over the life of each project.

The following is summarized financial information for the international energy projects:

Financial Position (dollars in millions)	Mahanagdong	Casecnan	Dieng	Other	Total
1997					
Current assets	\$ 42	\$ 334	\$ 87	\$ 67	\$ 530
Other assets	252	148	240	171	811
	-----	-----	-----	-----	-----
Total assets	294	482	327	238	1,341
Current liabilities	11	12	88	61	172
Other liabilities	186	372	123	56	737
	-----	-----	-----	-----	-----
Total liabilities (with recourse only to the projects)	197	384	211	117	909
	-----	-----	-----	-----	-----
Net assets	\$ 97	\$ 98	\$ 116	\$ 121	\$ 432
	=====	=====	=====	=====	=====
Group's share:					
Equity in net assets	\$ 48	\$ 49	\$ 46	\$ 43	\$ 186
	=====	=====	=====	=====	=====



1996

Current assets	\$ 1	\$ 441	\$ 15	\$ 10	\$ 467
Other assets	239	51	118	36	444
	-----	-----	-----	-----	-----
Total assets	240	492	133	46	911
Current liabilities	15	9	24	11	59
Other liabilities	153	372	35	-	560
	-----	-----	-----	-----	-----
Total liabilities (with recourse only to the projects)	168	381	59	11	619
	-----	-----	-----	-----	-----
Net assets	\$ 72	\$ 111	\$ 74	\$ 35	\$ 292
	=====	=====	=====	=====	=====
Group's share:					
Equity in net assets	\$ 36	\$ 55	\$ 36	\$ 17	\$ 144
Loan to Project	-	-	5	-	5
	-----	-----	-----	-----	-----
	\$ 36	\$ 55	\$ 41	\$ 17	\$ 149
	=====	=====	=====	=====	=====

In late 1995, the Casecnan joint venture closed financing for the construction of the project with bonds issued by the project company. The difference between the interest expense on the debt and the interest earned on the unused funds prior to payment of construction costs resulted in a loss to the venture of \$12 million in 1997 and 1996. The Group's share of these losses were \$6 million in each year. The Mahanagdong facility commenced operation in July, 1997. The Group's proportionate share of the earnings attributable to Mahanagdong was \$7 million 1997. No income or losses were incurred by the international projects in 1995. In addition to the equity earnings and losses, the Group incurred project development and insurance expenses, and received management fee income related to the international projects in all years.

In late 1995, a Group and CalEnergy venture, CE Casecnan Water and Energy Company, Inc. ("CE Casecnan") closed financing and commenced construction of a \$495 million irrigation and hydroelectric power project located in the Philippines island of Luzon. The Group and CalEnergy each made \$62 million of equity contributions to the project.

The CE Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. On May 7, 1997, CE Casecnan announced that it had terminated the Hanbo Contract. In connection with the contract termination, CE Casecnan made a \$79 million draw request under the letter of credit issued by Korea First Bank ("KFB") to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request; the matter is being litigated. If KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the CE Casecnan project. The Group does not expect the outcome of the litigation to affect its financial position due to the transaction with CalEnergy.

#### (5) MFS Spin-off

In September 1995, the PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off") effective on September 30, 1995. Shares were distributed on the basis of approximately .348 shares of MFS Common Stock and approximately .130 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

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

Operating results of MFS through September 30, 1995 are summarized as follows:

(dollars in millions)	1995
Revenue	\$ 412
Loss from operations	(176)
Net loss	(196)
Group's share of loss in MFS	(131)

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

#### (6) Corporate Activities

### Financial Structure

PKS, in addition to specifically attributable items, has corporate assets, liabilities and related income and expense which are not separately identified with the ongoing operations of the Group or the Construction & Mining Group. The items attributable to the Group and the Group's

50% portion of PKS are as follows:

(dollars in millions)	1997	1996	
Marketable securities	\$ 3	\$ 5	
Property, plant and equipment, net	10	5	
Other assets	-	1	
	-----	-----	
Total Assets	\$ 13	\$ 11	
	=====	=====	
Accounts payable	\$ 10	\$ 17	
Noncurrent liabilities	2	1	
	-----	-----	
Total Liabilities	\$ 13	\$ 18	
	=====	=====	
	1997	1996	1995
Other (expense) income	(1)	1	-

### Corporate General and Administrative Costs

A portion of PKS' corporate general and administrative costs has been allocated to the Group based upon certain measures of business activity, such as employment, investments and sales, which management believes to be reasonable. These allocations were \$5 million, \$6 million and \$5 million in 1997, 1996 and 1995.

### Income Taxes

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

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

#### (7) Gain on Subsidiary's Stock Transactions, net

Stock issuances by MFS for acquisitions and employee stock options, reduced the Group's ownership in MFS prior to the Spin-off in 1995 to 66% from 67% in 1994. As a result, the Group recognized a gain of \$3 million in 1995 representing the increase in the Group's proportionate share of MFS' equity. Deferred income taxes had been established on this gain prior to the Spin-off.

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

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

#### Cash and Cash Equivalents

Cash equivalents generally consist of funds invested in the Kiewit Mutual Fund-Money Market Portfolio and highly liquid instruments purchased with an original maturity of three months or less. The securities are stated at cost, which approximates fair value.

#### Marketable Securities, Restricted Securities and Non-current Investments

The Group has classified all marketable securities, restricted securities and marketable non-current investments not accounted for under the equity method as available-for-sale. Restricted securities primarily include investments in various portfolios of the Kiewit Mutual Fund that are restricted to fund certain reclamation liabilities of its coal mining ventures. Due to the anticipated increase in capital expenditures, the Group has reclassified its investments in marketable equity securities from non-current to current in 1997. The amortized cost of the securities used in computing unrealized and realized gains and losses is determined by specific identification. Fair values are estimated based on quoted market prices for the securities on hand or for similar investments. Net unrealized holding gains and losses are reported as a separate component of stockholders' equity, net of tax.

At December 27, 1997 and December 28, 1996 the amortized cost, unrealized holding gains and losses, and estimated fair values of marketable

securities, restricted securities and marketable non-current investments were as follows:

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1997:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	\$ 234	\$ -	\$ -	\$ 234
Intermediate term bond	195	3	-	198
Tax exempt	154	3	-	157
Equity	7	4	-	11
Collateralized mortgage obligations	-	1	-	1
Equity securities	48	9	-	57
Other securities	20	-	-	20
	-----	-----	-----	-----
	\$ 658	\$ 20	\$ -	\$ 678
	=====	=====	=====	=====
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 10	\$ -	\$ -	\$ 10
Equity	12	-	-	12
	-----	-----	-----	-----
	\$ 22	\$ -	\$ -	\$ 22
	=====	=====	=====	=====
(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1996:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	\$ 100	\$ -	\$ -	\$ 100
Intermediate term bond	65	2	-	67
Tax exempt	126	2	-	128
Equity	5	2	-	7
Corporate debt securities (held by C-TEC)	47	-	-	47
Collateralized mortgage obligations	-	1	-	1
Other securities	20	2	-	22
	-----	-----	-----	-----
	\$ 363	\$ 9	\$ -	\$ 372
	=====	=====	=====	=====
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	\$ 8	\$ -	\$ -	\$ 8
Equity	7	2	-	9
	-----	-----	-----	-----
	\$ 15	\$ 2	\$ -	\$ 17
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 49	\$ 26	\$ -	\$ 75
	=====	=====	=====	=====

Other securities consist of bonds issued by the Casecan project and purchased by the Group.

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable and equity securities were \$9 million and \$- million in 1997, \$3 million and \$- million in 1996, and \$1 million and \$2 million in 1995.

At December 27, 1997, the contractual maturities of the debt securities are as follows:

(dollars in millions)	Amortized Cost	Fair Value
Other securities:		
10+ years	\$ 20	\$ 20
	=====	=====

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

### Long-term Debt

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

## (9) Investments

Investments consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
Commonwealth Telephone Enterprises Inc.	\$ 75	\$ -
RCN Corporation	214	-
Cable Michigan	46	-
Pavilion Towers	22	-
Equity securities (Note 8)	-	75
C-TEC investments:		
Megacable S.A. de C.V.	-	74
Other	-	12
Other	26	28
	-----	-----
	\$ 383	\$ 189
	=====	=====

In September 1997, C-TEC announced that its board of directors had approved the planned restructuring of C-TEC into three publicly traded companies effective September 30, 1997. Under the terms of the restructuring C-TEC shareholders received stock in the following companies:

Commonwealth Telephone Enterprises, Inc., containing the local telephone group and related engineering business;

Cable Michigan, Inc., containing the cable television operations in Michigan; and

RCN Corporation, Inc., which consists of RCN Telecom Services; C-TEC's existing cable systems in the Boston-Washington D.C. corridor; and the investment in Megacable S.A. de C.V., a cable operator in Mexico. RCN Telecom Services is a provider of packaged local and long distance telephone, video, and internet access services provided over fiber optic networks to residential customers in Boston, New York City and Washington D.C.

As a result of the restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method as of the beginning of 1997. C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 and 1995 financial statements.

The following is summarized financial information of the three entities created as result of the C-TEC restructuring:

Operations (dollars in millions)	1997	1996	1995
Commonwealth Telephone Enterprises			
Revenue	\$ 197	\$ 186	\$ 174
Net income available to common stockholders	20	20	31
Group's share:			
Net income	10	10	15
Goodwill amortization	(1)	(1)	1
	-----	-----	-----
Equity in net income	\$ 9	\$ 9	\$ 16
	=====	=====	=====
Cable Michigan			
Revenue	\$ 81	\$ 76	\$ 60
Net loss available to common stockholders	(4)	(8)	(10)
Group's share:			
Net loss	(2)	(4)	(5)
Goodwill amortization	(4)	(4)	(4)
	-----	-----	-----
Equity in net loss	\$ (6)	\$ (8)	\$ (9)
	=====	=====	=====
RCN Corporation			
Revenue	\$ 127	\$ 105	\$ 91
Net (loss) income available to common stockholders	(52)	(6)	2
Group's share:			

Net (loss) income	(26)	(3)	1
Goodwill amortization	-	(3)	1
	-----	-----	-----
Equity in net (loss) income	\$ (26)	\$ (6)	\$ 2
	=====	=====	=====

	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
Financial Position (in millions)	1997	1996	1997	1996	1997	1996
Current assets	\$ 71	\$ 51	\$ 23	\$ 10	\$ 698	\$ 143
Other assets	303	266	120	139	453	485
	-----	-----	-----	-----	-----	-----
Total assets	374	317	143	149	1,151	628
Current liabilities	76	59	16	24	70	57
Other liabilities	260	189	166	190	708	175
Minority interest	-	-	15	15	16	5
	-----	-----	-----	-----	-----	-----
Total liabilities	336	248	197	229	794	237
	-----	-----	-----	-----	-----	-----
Net assets (liabilities)	\$ 38	\$ 69	\$ (54)	\$ (80)	\$ 357	\$ 391
	=====	=====	=====	=====	=====	=====
Group's Share:						
Equity in net assets	\$ 18	\$ 33	\$ (26)	\$ (38)	\$ 173	\$ 189
Goodwill	57	58	72	75	41	41
	-----	-----	-----	-----	-----	-----
	\$ 75	\$ 91	\$ 46	\$ 37	\$ 214	\$ 230
	=====	=====	=====	=====	=====	=====

On December 27, 1997 the market value of the Group's investments in Commonwealth Telephone, Cable Michigan and RCN was \$215 million, \$76 million and \$485 million, respectively.

In February 1997, the Group purchased the Pavillion Towers office building in Aurora, Colorado for \$22 million.

Investments in 1996 also include C-TEC's 40% ownership of Megacable S.A. de C.V., Mexico's second largest cable operator, accounted for using the equity method.

#### (10) Intangible Assets

Intangible assets consist of the following at December 27, 1997 and December 28, 1996:

(dollars in millions)	1997	1996
CPTC intangibles and other	\$ 23	\$ 23
C-TEC:		
Goodwill	-	198
Franchise and subscriber lists	-	229
Other	-	34
	-----	-----
	23	484
Less accumulated amortization	(2)	(131)
	-----	-----
	\$ 21	\$ 353
	=====	=====

At December 27, 1997 and December 28, 1996, long-term debt was as follows:

(dollars in millions)	1997	1996
CPTC Long-term Debt (with recourse only to CPTC):		
Bank Note		
(7.7% due 2008)	\$ 65	\$ 65
Institutional Note		
(9.45% due 2017)	35	35
OCTA Debt		
(9.0% due 2006)	8	6
Subordinated Debt		
(9.5% No Maturity)	6	2
	-----	-----
	114	108

Other:		
Pavilion Towers Debt (8.4% due 2007)	15	-
Capitalized Leases	6	1
Other	5	6
	-----	-----
	26	7
C-TEC Long-term Debt (with recourse only to C-TEC):		
Credit Agreement - National Bank for Cooperatives (7.51% due 2009)	-	110
Senior Secured Notes (9.65% due 1999)	-	134
Term Credit Agreement - Morgan Guaranty Trust Company (7% due 2002)	-	18
	-----	-----
	-	262
	-----	-----
	140	377
Less current portion	(3)	(57)
	-----	-----
	\$ 137	\$ 320
	=====	=====

### CPTC:

In August 1996, CPTC converted its construction financing note into a term note with a consortium of banks ("Bank Debt"). The interest rate on the Bank Debt is based on LIBOR plus a varying rate with interest payable quarterly. Upon completion of the SR91 toll road, CPTC entered into an interest rate swap arrangement with the same parties. The swap expires in January 2004 and fixes the interest rate on the Bank Debt from 9.21% to 9.71% during the term of the swap agreement.

The institutional note is with Connecticut General Life Insurance Company, a subsidiary of CIGNA Corporation. The note converted into a term loan upon completion of the SR91 toll road.

Substantially all the assets of CPTC and the partners' equity interest in CPTC secure the term debt.

Orange County Transportation Authority holds \$8 million of subordinated debt which is due in varying amounts over 10 years. Interest accrues at 9% and is payable quarterly beginning in 2000.

In July 1996, CPTC borrowed from the partners \$2 million to facilitate the completion of the project. In 1997, CPTC borrowed an additional \$4 million from the partners in order to comply with equity maintenance provisions of the contract with the State of California and its lenders. The debt is payable to the partners and is generally subordinated to all other debt of CPTC. Interest on the subordinated debt compounds annually at 9.5% and is payable only as CPTC generates excess cash flows.

CPTC capitalized interest of \$- million, \$5 million and \$7 million in 1997, 1996 and 1995.

### Other:

In June 1997, a mortgage with Metropolitan Life was established. The Pavilion Towers building in Aurora, CO collateralizes this debt.

Scheduled maturities of long-term debt through 2002 are as follows (in millions): 1998 - \$3; 1999 - \$6; 2000 - \$5; 2001 - \$6 and \$8 in 2002.

### (12) Income Taxes

An analysis of the income tax benefit (provision) attributable to earnings from continuing operations before income taxes and minority interest for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Current:			
U.S. federal	\$ (54)	\$ (61)	\$ (66)
Foreign	-	(4)	(4)
State	(1)	(6)	(3)
	-----	-----	-----
	(55)	(71)	(73)
Deferred:			
U.S. federal	103	67	145

Foreign	-	-	3
State	-	1	4
	-----	-----	-----
	103	68	152
	-----	-----	-----
\$	48	(3)	79
	=====	=====	=====

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

(dollars in millions)	1997	1996	1995
United States	\$ 31	\$ 106	\$ 187
Foreign	-	1	3
	-----	-----	-----
\$	31	\$ 107	\$ 190
	=====	=====	=====

A reconciliation of the actual income tax benefit (provision) and the tax computed by applying the U.S. federal rate (35%) to the earnings from continuing operations before equity loss in MFS (recorded net of tax), minority interest and income taxes for the three years ended December 27, 1997 follows:

(dollars in millions)	1997	1996	1995
Computed tax at statutory rate	\$ (11)	\$ (37)	\$ (67)
State income taxes	(1)	(3)	-
Depletion	3	3	2
Goodwill amortization	-	(3)	(2)
Tax exempt interest	2	2	2
Prior year tax adjustments	62	44	51
Compensation expense attributable to options	(7)	-	-
MFS deferred tax	-	-	93
Taxes on foreign operations	-	(2)	1
Other	-	(7)	(1)
	-----	-----	-----
\$	48	\$ (3)	\$ 79
	=====	=====	=====

During the three years ended December 27, 1997, the Group settled a number of disputed tax issues related to prior years that have been included in prior year tax adjustments.

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

The components of the net deferred tax liabilities for the years ended December 27, 1997 and December 28, 1996 were as follows:

(dollars in millions)	1997	1996
Deferred tax liabilities:		
Investments in securities	\$ 7	\$ 11
Investments in joint ventures	33	45
Asset bases - accumulated depreciation	53	225
Coal sales	41	15
Other	16	16
	-----	-----
Total deferred tax liabilities	150	312
Deferred tax assets:		
Compensation - retirement benefits	25	29
Investment in subsidiaries	8	2
Provision for estimated expenses	7	26
Net operating losses of subsidiaries	-	6
Foreign and general business tax credits	3	67
Alternative minimum tax credits	-	16
Other	9	19
Valuation allowances	-	(6)
	-----	-----
Total deferred tax assets	52	159
	-----	-----
Net deferred tax liabilities	\$ 98	\$ 153
	=====	=====

PKS is generally committed to purchase all Class D Stock in accordance with the Certificate of Incorporation. Issuances and repurchases of common shares, including conversions, for the three years ended December 27, 1997 were as follows:

	Class D Stock
Shares issued in 1995, including conversions of 12,847,155	13,377,765
Shares repurchased in 1995	210,735
Shares issued in 1996, including conversions of 2,052,245	2,052,425
Shares repurchased in 1996, including conversions of 150,995	1,276,080
Shares issued in 1997, including conversions of 6,517,715	19,630,730
Shares repurchased in 1997, including conversions of 1,180	14,805

#### (14) Class D Stock Plan

In December 1997, stockholders approved amendments to the 1995 Class D Stock Plan ("the Plan"). The amended plan, among other things, increases the number of shares reserved for issuance upon the exercise of stock based awards to 35,000,000, increases the maximum number of options granted to any one participant to 5,000,000, provides for the acceleration of vesting in the event of a change in control, allows for the grant of stock based awards to directors of the Group and other persons providing services to the Group, and allows for the grant of nonqualified stock options with an exercise price of less than the fair market value of Class D Stock.

In December 1997, the Group converted both option and stock appreciation rights plans of a subsidiary, to the Group's plan. This conversion resulted in the issuance of 3.7 million options to purchase Class D Stock at \$9 per share. The Group recognized a one time expense, and a corresponding increase in equity, as a result of the transaction. This increase in equity and the conversion of the stock appreciation rights liability to equity are reflected as option activity in the Statement of Changes in Stockholders' Equity. The options vest over three years and expire in December 2002.

The Group has elected to adopt only the required disclosure provisions and not the optional expense recognition provisions under SFAS No. 123 "Accounting for Stock Based Compensation", which established a fair value based method of accounting for stock options and other equity instruments. The fair value of the options outstanding was calculated using the Black-Scholes method using risk-free interest rates ranging from 5.5% to 6.77% and expected lives of 75% of the term of the option. The Group used an expected volatility rate of 0%, which is allowed for private entities under SFAS No. 123. Once the Group's stock becomes listed, volatility factors will be incorporated in determining fair value. The Group's net income and earnings per share for 1997 and 1996 would have been reduced to the pro forma amounts shown below if SFAS No. 123 had been applied.

	1997	1996
Net Income		
As Reported	\$ 93	\$ 113
Pro Forma	93	112
Basic Earnings per Share		
As Reported	\$ .74	\$ .97
Pro Forma	.74	.97
Diluted Earning per Share		
As Reported	\$ .74	\$ .97
Pro Forma	.74	.96

The 1995 historical pro forma amounts did not vary as the options granted in 1995 had not vested.

Transactions involving stock options granted under the Plan are summarized as follows:

	Shares	Option Price Per Share	Weighted Avg. Option Price
Balance December 31, 1994	-	\$ -	\$ -
Options granted	1,340,000	8.08	8.08
Options cancelled	-	-	-
Options exercised	-	-	-
	-----		
Balance December 30, 1995	1,340,000	\$ 8.08	\$ 8.08
		=====	=====
Options granted	895,000	\$ 9.90	\$ 9.90



Options cancelled	(15,000)	8.08	8.08
Options exercised	-	-	-
	-----		
Balance December 28, 1996	2,220,000	\$8.08 - \$9.90	\$ 8.81
		=====	=====
Options granted	7,495,465	\$9.00 - \$10.85	\$ 9.93
Options cancelled	(53,000)	\$ 9.90	\$ 9.90
Options exercised	(2,318,465)	\$8.08 - \$ 9.90	\$ 8.93
	-----		
Balance December 27, 1997	7,344,000	\$8.08 - \$10.85	\$ 9.91
		=====	=====
Options exercisable			
December 30, 1995	-	\$ -	\$ -
December 28, 1996	265,000	8.08	8.08
December 27, 1997	1,295,269	\$8.08 - \$9.90	8.70

The weighted average remaining life for the 7,344,000 options outstanding on December 27, 1997 is 8.3 years.

#### (15) Industry and Geographic Data

The Group operates primarily in three reportable segments: information services, telecommunications and coal mining. Other primarily includes CPTC and corporate overhead not attributable to a specific segment and marketable securities.

Equity earnings is included due to the significant equity investments in the telecommunication business.

In 1997, 1996 and 1995 Commonwealth Edison Company accounted for 43%, 23% and 23% of the Group's revenues.

A summary of the Group's operations by industry and geographic region is as follows:

Industry Data (dollars in millions) 1997	Information Service	Telecom- munications (C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
Revenue	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Operating Earnings	(16)	-	82	(23)	-	43
Equity Losses, net	-	(23)	-	(20)	-	(43)
Identifiable Assets	61	336	499	588	643	2,127
Capital Expenditures	14	-	3	9	-	26
Depreciation, Depletion & Amortization	8	-	8	8	-	24
1996						
Revenue	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Operating Earnings	(3)	31	94	(35)	-	87
Equity Losses, net	(1)	(1)	-	(7)	-	(9)
Identifiable Assets	29	1,100	387	380	608	2,504
Capital Expenditures	11	87	2	17	-	117
Depreciation, Depletion & Amortization	10	106	12	4	-	132
1995						
Revenue	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Operating Earnings	4	37	77	(73)	-	45
Equity Losses, net	-	(3)	-	(2)	-	(5)
Identifiable Assets	34	1,143	368	614	319	2,478

Capital Expenditures	6	72	4	36	-	118
Depreciation, Depletion & Amortization	5	81	7	3	-	96
Geographic Data Information (dollars in millions)	Information Services	Telecom-munications (C-TEC Entities)	Coal Mining	Discontinued Other Operations	Consolidated	
1997						
Revenue:						
United States	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$ 94	\$ -	\$ 222	\$ 16	\$ -	\$ 332
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$(16)	\$ -	\$ 82	\$ (23)	\$ -	\$ 43
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$(16)	\$ -	\$ 82	\$ (23)	\$ -	\$ 43
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 59	\$ 336	\$ 499	\$ 588	\$ 321	\$1,803
Other	2	-	-	-	322	324
	----	-----	-----	-----	-----	-----
	\$ 61	\$ 336	\$ 499	\$ 588	\$ 643	\$2,127
	=====	=====	=====	=====	=====	=====
1996						
Revenue:						
United States	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$ 42	\$ 367	\$ 234	\$ 9	\$ -	\$ 652
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$ (3)	\$ 31	\$ 94	\$ (35)	\$ -	\$ 87
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$ (3)	\$ 31	\$ 94	\$ (35)	\$ -	\$ 87
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 29	\$1,100	\$ 387	\$ 380	\$ 287	\$2,183
Other	-	-	-	-	321	321
	----	-----	-----	-----	-----	-----
	\$ 29	\$1,100	\$ 387	\$ 380	\$ 608	\$2,504
	=====	=====	=====	=====	=====	=====
1995						
Revenue:						
United States	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$ 36	\$ 325	\$ 216	\$ 3	\$ -	\$ 580
	=====	=====	=====	=====	=====	=====
Operating Earnings:						
United States	\$ 4	\$ 37	\$ 77	\$ (73)	\$ -	\$ 45
Other	-	-	-	-	-	-
	----	-----	-----	-----	-----	-----
	\$ 4	\$ 37	\$ 77	\$ (73)	\$ -	\$ 45
	=====	=====	=====	=====	=====	=====
Identifiable Assets:						
United States	\$ 34	\$1,143	\$ 368	\$614	\$ 223	\$2,382
Other	-	-	-	-	96	96
	----	-----	-----	-----	-----	-----
	\$ 34	\$1,143	\$ 368	\$614	\$ 319	\$ 2,478
	=====	=====	=====	=====	=====	=====

The Group receives certain mine management services from the Construction & Mining Group. The expense for these services was \$32 million for 1997, \$37 million for 1996 and \$30 million for 1995, and is recorded in general and administrative expenses.

#### (17) Fair Value of Financial Instruments

The carrying and estimated fair values of the Group's financial instruments are as follows:

(dollars in millions)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Note 8)	\$ 87	\$ 87	\$ 147	\$ 147
Marketable securities (Note 8)	678	678	372	372
Restricted securities (Note 8)	22	22	17	17
Investments in C-TEC entities (Note 9)	335	776	355	315
Investment in equity securities (Notes 8 & 9)	-	-	75	75
Investments in discontinued operations (Note 4)	643	854	608	960
Long-term debt (Notes 8 & 11)	140	140	377	384

#### (18) C-TEC Restructuring

The following is financial information of the Group had C-TEC been accounted for utilizing the equity method as of December 27, 1997 and December 28, 1996 and for each of the three years ended December 27, 1997. The 1997 financial statements include C-TEC accounted for utilizing the equity method and are presented here for comparative purposes only.

Operations (dollars in millions)	1997	1996	1995
Revenue	\$ 332	\$ 285	\$ 255
Cost of Revenue	(175)	(134)	(133)
	-----	-----	-----
	157	151	122
General and Administrative Expenses	(114)	(95)	(114)
	-----	-----	-----
Operating Earnings	43	56	8
Other (Expense) Income:			
Equity earnings (losses), net	(43)	(13)	7
Investment income, net	45	42	30
Interest expense, net	(15)	(5)	(1)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	1	11	120
	-----	-----	-----
	(12)	35	159
Equity Loss in MFS	-	-	(131)
	-----	-----	-----
Earnings from Continuing Operations before Income Taxes and Minority Interest	31	91	36
Income Tax Benefit	48	11	90
Minority Interest in Net Loss of Subsidiaries	4	2	-
	-----	-----	-----
Income from Continuing Operations	83	104	126
Income from Discontinued Operations	10	9	14
	-----	-----	-----
Net Earnings	\$ 93	\$ 113	\$ 140
	=====	=====	=====
Financial Position (dollars in millions)	1997	1996	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 87	\$ 71	
Marketable securities	678	325	
Restricted securities	22	17	
Receivables	42	34	
Investments in Discontinued Operations	643	608	
Other	22	12	
	-----	-----	
Total Current Assets	1,494	1,067	

Net Property, Plant and Equipment	184	174
Investments	383	458
Intangible Assets, net	21	23
Other Assets	45	49
	-----	-----
	\$ 2,127	\$1,771
	=====	=====

#### Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	\$ 31	\$ 41
Current portion of long-term debt	3	2
Accrued reclamation and other mining costs	19	19
Other	36	27
	-----	-----
Total Current Liabilities	89	89
Long-term Debt, less current portion	137	113
Deferred Income Taxes	83	47
Accrued Reclamation Costs	100	98
Other Liabilities	139	163
Minority Interest	1	4
Stockholders' Equity	1,578	1,257
	-----	-----
	\$ 2,127	\$ 1,771
	=====	=====

#### (19) Pro Forma Information (unaudited).

The following information represents the pro forma financial position of the Group after reflecting the impact of the transactions with CalEnergy (Note 4) and the conversion of Class C shares to Class D shares (Note 21) both of which occurred subsequent to the fiscal year end.

(dollars in millions)	1997 Historical	Adjustments	1997 Pro Forma
Current Assets			
Cash & marketable securities	\$ 765	\$ 122 (a) 1,159 (b)	\$ 2,046
Investment in discontinued Operations	643	(643) (b)	-
Other current assets	86		86
	-----	-----	-----
Total Current Assets	1,494	638	2,132
Property, Plant & Equipment, net	184		184
Other Non-current assets	449		449
	-----	-----	-----
	\$ 2,127	\$ 638	\$ 2,765
	=====	=====	=====
Current Liabilities	\$ 89	\$ 192 (b)	\$ 281
Non-current Liabilities	459		459
Minority Interest	1		1
Stockholders' Equity	1,578	122 (a) 324 (b)	2,024
	-----	-----	-----
	\$ 2,127	\$ 638	\$ 2,765
	=====	=====	=====

(a) Reflect conversion of 2.3 million Class C shares to 10.5 million Class D shares.

(b) Reflect sale of energy assets to CalEnergy and related income tax liability.

#### (20) Other Matters

In connection with the sale of approximately 10 million Class D shares to employees in 1997, the Company has retained the right to purchase the relevant Class D shares at the then current Class D Stock price if the Transaction is definitively abandoned by formal action of the PKS Board or the employees voluntarily terminate their employment on various dates prior to January 1, 1999.

In May 1995, the lawsuit titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States was settled. In 1983, plaintiffs alleged that the enactment of the Surface Mining Control and Reclamation Act of 1977 had prevented the mining of their Wyoming coal deposit and constituted a government taking without just compensation. In settlement of all claims, plaintiffs agreed to deed the coal deposits to the government and the government agreed to pay plaintiffs \$200 million, of which Peter Kiewit Sons' Co., a Level 3 subsidiary, received approximately \$135 million in June 1995 and recorded it in other income on the statements of earnings.

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

The Group leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 7 years aggregate \$29 million.

It is customary in the Group's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Group in accordance with specified terms and conditions. As of December 27, 1997, the Group had outstanding letters of credit of approximately \$22 million.

#### (21) Subsequent Events

In January 1998, approximately 2.3 million shares of Class C Stock, with a redemption value of \$122 million, were converted into 10.5 million shares of Class D Stock.

In March 1998, PKS announced that its Class D Stock will begin trading on April 1 on the Nasdaq National Market under the symbol "LVLT." The Nasdaq listing will follow the separation of the Group and the Construction Group of PKS, which is expected to be completed on March 31, 1998. In connection with the separation, PKS' construction subsidiary will be renamed "Peter Kiewit Sons', Inc." and PKS Class D stock will become the common stock of Level 3 Communications, Inc.

PKS' certificate of incorporation gives stockholders the right to exchange their Class C Stock for Class D Stock under a set conversion formula. That right will be eliminated as a result of the separation of the Group and the Construction Group. To replace that conversion right, Class C stockholders received 6.5 million shares of a new Class R stock in January, 1998, which is convertible into Class D Stock in accordance with terms ratified by stockholders in December 1997.

The PKS Board of Directors has approved in principle a plan to force conversion of all shares of Class R stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made by Level 3 Board of Directors at that time. The Level 3 Board may choose not to force conversion if it were to decide that conversion is not in the best interests of the stockholders of Level 3. If, as currently anticipated, the Level 3 Board determines to force conversion of the Class R stock on or before June 30, 1998, certain adjustments will be made to the cost sharing and risk allocation provisions of the separation agreement between Level 3 and the Construction business.

If the Level 3 Board of Directors determines to force conversion of the Class R stock, each share of Class R stock will be convertible into \$25 worth of Level 3 (Class D Stock) common stock, based upon the average trading price of the Level 3 common stock on the Nasdaq National Market for the last fifteen trading days of the month prior to the determination by the Board of Directors to force conversion. When the spin-off occurs, Level 3 will increase paid in capital and reduce retained earnings by the fair value of the Class R shares.

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