

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-K (Annual Report)

Filed 03/25/94 for the Period Ending 12/25/93

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

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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

For the fiscal year ended Commission File  
December 25, 1993 Number 0-15658

### PETER KIEWIT SONS', INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

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

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

68131  
(Zip Code)

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

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

None.

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

Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Common Stock, par value \$.0625 Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value \$.0625 Class D Diversified Group Convertible Exchangeable Common Stock, par value \$.0625

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

Indicate by check mark if disclosure of delinquent filers pursuant to

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

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

As of March 15, 1994, the number of shares outstanding of each class of the Company's common stock was:

Class B - 1,000,400 shares Class C - 14,199,160 shares Class D - 20,556,699 shares

Portions of the Company's definitive Proxy Statement for the 1994 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

## **PART I**

### **ITEM 1. BUSINESS.**

Peter Kiewit Sons', Inc. (the "Company") was incorporated in 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. Since 1990, the Company's subsidiary, PKS Information Services, Inc. has provided computer services to third parties. Financial information about the construction, mining, and telecommunications segments, as well as geographical information, is contained in Note 17 to the Company's consolidated financial statements.

In connection with a reclassification of the Company's securities in January 1992, the business units of the Company were realigned into two groups. The Construction & Mining Group contains the Company's traditional construction operations and Kiewit Mining Group Inc., which performs mining management services for the Company's mining properties. The Diversified Group (through Kiewit Diversified Group Inc., or "KDG") contains mining properties and miscellaneous investments, as well as interests in MFS Communications Company, Inc., California Energy Company, Inc., and C-TEC Corporation. Additional detailed information about each of those three companies can be obtained from their separate Forms 10-K filed with the U.S. Securities and Exchange Commission.

### **CONSTRUCTION**

The construction business is conducted by operating subsidiaries of Kiewit Construction Group Inc., a wholly-owned subsidiary of the Company (collectively, "KCG"). KCG and its joint ventures perform construction services for a wide range of public and private customers primarily in North America. New contract awards during 1993 were distributed among the following construction markets: transportation, including highways, bridges, airports and railroads (58%), sewer and waste disposal (13%), buildings (11%), oil and gas (7%), power (6%), residential (2%), and water supply systems (1%), with smaller awards in the dams and reservoirs, marine, and mining markets.

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

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

**Government Contracts.** Public contracts accounted for 67% of the combined prices of contracts awarded to KCG during 1993. Most of these contracts were

awarded by government agencies after competitive bidding. Most public contracts are subject to termination at the election of the government. In the event of termination, the contractor is entitled to receive the contract price on completed work and payment of termination related costs. The volume of available government work is affected by budgetary and political considerations. A significant decrease in the amount of new government contracts, for whatever reasons, would have a material adverse effect on KCG.

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

**Joint Ventures.** KCG enters into joint ventures to efficiently allocate expertise and resources among the venturers and to spread risks associated with particular projects. In most joint ventures, if one venturer is financially unable to bear its share of costs and expenses, the other venturers may be required to pay those costs and expenses. KCG prefers to act as the sponsor of joint ventures. KCG's share of joint venture revenue accounted for 24% of its 1993 total revenue.

**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. Internationally, a KCG subsidiary is participating in the construction of a tunnel under Denmark's Great Belt Channel and other subsidiaries have operations in Hermosillo, Mexico.

**Backlog.** At the end of 1993, KCG had a backlog (work contracted for but not yet completed) of \$2.1 billion. Of this amount, \$700 million is not expected to be completed during 1994. Backlog was \$2.2 billion at the end of 1992.

**Competition.** A substantial portion of KCG's business involves construction contracts obtained through competitive bidding. A contractor's competitive position is based primarily on its prices for construction services and its reputation for quality, reliability and timeliness. The construction industry is highly competitive and lacks firms with dominant market power. For 1992, Engineering News Record ranked KCG as the 22nd largest contractor in the United States. It ranked KCG 6th in the transportation market and 7th in the domestic heavy construction market. These rankings were based on the prices of contracts awarded in 1992. The U.S. Department of Commerce reports that the total value of construction put in place in 1993 was \$486 billion. KCG's U.S. revenues for the same period were \$1.8 billion, or 0.4% of the total market. In 1993 KCG was low bidder on 253 contracts, three of which had a contract price exceeding \$50 million; the average contract price was \$5.8 million.

**Properties.** KCG has 20 district offices, of which 14 are in owned facilities and 6 are leased. KCG owns or leases numerous shops, equipment yards, storage facilities, warehouses, and construction material quarries. Since construction projects are inherently temporary and location-specific, KCG owns approximately 800 portable offices and shops, and 400 transport trailers. KCG has a large equipment fleet, including approximately 3,000 trucks, pickups, and automobiles, and 1,500 heavy construction vehicles, such as graders, scrapers, backhoes, and cranes.

Subsequent Event. On February 28, 1994, KCG acquired APAC-Arizona, Inc. ("APAC") from Ashland Oil Company, Inc. for \$49 million cash, subject to various adjustments. APAC is engaged in construction and construction materials businesses in Arizona. The APAC businesses will be divided between PKS' construction and mining segments.

## **MINING**

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

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

Customers. The coal is sold primarily to electric utilities, which burn coal in order to generate steam to produce electricity. Approximately 94% of sales are made under long-term contracts, and the remainder are made on the spot market. Approximately 84, 55, and 58 percent of KCP's revenues in 1993, 1992 and 1991, respectively, were derived from long-term contracts with Commonwealth Edison Company (with Decker and Black Butte) and The Detroit Edison Company (with Decker). The sole customer of Walnut Creek is the Texas- New Mexico Power Company.

Contracts. Customers enter into long-term contracts for coal primarily to secure a reliable source of supply at a predictable price. KCP's major long-term contracts have remaining terms ranging from 6 to 35 years. A majority of KCP's long-term contracts provide for periodic price adjustments. The price is typically adjusted through the use of various indices for items such as materials, supplies, and labor. Other portions of the price are adjusted for changes in production taxes, royalties, and changes in cost due to new legislation or regulation, and in most cases, such cost items are passed through directly to the customer as incurred. In most cases the price is also adjusted based on the heating content of the coal.

Beginning in 1993 the amended contract between Commonwealth Edison Company and Black Butte Coal Company provides that Commonwealth's delivery commitments will be satisfied, not with coal produced from the Black Butte

mine, but with coal purchased from two unaffiliated mines in the Powder River Basin of Wyoming and Decker.

**Coal Production.** Coal production commenced at the Decker, Black Butte, and Walnut Creek mines in 1972, 1979, and 1989, respectively. Coal mined in 1993 at the Decker, Black Butte, and Walnut Creek mines was 11, 3, and 2 million tons, respectively.

**Revenue.** KCP's total revenue in 1993 was \$210 million. Revenue attributable to the Decker, Black Butte, and Walnut Creek entities, and other mining operations was \$98 million, \$92 million, \$19 million, and \$1 million, respectively.

**Backlog.** At the end of 1993, the backlog of coal sold under KCP's long- term contracts approximated \$2.0 billion, based on December 1993 market prices. Of this amount, approximately \$243 million is to be sold in 1994.

**Reserves.** At the end of 1993, KCP's share of assigned coal reserves at Decker, Black Butte, and Walnut Creek was 184, 60, and 90 million tons, respectively. Of these amounts, KCP's share of the committed reserves of Decker, Black Butte, and Walnut Creek was 68, 7, and 22 million tons, respectively. Assigned reserves represent coal which can be mined using KCP's current mining practices. Committed reserves (excluding alternate source coal) represent KCP's maximum contractual amounts. These coal reserve estimates represent total proved and probable reserves.

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

**Competition.** The coal industry is highly competitive. KCP competes not only with other domestic and foreign coal suppliers, some of whom are larger and have greater capital resources than KCP, but also with alternative methods of generating electricity and alternative energy sources. In 1992, KCP's production represented 2.0% of total U.S. coal production.

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

**Environmental Regulation.** Kiewit is required to comply with various federal, state and local laws and regulations concerning protection of the environment. KCP's share of land reclamation expenses in 1993 was \$5 million. KCP's share of accrued estimated reclamation costs was \$99 million at the end of 1993. Kiewit does not expect to make significant capital expenditures for environmental compliance in 1994. Kiewit believes its compliance with

environmental protection and land restoration laws will not affect its competitive position since its competitors in the industry are similarly affected by such laws.

## **TELECOMMUNICATIONS**

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

### **MFS COMMUNICATIONS COMPANY, INC.**

The Company owns 71% of the common stock of MFS Communications Company, Inc. ("MFS"). The remaining shares are publicly-owned and are traded on the NASDAQ National Market System. Shares were sold in an initial public offering in May of 1993 and in another public offering in September of 1993.

MFS operates in two business segments: telecommunications services, and network systems integration and facilities management services.

**Telecommunications Services.** MFS Telecom, Inc. ("MFS Telecom") is a major competitive access provider, offering business and government users an alternative to the local telephone companies for various telecommunication services. At the end of 1993, MFS Telecom operated telecommunication networks in 14 metropolitan areas: New York City, Los Angeles, Chicago, San Francisco, Philadelphia, Boston, Washington, D.C., Dallas, Houston, Minneapolis, Baltimore, Pittsburgh, Atlanta and northern New Jersey. At the end of 1993, MFS Telecom provided service to over 900 users. Its network covers approximately 1,300 route miles, including approximately 62,000 miles of optical fiber, with nearly 1,600 office buildings connected to the network.

MFS Telecom's primary service offerings are special access and private line. Special access service connects a long distance carrier to an end user or another carrier. Private line service consists of dedicated circuits connecting two end users, typically two offices of a single business. To the extent that transmissions over circuits on the MFS Telecom network do not pass through facilities of the local telephone company, access charges for long distance service are avoided. MFS Telecom's digital fiber optic networks employ advanced fault-tolerant electronics and dual path architecture to ensure reliable and secure telecommunications.

MFS Telecom has an active program to expand its existing networks and to develop new networks in other metropolitan areas throughout the United States and internationally. It currently contemplates expansion into more than 60 additional markets (including a number of international markets) over the next three to five years. In 1993, MFS Telecom commenced construction of new fiber optic networks in London, England, the San Jose-Silicon Valley area of California, and Tampa, Florida.

In 1993, MFS developed two new services which utilize the existing MFS Telecom networks. MFS Datanet, Inc. offers high-speed data telecommunications services, including an innovative service designed to connect geographically separate local area networks ("LAN") at the same native speed and protocol at which each LAN operates. MFS Intelenet, Inc. ("Intelenet") is providing a single source for local and long distance telecommunication services to small and medium sized businesses in New York City. As regulatory barriers are removed, the services offered by Intelenet will be provided in all of MFS Telecom's network cities.

**Network Systems Integration and Facilities Management Services.** MFS'



subsidiary, MFS Network Technologies, Inc. ("MFS-NT"), designs, engineers, develops and manages the installation of MFS Telecom's new fiber optic networks and its network expansions. MFS-NT also offers its network systems integration services and facilities management services to third parties.

MFS-NT had a third-party backlog of approximately \$110 million at the end of 1993, an increase of 49% from year-end 1992. A substantial portion of the backlog is related to federal, state or local government contracts. Although some of these contracts are subject to cancellation and/or to a revision of funding, MFS believes that MFS-NT is adequately protected for all incurred costs and the reasonable costs of termination.

**Customers.** MFS Telecom's customers include long distance carriers as well as financial service companies, government departments and agencies, and academic, scientific and other major institutions, each of which has a significant volume of traffic and/or requires extremely reliable communications. During 1993, MFS Telecom's top ten customers accounted for approximately 50% of its total recurring revenue; however, no single customer of MFS Telecom accounted for more than 10% of MFS' consolidated revenues. MFS-NT's third party customers include major local and long distance carriers, cable television operators, government units, and large corporations. During 1993, a contract with the State of Iowa for remote interactive learning facilities accounted for 30% of MFS' consolidated revenues.

**Competition.** In each of its markets, MFS Telecom faces significant competition for its special access and private line telecommunications services from local telephone companies, which currently dominate their local telecommunications markets. Existing competition for private line and special access services is not based on proprietary technology, but on the quality and reliability of the network facilities, customer service, and service features and price. As a result of the comparatively recent installation of its fiber optic networks, its dual path architecture and the state-of-the-art technology used in its networks, MFS Telecom may, in some cases, have cost and service quality advantages over some currently available local telephone company networks. MFS-NT's network systems integration and facilities management competitors are primarily the regional Bell operating companies, long distance carriers, equipment manufacturers and major independent telephone companies.

**Regulation.** MFS is subject to varying degrees of federal, state and local regulation. MFS is not subject to price cap or rate of return regulation, nor is it currently required to obtain Federal Communication Commission ("FCC") authorization for installation or operation of its network facilities used for domestic services. FCC approval is required, however, for the installation and operation of its international facilities and services. The FCC has determined that nondominant carriers, such as MFS, are required to file interstate tariffs on an ongoing basis. MFS subsidiaries that provide intrastate service are generally subject to certification and tariff filing requirements by state regulators.

## **C-TEC CORPORATION**

On October 29, 1993, the Company purchased a controlling interest in C-TEC Corporation ("C-TEC") for \$207 million. Through subsidiaries, the Company acquired 7.5% of the outstanding shares of C-TEC common stock and 59.6% of the C-TEC Class B common stock. Holders of common stock are entitled to one vote per share; holders of Class B stock are entitled to 15 votes per share. The Company thus owns 34.5% of the outstanding shares, but is entitled to 56.6% of the available votes. C-TEC common stock is traded on the NASDAQ National Market System, and the Class B Stock is quoted on NASDAQ and traded over the counter.

C-TEC Corporation has headquarters in Wilkes-Barre, Pennsylvania (it has announced plans to move certain key corporate and operating group functions to Princeton, New Jersey). C-TEC has five operating groups. Commonwealth Telephone Company provides local telephone service in 19 counties in eastern Pennsylvania. With more than 211,000 main access lines, Commonwealth is the 20th largest U.S. telephone company. The Cable Group is a cable television operator with systems located in New York, New Jersey, Michigan, Delaware, and Pennsylvania. The Cable Group owns and operates systems serving 224,000 customers and manages systems with an additional 34,000 customers, ranking it among the top 35 U.S. multiple systems operators. The Mobile Services Group offers cellular telephone service in northeastern and central Pennsylvania and southeastern Iowa, as well as paging and message management services in northeastern Pennsylvania. The Long Distance Group sells long distance telephone services in the Commonwealth Telephone local service area and resells services elsewhere. The Communications Group provides telecommunications- related engineering and technical services in the northeastern U.S.

Regulation. Commonwealth Telephone Company and C-TEC's long distance telephone subsidiary are subject to FCC regulation. Commonwealth Telephone Company is subject to extensive regulation by the Pennsylvania Public Utility Commission, including its rate-making process. Consequently, the ability of Commonwealth Telephone Company to generate increased income is largely dependent on its ability to increase its subscriber base, obtain higher message volume, and control its expenses. C-TEC's cable television operations are regulated by local and state franchise authorities and by the FCC. The federal Cable Television Consumer Protection and Competition Act of 1992 has increased FCC oversight, including increased regulation of subscriber rates.

## **OTHER OPERATIONS**

### **CALIFORNIA ENERGY COMPANY, INC.**

California Energy Company, Inc. ("CECI") is an independent power producer and a developer and owner of geothermal and other environmentally responsible power generating facilities. CECI currently operates five geothermal facilities, producing in excess of 250 megawatts of electricity, and controls leases to 450,000 acres of geothermal development property in the western United States. CECI, with KCG and others, is developing geothermal facilities in the Philippines.

Kiewit Energy Company ("KEC"), a Company subsidiary, owns 21 percent of the outstanding common stock (7.4 million shares) of CECI; CECI common stock is traded on the New York Stock Exchange. KEC has options to purchase 5.5 million common shares, at exercise prices below the current market price. In 1991, KEC purchased \$50 million of CECI voting convertible preferred stock, on which dividends are payable at an 8.125% rate. The combined common stock and preferred stock voting rights presently entitle KEC to 28% of the available votes. If the options were exercised and the preferred stock converted, KEC would own approximately 37% of CECI's common stock. A 1991 agreement provides for three KEC representatives on the CECI board of directors and prohibits KEC from acquiring more than 49% of CECI's voting stock before March 1996.

In December 1993, KDG and KCG (together "Kiewit") signed a joint venture agreement with CECI, covering international power project development activities in Asia, particularly in the Philippines and Indonesia, and in other regions (excluding the Caribbean, South America, and Central America). The agreement, which has an initial term of three years, provides each party a right of first refusal to pursue jointly all "build, own and operate" or "build, own, operate and transfer" power projects identified by the other

party or its affiliates. If both parties agree to participate in a project, they will share all development costs equally, each of CECI and Kiewit will provide 50% of the equity required for financing a project developed by the joint venture, and CECI will operate and manage any such project. The agreement contemplates a joint development structure under which, on a project by project basis, CECI will be the development manager, managing partner and/or project operator, an equal equity participant with Kiewit and a preferred participant in the construction consortium and Kiewit will be an equal equity participant and the preferred turnkey construction contractor, with the construction consortium providing customary security to project lenders (including CECI) for liquidated damages and completion guarantees.

## **INFORMATION SERVICES**

In addition to providing information services to the Company and its subsidiaries, PKS Information Services, Inc. ("PKSIS") provides remote computing services, or "computer outsourcing", to users of IBM and DEC systems under long-term contracts. The primary focus of PKSIS is on the systems operations segment of the computer outsourcing market. Voice and data telecommunications services and professional services practices are in place to support existing and prospective customers. PKSIS provides its services to firms who desire to focus resources on their core businesses while avoiding the capital and overhead costs of operating their own computer centers. In 1993, 55 percent of PKSIS' revenue was from external customers. PKSIS operations and computing equipment are located in a specially designed 50,000 square foot computer center in Omaha, Nebraska. Construction will begin in 1994 on a 39,000 square foot addition to the existing facility.

## **GENERAL INFORMATION**

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

**Employees.** At the end of 1993, the Company and its majority-owned subsidiaries employed approximately 10,620 people -- 7,200 in construction, 750 in mining, 2,200 in telecommunications (920 at MFS, 1,280 at C-TEC), 140 in information services, and 330 in corporate positions.

## **ITEM 2. PROPERTIES.**

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

## **ITEM 3. LEGAL PROCEEDINGS.**

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

**Environmental Proceedings.** In a large number of proceedings, the Company or its predecessors is one of numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited

in landfills or other sites. Management believes that any resulting liabilities for environmental legal proceedings, beyond amounts reserved, will not materially affect the Company's financial condition.

**Whitney Litigation.** In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMCRA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Kiewit and Whitney filed an action, now titled *Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States*, in the U.S. Court of Federal Claims ("Claims Court"), alleging that the enactment of SMCRA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Claims Court and the U.S. Supreme Court denied certiorari. On February 10, 1994, the Claims Court issued an opinion which provided that the \$60 million judgment would bear interest compounded annually from 1977 until payment. Kiewit has calculated the interest for the 1977-1993 period to be \$230 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. At year-end 1993, Kiewit and Whitney would be entitled to \$196 million and \$94 million, respectively.

The government filed two post-trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the 1977 value of the property. The government also filed a motion to reopen and set aside the 1989 judgment as void and to dismiss plaintiffs' complaint for lack of jurisdiction. In August 1992, the Claims Court indicated that both motions would be denied, but a written order has not yet been entered. The government may appeal from that order, as well as the order regarding compound interest. It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment will occur.

**MFS Litigation.** On March 4, 1994, several former stockholders of MFS Telecom filed a lawsuit against MFS, KDG, and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of MFS Telecom to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS's liabilities in accordance with the indemnification agreement. If KDG does make payments as a result of this litigation, the Company's earnings and stockholders' equity will not immediately decline, because such payments will be recorded in the financial statements as an increase to the original purchase price of the MFS Telecom shares, resulting in goodwill which will be amortized against earnings in future periods.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1993.

#### **EXECUTIVE OFFICERS OF THE REGISTRANT.**

The table below shows information as of March 15, 1994 about each

executive officer of the Company, including his business experience during the past five years (1989-1994). The Company considers its executive officers to be its directors who are employed by the Company or one of its subsidiaries. The Company's directors and officers are elected annually and each was elected on June 5, 1993 to serve until his successor is elected and qualified or until his death, resignation or removal.

Name	Business Experience (1989-1994)	Age
Walter Scott, Jr.	Chairman of the Board and President	62
William L. Grewcock	Vice Chairman	68
Robert E. Julian	Executive Vice President-Chief Financial Officer (since 1991); Vice President-Chief Financial Officer (1989-1991); Treasurer (1990-1993)	54
Kenneth E. Stinson	Executive Vice President (since 1991) Vice President (1989-1991)	51
John Bahen	President, Peter Kiewit Sons Co. Ltd. (1989-1993)	66
Richard Geary	Executive Vice President, KCG; President, Kiewit Pacific Co.	59
Leonard W. Kearney	Vice President, KCG; President, Kiewit Construction Company and Kiewit Western Co.	53
James Q. Crowe	Chairman and Chief Executive Officer of MFS	44
Richard R. Jaros	Executive Vice President (since 1993); Vice President (1990-1992); Chairman (since 1993), President and CEO (1992-1993) of CECI; Vice President, KDG (1989-1990)	42

George B. Toll, Jr. Executive Vice President, KCG (1994); Vice 58 President, Kiewit Pacific Co.

## PART II

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

Market Information. There is no established public trading market for the Company's common stock. Under the Company's Restated Certificate of Incorporation effective January 1992, the Company now has three classes of common stock: Class B Construction & Mining Group Nonvoting Restricted Redeemable Convertible Common Stock ("Class B"), Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock ("Class C"), and Class D Diversified Group Convertible Exchangeable Common Stock ("Class D"). In connection with a reclassification in January 1992, each "old" Class B share was exchanged for one "new" Class B share and one Class D share, and each "old" Class C share was exchanged for one "new" Class C share and one Class D share. New Class B and Class C shares can be issued only to Company employees and can be resold only to the Company at a formula price based on the year-end book value of the Construction & Mining Group. The Company is

generally required to repurchase Class B and Class C shares for cash upon stockholder demand. Class D shares have a formula price based on the year- end book value of the Diversified Group. The Company must generally repurchase Class D shares for cash upon stockholder demand at the formula price, unless the Class D shares become publicly traded. Although the Class D shares are predominantly owned by employees and former employees, such shares are not subject to ownership or transfer restrictions.

Dividends. During 1992 and 1993 the Company declared the following dividends on its common stock:

Date Declared	Date Paid	Dividend Per Share	Class
January 4, 1992	January 4, 1992	\$0.50	Old B&C
March 20, 1992	May 1, 1992	0.15	New B&C
March 20, 1992	May 1, 1992	0.35	D
March 20, 1992	June 1, 1992	1.00	D
October 23, 1992	January 5, 1993	0.30	B&C
October 23, 1992	January 5, 1993	0.35	D
March 19, 1993	May 1, 1993	0.30	B&C
March 19, 1993	May 1, 1993	0.35	D
March 19, 1993	June 1, 1993	0.15	D
October 29, 1993	January 6, 1994	0.40	B&C

The Board of Directors announced on August 27, 1993 that the Company did not intend to pay dividends on Class D shares in the foreseeable future.

Holders. On March 1, 1994, the Company had the following number of stockholders for each class of its common stock:

Holders	Class
4	B
1121	C
1327	D

## **ITEM 6. SELECTED FINANCIAL DATA.**

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

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

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1993	1992	1991	1990	1989
Results of Operations:					
Revenue (1)	\$ 2,179	\$ 2,020	\$ 2,086	\$ 1,917	\$ 1,701
Earnings from continuing operations before cumulative effect of change in accounting principle (2)	261	150	49	108	92
Net earnings (2)	261	181	441	80	140
Financial Position:					
Total assets (1)	3,684	2,599	2,632	2,966	3,762
Current portion of long-term debt (1)	15	3	15	31	178
Long-term debt, less current portion (1)	462	30	110	269	302
Stockholders' equity (3)	1,671	1,458	1,396	1,185	1,141

(1) In October 1993, the Company acquired 34.5% of the outstanding shares of C-TEC Corporation that have 56.6% of the available voting rights.

(2) In 1993, through two public offerings, the Company sold 29% of its subsidiary, MFS Communications Company, Inc., resulting in a \$137 million after-tax gain.

(3) The aggregate redemption value of common stock at December 25, 1993 was \$1.6 billion.

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

The following selected financial data for each of the years in the period 1989 to 1993 have been derived from audited financial statements. The historical financial information for the Kiewit Construction & Mining and Kiewit Diversified Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1993	1992	1991	1990	1989
<b>Results of Operations:</b>					
Revenue	\$ 1,777	\$ 1,671	\$ 1,834	\$ 1,671	\$ 1,481
Earnings before cumulative effect of change in accounting principle	80	69	23	57	52
Net earnings	80	82	23	57	52
<b>Per Common Share (1):</b>					
Earnings before cumulative effect of change in accounting principle	4.63	3.79	1.12	2.47	2.13
Net earnings	4.63	4.48	1.12	2.47	2.13
Dividends (2)	0.70	0.70	0.30	0.25	0.30
Stock price (3)	22.35	18.70	14.40	10.35	8.40
Book value	27.43	23.31	19.25	14.99	12.65
<b>Financial Position:</b>					
Total assets	889	862	849	762	678
Current portion of long-term debt	4	2	7	15	26
Long-term debt, less current portion	10	12	13	14	11
Stockholders' equity (4)	480	437	400	350	313
Formula value (3)	391	351	299	249	215



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

(1) In connection with the January 8, 1992 reorganization, each share of previous Class B and Class C Stock was exchanged for one share of new Class B&C Stock and one share of new Class D Stock. Therefore, for purposes of computing Class B&C Stock per share data, the number of shares for years 1989 to 1991 are assumed to be the same as the corresponding number of shares of previous Class B and Class C Stock. Fully diluted earnings per share have not been presented because it is not materially different from earnings per share.

(2) The 1993 and 1992 dividends include \$.40 and \$.30 for dividends declared in 1993 and 1992, respectively, but paid in January of the subsequent year. Years 1989 to 1991 reflect dividends paid by PKS on its previous Class B and Class C Stock that have been attributed to Kiewit Construction & Mining Group and Kiewit Diversified Group based upon the relative formula values of each group which were determined at the end of each preceding year. Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in such years had the new Class B&C Stock and the Class D Stock been outstanding.

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

(4) Ownership of the Class B&C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class B&C Stock at the amount computed, when put to PKS by a stockholder, pursuant to the Restated Certificate of Incorporation. The aggregate redemption value of the B&C Stock at December 25, 1993 was \$391 million.

**KIEWIT DIVERSIFIED GROUP**  
**SELECTED FINANCIAL DATA**

The following selected financial data for each of the years in the period 1989 to 1993 have been derived from audited financial statements. The historical financial information for the Kiewit Diversified and Kiewit Construction & Mining Groups supplements the consolidated financial information of PKS and, taken together, includes all accounts which comprise the corresponding consolidated financial information of PKS.

(dollars in millions except per share amounts)	Fiscal Year Ended				
	1993	1992	1991	1990	1989
Results of Operations:					
Revenue (1)	\$ 402	\$ 349	\$ 252	\$ 246	\$ 220
Earnings from continuing operations before cumulative effect of change in accounting principle (2)	181	81	26	51	40
Net earnings (2)	181	99	418	23	88
Per Common Share (3):					
Earnings from continuing operations before cumulative effect of change in accounting principle	9.08	4.00	1.26	2.20	1.63
Net earnings	9.08	4.92	20.30	1.03	3.59
Dividends (4)	0.50	1.95	0.70	0.70	0.90
Stock price (5)	59.40	50.65	47.85	35.00	32.65
Book value	59.52	50.75	47.93	35.75	33.47
Financial Position:					
Total assets (1)	2,809	1,759	1,801	2,204	3,084
Current portion of long-term debt (1)	11	1	8	16	152
Long-term debt, less current portion (1)	452	18	97	255	291
Stockholders' equity (6)	1,191	1,021	996	835	828
Formula value (5)	1,191	1,021	996	835	828

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

- (1) In October 1993, the Group acquired 34.5% of the outstanding shares of C-TEC Corporation that have 56.6% of the available voting rights.
- (2) In 1993, through two public offerings, the Group sold 29% of MFS Communications Company, Inc., resulting in a \$137 million after-tax gain.
- (3) In connection with the January 8, 1992 reorganization, each share of previous Class B and Class C Stock was exchanged for one share of new Class B&C Stock and one share of new Class D Stock. Therefore, for purposes of computing Class D Stock per share data, the number of shares for years 1989 to 1991 are assumed to be the same as the corresponding number of shares of previous Class B and Class C Stock. Fully diluted earnings per share have not been presented because it is not materially different from earnings per share.
- (4) The 1992 dividends include \$.35 for dividends declared in 1992 but paid January 5, 1993. Years 1989 to 1991 reflect dividends paid by PKS on its previous Class B and Class C Stock that have been attributed to Kiewit Diversified Group and Kiewit Construction & Mining Group based upon the relative formula values of each group which were determined at the end of each preceding year. Accordingly, the dividends may bear no relationship to the dividends that would have been declared by the Board in such years had the new Class D Stock and the new Class B&C Stock been outstanding.
- (5) Pursuant to the Restated Certificate of Incorporation, the stock price and formula value calculations are computed annually at the end of the fiscal year.
- (6) Until public trading begins, PKS is generally committed to purchase all Class D Stock at the amount computed, in accordance with the Restated Certificate of Incorporation, when put to PKS by a stockholder. The aggregate redemption value of the Class D Stock at December 25, 1993 was \$1.2 billion.

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

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

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

	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Construction	\$ 1,757	\$ 1,659	\$ 1,825
Mining	230	246	219
Telecommunications	189	109	37
Other Operations	3	6	5
	<hr/>	<hr/>	<hr/>
	\$ 2,179	\$ 2,020	\$ 2,086
	=====	=====	=====

### General

Additional financial information about the Company's industry segments, including operating earnings, identifiable assets, capital expenditures and depreciation, depletion and amortization, as well as geographic information, is contained in Note 17 to the Company's consolidated financial statements.

### Results of Operations 1993 vs. 1992

#### Construction

Construction revenue increased by \$98 million or 6% in 1993. The Company's share of joint venture revenue rose by 60% and accounted for 24% of total construction revenue for the period as compared to 16% for 1992. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase, the largest of which was the San Joaquin Toll Road Joint Venture ("San Joaquin"). The increase in joint venture revenue was partially offset by a small decrease in sole contract revenue due to a decrease in the average size of sole contracts awarded. Contract backlog at December 25, 1993 was \$2.1 billion, of which 6% is attributable to foreign operations, principally, Canada. Projects on the west coast comprise 50% of the total backlog of which San Joaquin accounts for \$435 million. San Joaquin is scheduled for completion in 1997.

Direct costs associated with construction contracts increased \$66 million or 4% to \$1.569 billion in 1993. The increase is net of a \$20 million reduction in reserves previously established for the non-sponsored Denmark tunnel project. The overall rise in costs is directly attributable to the increase in volume. Costs as a percentage of revenue, excluding the reduction in reserves, approximated 90% and 91% for 1993 and 1992, respectively.

## **Results of Operations 1993 vs. 1992 (continued)**

### **Construction (continued)**

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

### **Mining**

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

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

The gross margin on mining revenue increased to 48% in 1993 from 43% in 1992. Alternate source coal sales, which result in larger margins than mined coal, led to the increase.

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

### **Telecommunications**

In 1993, the components of telecommunications revenue were as follows:

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

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

## **Results of Operations 1993 vs. 1992 (continued)**

### **Telecommunications (continued)**

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

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

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

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

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

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

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

### **Other Income**

Other income decreased from \$128 million in 1992 to \$62 million in 1993, a decrease of 52%. The decline primarily relates to a \$40 million increase in realized losses and permanent valuation adjustments on marketable securities, including certain derivative securities. Interest income declined by \$20 million due to lower interest rates and to a change in portfolio mix. Dividend income decreased by \$10 million due to dividends accrued in 1992 on an investment in United States Can Company preferred stock redeemed in March of 1993. Slight increases in equity earnings and miscellaneous income partially offset the declines noted above.

## **Results of Operations 1993 vs. 1992 (continued)**

### **Selling and Administrative Expenses**

Selling and administrative expenses increased 15% or \$26 million in 1993. Costs incurred in developing MFS Datanet and MFS Intelenet account for a large portion of the increase. MFS expects to incur significant expense developing the high-speed data communications and integrated, single-source telecommunication services in 1994. Increased legal costs, primarily reserves established for environmental matters (see "Legal Proceedings"), also contributed to the increase.

### **Interest Expense**

Interest expense increased by \$3 million or 27% in 1993. The increase is due to the C-TEC debt assumed in the acquisition. Interest on C-TEC debt during the last two months, approximated \$6 million. The extinguishment of significant debt in 1992 partially offset C-TEC interest. The Company anticipates significant increases in interest expense due to the C-TEC acquisition, the MFS debt issuance of \$500 million in January 1994, and project financing on the Company's 65% equity interest in a privately-owned toll road in southern California.

### **Gain on Sale of Subsidiary's Stock**

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public on September 15, 1993 at a price of \$50 per share for \$218 million, net of certain transaction costs. These transactions have reduced the Company's ownership interest in MFS to 71% at December 25, 1993. Substantially all of the net proceeds from the offerings are intended to fund MFS' growth. Prior to the initial public offering, MFS was a wholly-owned subsidiary of the Company.

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

### **Income Taxes**

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

## **Results of Operations - 1992 vs. 1991**

### **Construction**

Revenue from construction activity in 1992 decreased 9% compared to 1991. Although the number of new contracts awarded in 1992 increased approximately 15%, the average size of new contracts, excluding the \$520 million contract awarded to San Joaquin, decreased by approximately 20%. Contract backlog at the end of 1992 was \$2.2 billion, a \$300 million increase from backlog at the end of 1991. Of the 1992 backlog, 9% related to foreign projects mainly in Canada and the remainder related to projects in the United States. Sixty-four percent of the U.S. projects were on the west coast. The decrease in revenue as well as in contract backlog (excluding San Joaquin) was the result of the general state of the economy in Canada and the United States. Fluctuating demand cycles are typical of the industry. The gross margin was 9% in 1992 and 6% in 1991. The 1991 gross margin was unfavorably impacted primarily by losses on the Denmark tunnel project and on several U.S. projects.

In 1992, management of the nonsponsored Denmark tunnel project completed negotiations with respect to the settlement of claims against the project owner and equipment supplier. The new agreement with the project owner covered the reimbursement of certain costs incurred and time extensions due to differing soil conditions at the site of the tunnels. Costs incurred with respect to the flooding of two of the four tunnels being drilled as part of the project have been covered by insurers. Because of the remaining uncertainties involved in completing the tunnels, due primarily to the adverse soil conditions, no adjustments were made in 1992 for the Company's share of the estimated losses. Management believes that the resolution of the uncertainties should not materially effect of the Company's financial position.

### **Mining**

Mining revenue increased 12% in 1992 as compared to 1991. The increase was due to the mines collectively shipping 20% more tons of coal and lignite in 1992. The increase in tonnage was due principally to new short-term contracts at the Black Butte mine and sales on the spot market. This increase was partially offset by a 4% decrease in the average price per ton, the result of increased lower-priced spot sales from the Decker mine. Revenue recognition on previously consummated sales of undivided interests in coal reserves to be mined in the future represented \$40 million of 1992 revenue and \$39 million of 1991 revenue. The gross margin on mining revenue, including reserve coal, approximated 43% in 1992, exceeds the gross margin in 1991. The 1991 gross margin was unfavorably impacted by certain one-time charges for production taxes and reclamation costs, and expenses incurred to repair a dragline.

In 1992, the agreements with Commonwealth Edison Company ("Commonwealth") were renegotiated. Beginning January 1, 1993, the Black Butte mine discontinued coal shipments to Commonwealth. Coal is now purchased from two unaffiliated mines located in the Powder River Basin area of Wyoming and from the Company's Decker mine to satisfy the delivery commitments under the renegotiated Commonwealth agreements.



## **Results of Operations 1992 vs. 1991 (continued)**

### **Mining (continued)**

Also in accordance with the renegotiation, there were no sales of interests in coal reserves subsequent to January 1, 1993. The Company does not expect that the financial impact of the renegotiation will be material to its mining operations, cash flows, or financial position.

### **Telecommunications**

Revenue in 1992 was comprised of 56% network systems integration and facilities management and 44% telecommunications services. Revenue in 1991 was comprised of 38% network systems integration and facilities management and 62% telecommunications services. Network systems integration and facilities management backlog at December 26, 1992 was \$74 million, of which \$16 million relates to the United Kingdom joint venture and the remainder relates mainly to the State of Iowa project. Revenue increased from \$37 million in 1991 to \$109 million in 1992, representing a 192% increase. Of the increase, 66% was from network systems integration and facilities management. This increase resulted primarily from network systems integration projects in Iowa, Minnesota and the United Kingdom. Telecommunications services accounted for the remaining increase in total revenue. This increase in revenue primarily reflects increased services provided on networks in New York City and Dallas which commenced operations in early 1991 and a full year of results for the Washington, D.C. metropolitan area network which was acquired in October 1991. The balance of the increase in telecommunications services revenue resulted from continued market growth of other networks. The Atlanta network became operational during the fourth quarter of 1992, but generated insignificant revenues.

The cost of revenue in 1992 increased 112% compared to 1991. Seventy-three percent of the increase relates to direct costs incurred on network systems integration and facilities management projects for third parties. Another 17% of the increase is due to increased depreciation and amortization expense primarily on the telecommunications networks in Washington, D.C., New York City and Dallas. The balance of the increase relates to an increase in other costs associated directly with network operations; primarily from the Washington, D.C., New York City and Dallas networks. The cost of revenue, as a percentage of total revenue, has decreased from 123% in 1991 to 89% in 1992. This change resulted generally from increased utilization of existing network capacity.

## **Results of Operations 1992 vs. 1991 (continued)**

### **Other Income**

The Company recognized investment income of \$98 million in 1992 and \$108 million in 1991. The decrease in investment income is generally attributable to the collection of various receivables from the sales of the discontinued packaging operations. In 1992 the Company recognized \$11 million of interest on these receivables compared to \$20 million in 1991. Included in 1992 investment income are \$4 million of dividends in kind received from an investment in California Energy Company, Inc. ("California Energy") preferred stock and \$11 million of dividends accrued on an investment in United States Can Company ("U.S. Can") preferred stock which was redeemed in March 1993. Included in 1991 investment income is \$12 million of dividends received from U.S. Can preferred stock. Other Income in 1992 and 1991 also reflects gains on the sales of timberlands of \$5 million and \$3 million, respectively, net equity earnings from an investment in California Energy of \$4 million and \$3 million, respectively, and information services income of \$7 million and \$5 million, respectively. The increase in Other Income in 1992 was partially offset by a decline in market value considered to be other than temporary of \$12 million recorded for two of the Company's marketable securities, one of which was sold in 1993.

### **Selling and Administrative Expenses**

Selling and administrative expenses increased 5% in 1992 compared to 1991 due in part to increases within the telecommunications operations. The Company incurred \$4 million in 1992 developing new telecommunications services. The increase is also attributable to modest increases in several of the Company's administrative departments.

### **Interest Expense**

Interest expense in 1992 reflects the anticipated decrease due to the significant reductions during 1991 in both short-term borrowings and long-term debt. All short-term borrowings were repaid in July 1991 and no new borrowings were incurred until December 1992. The Company also redeemed \$150 million of debt in October 1991 and extinguished \$73 million of debt in 1992 with no new material debt incurred since year-end 1991.

### **Taxes**

The effective income tax rate, with respect to continuing operations before cumulative effect of change in accounting principle, is 32% in 1992 and 46% in 1991. The 1992 rate is lower than the 1991 rate primarily due to 1991 foreign taxes and adjustments to the prior year tax provision. In both 1992 and 1991, dividend exclusions and mineral depletion expenses reduced the overall effective rate.

## **Results of Operations 1992 vs. 1991 (continued)**

### **Discontinued Packaging Operations**

The gain on disposal of discontinued operations in 1992 resulted from a \$19 million adjustment to prior year tax estimates and an \$8 million payment, net of tax, received from BTR Nylex Limited and a \$1 million accrual, net of tax, relating to additional sales proceeds from the 1990 sale of Continental PET Technologies, Inc. The gain was partially offset by miscellaneous sales adjustments related to the 1991 and 1990 sales of certain discontinued packaging operations. The gain on disposal of discontinued operations in 1991 reflects the sales of the European packaging operations, Continental Can International Corporation, Continental White Cap, Inc. and Continental Plastic Containers, Inc. The significant decrease in 1992 in earnings from discontinued operations is due to the sales of the remaining packaging operations in 1991. Earnings in 1992 reflect the equity earnings from the Company's investment in a plastics joint venture, which was sold to Ball Corporation in July 1992. No significant gain or loss was recognized as a result of this transaction.

### **Financial Condition - December 25, 1993**

The Company's working capital increased \$227 million or 20% to \$1,365 million in 1993.

For the year, the Company generated positive cash flows of \$286 million from operating activities, an increase of \$86 million over 1992.

Cash used in investing activities in 1993 includes the net purchase of marketable securities of \$304 million, capital expenditures of \$192 million which consists of \$127 million for communications, \$48 million for construction and \$5 and \$12 million for mining and corporate, respectively, and the purchase of a controlling interest in C-TEC Corporation for \$146 million, net of cash acquired. These investments were necessary to support existing operations and develop new opportunities for future growth. Overall, net cash used in investing activities was \$655 million in 1993.

Cash from financing activities was derived principally from the issuances of the common stock of MFS and PKS. The Company raised \$451 million in cash from the sale of 17.3 million shares or 29% of MFS' common stock in two public offerings. The net proceeds are intended to fund MFS' growth. The Company also raised \$24 million in cash from the sale of its Class C and Class D common stock, which will be used for general corporate purposes.

Uses of cash in financing activities in 1993 consisted of paying dividends of \$27 million to Class B & C and Class D stockholders, repurchasing Class C and Class D common stock for \$54 million and repaying 1992 short-term borrowings of \$80 million. Throughout 1993, the Company borrowed funds to meet short-term liquidity needs. These additional borrowings have all been repaid. During 1993, the Company collected \$110 million related to notes receivable from sales of discontinued operations.

The Company's existing working capital position together with anticipated cash flows from operations, debt issuances and existing lines of credit, should be sufficient for 1994's working capital and investing requirements. It is expected that C-TEC will be able to independently finance its working capital and investment requirements in 1994.

In addition to investing between \$45 million and \$85 million annually in its construction and mining businesses, the Company anticipates making significant investments in its energy business - including its joint venture agreement with California Energy covering international power project development activities - and searching for opportunities to acquire operating businesses that are capital intensive and provide long-term growth. In February 1994, the Company completed the purchase of APAC-Arizona, Inc. from Ashland Oil Company, Inc. for approximately \$49 million, subject to adjustments. APAC is engaged in the construction materials and contracting businesses in Arizona and surrounding states. The Company has been and continues to investigate other investment opportunities.

These investments, along with the payment of income taxes and the repurchases of common stock, will be the significant long-term uses of liquidity. The Company's existing cash and cash equivalents, marketable securities, cash flows from future operations and existing borrowing capacity are expected to fund these expenditures.

## **Financial Condition - December 25, 1993 (continued)**

MFS requires significant capital to fund future building, expansion or acquisition of communications networks in major metropolitan areas. In January 1994, MFS issued \$500 million of Senior Discount Notes due in 2004. In June 1993, MFS entered into a secured revolving credit agreement in the amount of \$75 million. The indenture pursuant to which the Senior Discount Notes were issued permits MFS to have a \$150 million secured credit facility. These transactions will provide liquidity to fund future expansion, including the proposed acquisition of Centex Telemanagement, Inc., for net consideration of approximately \$150 million, announced by MFS on March 16, 1994. MFS may fund future capital expenditures and acquisitions through additional issuances of debt and equity securities. MFS intends to invest \$250 million in 1994 and in excess of \$1 billion over the next five years to expand its networks to an additional 55 markets.

In July 1993, financing was approved to construct a 10-mile privately-owned toll road in southern California. The Company has a 65% interest in this project. Management expects \$107 million of third party debt to be incurred. by the project's completion in 1995.

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

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

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

None.

## **PART III**

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

### **ITEM 11. EXECUTIVE COMPENSATION.**

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

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

The information required by Part III is incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on June 4, 1994. However, certain information is set forth under the caption "Executive Officers of the Registrant" following Item 4 above.

## **PART IV**

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

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

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

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, effective January 8, 1992 (Exhibit 3.1 to Company's Form 10-K for 1991).
3.4	By-laws, composite copy, including all amendments, as of March 19, 1993 (Exhibit 3.4 to Company's Form 10-K for 1992).
10.11	Kiewit Construction and Mining Long-Term Incentive Plan, Construction and Mining Appreciation Rights (Exhibit 10.11 to Company's Form 10-K for 1988).
10.12	Kiewit Long-Term Incentive Plan, Stock Appreciation Rights (Exhibit 10.12 to Company's Form 10-K for 1988).

- 21 List of subsidiaries of the Company.
- 99.A Kiewit Construction & Mining Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.
- 99.B Kiewit Diversified Group Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (b) No Form 8-K was filed during the fourth quarter of 1993.

## 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 24th day of March, 1994.

### PETER KIEWIT SONS', INC.

By: /s/ R. E. Julian

Robert E. Julian  
Executive Vice President -  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 24th day of March, 1994.

/s/ Walter Scott, Jr.

Walter Scott, Jr.

Chairman of the Board  
and President (principal  
executive officer)

/s/ R. E. Julian

Robert E. Julian

Director, Executive Vice  
President-Chief Financial  
Officer (principal financial  
officer)

/s/ Frank V. Yelick

Frank V. Yelick

Vice President and Controller  
(principal accounting officer)

John Bahen, Director

Charles M. Harper, Director

/s/ Richard L. Coyne

Richard L. Coyne, Director

/s/ Richard R. Jaros

Richard R. Jaros, Director

/s/ James Q. Crowe

James Q. Crowe, Director

/s/ Leonard W. Kearney

Leonard W. Kearney, Director

Robert B. Daugherty, Director

Peter Kiewit, Jr., Director

/s/ Richard Geary

Richard Geary, Director

/s/ Kenneth E. Stinson

Kenneth E. Stinson, Director

/s/ W. L. Grewcock

William L. Grewcock, Director

/s/ George B. Toll, Jr.

George B. Toll, Jr., Director

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

**Index to Financial Statements and Financial Statement Schedules**

**Pages**

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**Report of Independent Accountants**

Consolidated Financial Statements as of December 25, 1993 and December 26, 1992 and for the three years ended December 25, 1993:

Consolidated Statements of Earnings

Consolidated Balance Sheets

Consolidated Statements of Cash Flows

Consolidated Statements of Changes in Stockholders' Equity

Notes to Consolidated Financial Statements

Consolidated Financial Statement Schedules for the three years ended December 25, 1993:

VIII--Valuation and Qualifying Accounts and Reserves IX--Short-Term Borrowings

X--Supplementary Income Statement Information

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

## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the consolidated financial statements and the financial statement schedules of Peter Kiewit Sons', Inc. and Subsidiaries as listed in the index on the preceding page of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules 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 25, 1993 and December 26, 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 25, 1993 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

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

**COOPERS & LYBRAND**

Omaha, Nebraska  
March 18, 1994



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

**Consolidated Statements of Earnings**

For the three years ended December 25, 1993

(dollars in millions)	1993	1992	1991
Revenue	\$ 2,179	\$ 2,020	\$ 2,086
Other Income	62	128	125
	<u>2,241</u>	<u>2,148</u>	<u>2,211</u>
Costs and Expenses:			
Cost of revenue	1,866	1,741	1,905
Selling and administrative	203	177	169
Interest	14	11	47
	<u>2,083</u>	<u>1,929</u>	<u>2,121</u>
	<u>158</u>	<u>219</u>	<u>90</u>
Gain on Sale of Subsidiary's Stock	211	-	-
	<u>211</u>	<u>-</u>	<u>-</u>
Earnings from Continuing Operations Before Income Taxes, Minority Interest and Cumulative Effect of Change in Accounting Principle	369	219	90
Provision for Income Taxes	(111)	(69)	(41)
Minority Interest in Loss of Subsidiaries	3	-	-
	<u>3</u>	<u>-</u>	<u>-</u>
Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	261	150	49
Cumulative Effect of Change in Accounting Principle	-	12	-
	<u>-</u>	<u>12</u>	<u>-</u>
Earnings from Continuing Operations	261	162	49
Discontinued Operations:			
Earnings from discontinued operations net of income taxes of \$- and \$26 in 1992 and 1991, respectively	-	1	19
Gain on disposal of discontinued operations net of income taxes (benefit) of \$(19) and \$221 in 1992 and 1991, respectively	-	18	373
	<u>-</u>	<u>18</u>	<u>373</u>
Net Earnings	\$ 261 =====	\$ 181 =====	\$ 441 =====

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Earnings (continued)**

For the three years ended December 25, 1993

(dollars in millions, except per share data)	1993	1992	1991
<b>Earnings Attributable to Class</b>			
B&C Stock:			
Earnings Before Cumulative			
Effect of Change in Accounting			
Principle	\$ 80	\$ 69	\$ 23
Cumulative Effect of Change in			
Accounting Principle	-	13	-
Net Earnings	\$ 80	\$ 82	\$ 23
	=====	=====	=====
<b>Earnings Attributable to Class</b>			
D Stock:			
Earnings from Continuing			
Operations Before Cumulative			
Effect of Change in Accounting			
Principle	\$ 181	\$ 81	\$ 26
Cumulative Effect of Change in			
Accounting Principle	-	(1)	-
Earnings from Continuing Operations	181	80	26
Discontinued Operations:			
Earnings	-	1	19
Gain on disposal	-	18	373
Net Earnings	\$ 181	\$ 99	\$ 418
	=====	=====	=====
<b>Earnings Per Common and Common</b>			
<b>Equivalent Share:</b>			
Class B&C:			
Earnings Before Cumulative			
Effect of Change in			
Accounting Principle	\$ 4.63	\$ 3.79	\$ 1.12
Cumulative Effect of Change in			
Accounting Principle	-	.69	-
Net Earnings	\$ 4.63	\$ 4.48	\$ 1.12
	=====	=====	=====
Class D:			
Continuing Operations:			
Earnings Before Cumulative			
Effect of Change in Accounting			
Principle	\$ 9.08	\$ 4.00	\$ 1.26
Cumulative Effect of Change in			
Accounting Principle	-	(.05)	-
Earnings from Continuing			
Operations	9.08	3.95	1.26
Discontinued Operations:			
Earnings	-	.04	.94
Gain on disposal	-	.93	18.10
Net Earnings	\$ 9.08	\$ 4.92	\$ 20.30
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

**Consolidated Balance Sheets**

**December 25, 1993 and December 26, 1992**

(dollars in millions)	1993	1992
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 296	\$ 203
Marketable securities	1,082	905
Receivables, less allowance of \$7 and \$7	291	271
Note receivable from sale of discontinued operations	5	60
Costs and earnings in excess of billings on uncompleted contracts	79	53
Investment in construction joint ventures	81	48
Deferred income taxes	66	55
Other	54	90
Total Current Assets	<hr/> 1,954	<hr/> 1,685
Property, Plant and Equipment, at cost:		
Land	29	26
Buildings	200	48
Equipment	1,251	895
	<hr/> 1,480	<hr/> 969
Less accumulated depreciation and amortization	(636)	(575)
Net Property, Plant and Equipment	<hr/> 844	<hr/> 394
Note Receivable from Sale of Discontinued Operations	29	84
Investments	233	180
Intangible Assets, net	415	75
Other Assets	209	181
	<hr/> \$ 3,684	<hr/> \$ 2,599
	=====	=====
<hr/>		

See accompanying notes to consolidated financial statements.

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

**Consolidated Balance Sheets**

**December 25, 1993 and December 26, 1992**

(dollars in millions, except share data)	1993	1992
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 260	\$ 198
Short-term borrowings	-	80
Current portion of long-term debt:		
Telecommunications	7	-
Other	8	3
Accrued costs and billings in excess of revenue on uncompleted contracts	107	107
Accrued insurance costs	67	66
Other	140	93
	<hr/>	<hr/>
Total Current Liabilities	589	547
Long-Term Debt, less current portion:		
Telecommunications	420	-
Other	42	30
Deferred Income Taxes	385	267
Retirement Benefits	71	74
Accrued Reclamation Costs	92	94
Other Liabilities	116	117
Minority Interest	298	12
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding in 1993 and 1992	-	-
Common stock, \$.0625 par value, \$1.6 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 1,180,400 outstanding in 1993 and 1,257,000 outstanding in 1992	-	-
Class C, authorized 125,000,000 shares: 16,316,070 outstanding in 1993 and 17,505,535 outstanding in 1992	1	1
Class D, authorized 50,000,000 shares: 20,010,696 outstanding in 1993 and 20,104,478 outstanding in 1992	1	1
Additional paid-in capital	164	145
Foreign currency adjustment	(3)	3
Net unrealized holding gain	9	-
Retained earnings	1,499	1,308
	<hr/>	<hr/>
Total Stockholders' Equity	1,671	1,458
	<hr/>	<hr/>
	\$ 3,684	\$ 2,599
	=====	=====
<hr/>		

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

For the three years ended December 25, 1993

(dollars in millions)	1993	1992	1991
<hr/>			
Cash flows from operations:			
Earnings from continuing operations	\$ 261	\$ 162	\$ 49
Adjustments to reconcile earnings from continuing operations to net cash provided by continuing operations:			
Cumulative effect of change in accounting principle	-	(12)	-
Depreciation, depletion and amortization	99	86	82
(Gain) loss on sale of property, plant and equipment, and other investments	23	(18)	(11)
Gain on sale of subsidiary's stock	(211)	-	-
Decline in market value of investments	21	12	-
Retirement benefits paid	(17)	(8)	(5)
Change in retirement benefits and other noncurrent liabilities	10	19	68
Deferred income taxes	49	(4)	(4)
Change in working capital items:			
Receivables	9	(16)	13
Other current assets	(48)	18	4
Payables	47	(12)	23
Other liabilities	13	(33)	10
Other	30	6	(38)
	<hr/>	<hr/>	<hr/>
Net cash provided by continuing operations	286	200	191
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	4,927	6,542	3,717
Purchases of marketable securities	(5,231)	(6,629)	(4,116)
Acquisition of C-TEC, excluding cash acquired	(146)	-	-
Proceeds from sale of property, plant and equipment, and other investments	38	31	34
Capital expenditures	(192)	(129)	(122)
Investments in affiliates	(14)	(42)	(135)
Acquisition of minority interest	(2)	(27)	-
Deferred development costs and other	(35)	6	(6)
	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(655)	(248)	(628)
<hr/>			

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows  
For the three years ended December 25, 1993  
(continued)

(dollars in millions)	1993	1992	1991
<hr/>			
Cash flows from financing activities:			
Long-term debt borrowings	21	3	21
Payments on long-term debt, including current portion	(8)	(98)	(199)
Net change in short-term borrowings	(80)	80	(231)
Issuances of common stock	24	24	21
Issuances of subsidiary's stock	458	-	-
Repurchases of common stock	(54)	(85)	(137)
Dividends paid	(27)	(40)	(21)
Other	-	(1)	(3)
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) financing activities	334	(117)	(549)
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	110	163	1,285
USW ERISA Litigation settlement installment payment	-	-	(207)
Other cash provided by (used in) discontinued packaging operations	20	(34)	(105)
	<hr/>	<hr/>	<hr/>
Net cash provided by discontinued packaging operations	130	129	973
Effect of exchange rates on cash	(2)	(4)	-
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	93	(40)	(13)
Cash and cash equivalents at beginning of year	203	243	256
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 296	\$ 203	\$ 243
	=====	=====	=====
Supplemental disclosure of cash flow information for continuing and discontinued operations:			
Taxes	\$ 83	\$ 183	\$ 213
Interest	7	14	53
	<hr/>	<hr/>	<hr/>

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 25, 1993

(dollars in millions)

	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain	Retained Earnings	Total
Balance at December 30, 1990	\$ 1	\$ 1	\$ 123	\$ 102	\$ -	\$ 958	\$ 1,185
Issuances of stock	-	-	21	-	-	-	21
Repurchases of stock	-	-	(16)	-	-	(121)	(137)
Foreign currency adjustment	-	-	-	(93)	-	-	(93)
Net earnings	-	-	-	-	-	441	441
Dividends (\$1.00 per common share)	-	-	-	-	-	(21)	(21)
Balance at December 28, 1991	1	1	128	9	-	1,257	1,396
Issuances of stock	-	-	24	-	-	-	24
Repurchases of stock	-	-	(7)	-	-	(78)	(85)
Foreign currency adjustment	-	-	-	(6)	-	-	(6)
Net earnings	-	-	-	-	-	181	181
Dividends: (a) Class B&C (\$0.70 per common share)	-	-	-	-	-	(13)	(13)
Class D (\$1.95 per common share)	-	-	-	-	-	(39)	(39)
Balance at December 26, 1992	1	1	145	3	-	1,308	1,458

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 25, 1993

(continued)

(dollars in millions)

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

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

(b) Includes \$.40 per share for dividends on Class B&C Stock declared in 1993 but paid on January 6, 1994.

See accompanying notes to consolidated financial statements.



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

## **Notes to Consolidated Financial Statements**

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

#### **Principles of Consolidation**

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

#### **Construction Contracts**

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

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

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

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

## **Notes to Consolidated Financial Statements**

### **(1) Summary of Accounting Policies (continued)**

#### **Coal Sales Contracts**

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

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

#### **Telecommunications Revenues**

A subsidiary of the Company, MFS Communications Company, Inc. ("MFS"), provides private line and special access telecommunications services to major businesses, governmental entities and long distance carriers in major metropolitan areas of the United States through a competitive access provider subsidiary. Another subsidiary of MFS is a network systems integrator that designs, engineers, develops and installs telecommunications networks and systems and also provides facilities management services. MFS recognizes revenue on telecommunications services in the month the related service is provided. Network systems integration revenue is recognized on the percentage-of-completion method of accounting.

In October 1993, the Company acquired 34.5% of the outstanding shares of C-TEC Corporation ("C-TEC") that have 56.6% of the available voting rights. C-TEC's results of operations have been consolidated from the acquisition date. 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 basic and premium cable programming services are recorded in the month the service is provided.

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

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

## **Notes to Consolidated Financial Statements**

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

#### **Depreciation and Amortization**

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

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$216 million is depreciated based on the estimated remaining lives of the various classes of depreciable property and straight-line composite rates. When property is retired, the original cost, plus cost of removal, less salvage, is charged to accumulated depreciation.

#### **Intangible Assets**

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

#### **Pension Plans**

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

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

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

#### **Reserves for Reclamation**

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

#### **Foreign Currencies**

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

# PETER KIEWIT SONS', INC.

## Notes to Consolidated Financial Statements

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

#### Subsidiary Stock Sales

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

#### Earnings Per Share

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each year. For purposes of computing earnings per share data for periods prior to January 8, 1992, the number of Class B&C and Class D shares are assumed to be the same as the aggregate number of previous Class B and Class C shares. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings per share. The number of shares used in computing earnings per share was as follows:

	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Class B&C	17,290,971	18,262,680	20,588,236
Class D	19,941,885	20,126,768	20,588,236

#### Marketable Securities and Investments

On December 25, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries. At December 25, 1993, a net unrealized holding gain of \$9 million, net of income taxes, was reported in stockholders' equity. See Note 6 for additional disclosures.

#### Income Taxes

At the beginning of 1992, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial and tax basis for assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. In 1992, the Company recorded income of \$12 million which represented the decrease in the net deferred tax liabilities as a result of the accounting change. This amount has been reflected in the consolidated statements of earnings as a cumulative effect of a change in accounting principle.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

(1) Summary of Significant Accounting Policies (continued)

**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 each in the fiscal years 1993, 1992 and 1991.

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

(2) Discontinued Operations

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

Discontinued Packaging Operations for the year ended December 26, 1992 reflect the equity earnings of the Company's investment in a plastics joint venture, net of tax at the statutory rate. Summary financial information relative to the discontinued packaging operations, which primarily reflects earnings from packaging operations which were sold during 1991, for the year ended December 28, 1991 is provided below:

(dollars in millions)	1991
Revenue	\$ 1,145
Earnings Before Income Taxes	45
Net Earnings	19

The effective income tax rate for 1991 is higher than the statutory rate of 34%, primarily resulting from the effects of purchase accounting, state income taxes, higher taxes on foreign earnings and minority interest.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(3) Acquisitions**

In October 1993, the Company acquired 34.5% of the outstanding shares of C-TEC that have 56.6% of the available voting rights.

The acquisition of C-TEC for \$207 million in cash was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed, as follows:

Assets:		
Cash and cash equivalents	\$	61
Other current assets		49
Property, plant and equipment		354
Investments		17
Intangible assets		303
Other		8
Liabilities:		
Current liabilities		(64)
Deferred income taxes		(46)
Other liabilities		(8)
Long-term debt		(427)
Minority interest		(40)
	\$	207
	=====	

Results of C-TEC operations are included in the Company's consolidated results of operations since the date of acquisition.

The following unaudited pro forma information shows the results of the Company as though the acquisition occurred at the beginning of 1992. These results include certain adjustments, primarily increased amortization, and are not necessarily indicative of what the results would have been had the acquisition been made as of that date or results that will occur in the future.

	1993	1992
	<hr/>	<hr/>
Revenue	\$ 2,415	\$ 2,277
Net Earnings	255	175
Earnings Per Share of Class D Stock	8.78	4.63

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

## **Notes to Consolidated Financial Statements**

### **(4) MFS Stock Sales**

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public in September 1993, at a price of \$50 per share for \$218 million, net of certain transaction costs. These transactions have reduced the Company's ownership interest in MFS to 71% at December 25, 1993. Substantially all of the net proceeds from the offerings are intended to fund MFS' growth. Prior to the initial public offering, MFS was a wholly-owned subsidiary of the Company. The 29% outside ownership interest has been included in the consolidated condensed balance sheet minority interest caption.

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

### **(5) Disposal of Packaging Businesses**

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

In April 1991, certain subsidiaries of the Company sold their European packaging operations ("Europe") to VIAG Aktiengesellschaft, a German company. The transaction closed in June 1991. Europe was engaged in developing, manufacturing and marketing metal and plastic containers, closures and related packaging products principally in western Europe. Revenue from these businesses was \$818 million prior to the transaction close in 1991. Europe's net earnings for this same period was \$34 million. The net proceeds were \$853 million in cash. With the net proceeds, the Company repaid in July 1991 short-term borrowings of \$252 million. The short-term borrowings consisted of \$123 million which was borrowed in June 1991 to repay intercompany loans made to the Company by a subsidiary of Europe and \$129 million which was directly related to financing Europe's capital expenditures.

In May 1991, the Company sold Continental Can International Corporation ("CCIC"), a wholly-owned subsidiary that held the Company's interests in metal packaging operations in Latin America, the Far East and the Middle East, to Crown Cork & Seal Company, Inc. Revenue and net earnings were not material during the period prior to closing in 1991. Proceeds from the transaction consisted of \$35 million paid in cash at closing and a receivable of \$94 million which was collected in November 1991.

# PETER KIEWIT SONS', INC.

## Notes to Consolidated Financial Statements

### (5) Disposal of Packaging Businesses (continued)

In August 1991, the Company sold Continental White Cap, Inc. ("White Cap"), a wholly-owned subsidiary that manufactured metal, plastic and composite closures for food vacuum-packed in both glass and plastic containers to Schmalbach Lubeca A.G., a German company, for \$279 million, after certain adjustments. Revenue from this business was \$119 million prior to the transaction close in 1991. Net earnings for this same period was \$13 million. The proceeds consisted of a promissory note, with interest at the LIBOR rate plus .625%, receivable in installments over the next five years with the final installment due on December 31, 1995. The first installment payment of \$50 million was received in October 1991. Additional payments totalling \$25 million were received in December 1991 and January 1992, \$60 million was received in December 1992, and \$110 million was received in 1993.

In November 1991, the Company sold Continental Plastic Containers, Inc. and Continental Caribbean Containers, Inc. (collectively "PCD"), two wholly-owned subsidiaries that manufactured blow-molded rigid plastic containers for household, automotive, industrial and food products, to Plastic Containers, Inc., a newly formed corporation, for approximately \$150 million, after adjustments. Revenue from this business was \$190 million prior to the transaction close in 1991. Net earnings for this same period was \$4 million. The proceeds consisted of \$50 million in cash at the closing and a \$100 million bridge note receivable which was collected in April 1992.

The table below summarizes the gain on disposal for each sale and for the combined sales (in millions) during 1991:

	Europe	CCIC	White Cap	PCD	Total
Net Proceeds	\$ 853	\$ 129	\$ 279	\$ 150	\$ 1,411
Financial Reporting Basis	560	41	109	96	806
Pre-Tax Gain	293	88	170	54	605
Estimated Tax Provision	94	33	78	28	233
Gain on Disposal	\$ 199	\$ 55	\$ 92	\$ 26	\$ 372
	=====	=====	=====	=====	=====

The effective income tax rates differ from the expected statutory income tax rates due to state income taxes and the tax bases being different than the financial reporting bases.

Included in the gain on disposal of Europe is \$43 million of cumulative translation adjustments, consisting of \$95 million of foreign currency adjustments, recorded at December 29, 1990, offset by \$52 million of foreign currency losses incurred in 1991.



**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(5) Disposal of Packaging Businesses (continued)**

The difference between the gain summarized above and the gain per the consolidated statement of earnings is \$1 million, net of tax, consisting of the following (in millions):

Purchase price adjustment for Continental PET Technologies, Inc.	\$ 17
Gain on sale of investment in unconsolidated subsidiary	6
Reserves for various sales of discontinued packaging operations	( 22 )
	<hr/>
	\$ 1
	=====

During 1991, the Company received \$176 million in cash related to the remaining receivable, along with accrued interest, from the sale of the Company's domestic Beverage and Food packaging businesses in 1990.

In 1990, the Company sold Continental PET Technologies, Inc. ("PET") to BTR Nylex Limited ("BTR"), an Australian company. Closing date proceeds, subject to adjustment, approximated \$110 million. BTR paid an additional \$40 million for revenue recognized by PET during 1991-1993 from certain new products. At closing, the Company received a note receivable of \$110 million, which was collected in cash in January 1991.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

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

**Cash and Cash Equivalents**

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

**Marketable Securities and Investments**

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

At December 26, 1992 the cost of marketable securities approximated fair value. At December 25, 1993 the cost, unrealized holding gains and losses, and estimated fair values of marketable securities and noncurrent investments are as follows:

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Marketable Securities:				
Equity securities	\$ 79	\$ 2	\$ 2	\$ 79
U.S. debt securities	536	-	-	536
State and political subdivision debt securities	136	1	-	137
Foreign government debt securities	84	-	-	84
Corporate debt securities	204	-	1	203
Collateralized mortgage obligations	27	-	-	27
Certificates of deposit	16	-	-	16
	<u>\$ 1,082</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 1,082</u>
	=====	=====	=====	=====
Noncurrent Investments:				
Equity Securities	\$ 80	\$ 13	\$ -	\$ 93
	=====	=====	=====	=====

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

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
	-----	-----
U.S. debt securities:		
less than 1 year	\$ 517	\$ 517
1-5 years	19	19
	-----	-----
	\$ 536	\$ 536
	=====	=====
State and political subdivision		
debt securities:		
less than 1 year	\$ 4	\$ 4
1-5 years	114	115
5-10 years	5	5
over 10 years	13	13
	-----	-----
	\$ 136	\$ 137
	=====	=====
Foreign government debt securities:		
1-5 years	\$ 67	\$ 67
5-10 years	17	17
	-----	-----
	\$ 84	\$ 84
	=====	=====
Corporate debt securities:		
less than 1 year	\$ 65	\$ 65
1-5 years	103	102
5-10 years	16	16
over 10 years	20	20
	-----	-----
	\$ 204	\$ 203
	=====	=====
Certificates of deposit:		
less than 1 year	\$ 16	\$ 16
	=====	=====

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

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

**Note Receivable from Sale of Discontinued Operations:**

The carrying amount approximates fair value for both the current and the long-term portion due to the interest rate provided in the note.

**Short-term Borrowings and Long-term Debt:**

The fair value of debt was estimated using the incremental borrowing rates of the Company for debt of the same remaining maturities and approximates the carrying amount, except for certain Rural Telephone Bank debt which C-TEC may refinance. (See Note 11).

**(7) Retainage on Construction Contracts**

Marketable securities at December 25, 1993 and December 26, 1992 include approximately \$56 million and \$48 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage.

Receivables at December 25, 1993 and December 26, 1992 include approximately \$37 million and \$35 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

**(8) Investment in Construction Joint Ventures**

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

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

(8) Investment in Construction Joint Ventures (continued)

Summary joint venture financial information follows:

Financial Position (dollars in millions)		1993	1992
<hr/>			
Total Joint Ventures			
<hr/>			
Current assets		\$ 563	\$ 395
Other assets (principally construction equipment)		71	39
		<hr/>	<hr/>
		634	434
Current liabilities		(481)	(181)
Net assets		<hr/>	<hr/>
		\$ 153	\$ 253
		=====	=====
Company's Share			
<hr/>			
Equity in net assets		\$ 80	\$ 51
Receivable (payable) from (to) joint ventures		1	(3)
		<hr/>	<hr/>
Investment in construction joint ventures		\$ 81	\$ 48
		=====	=====
<hr/>			
Operations (dollars in millions)	1993	1992	1991
<hr/>			
Total Joint Ventures			
<hr/>			
Revenue	\$ 906	\$ 575	\$ 565
Costs	841	522	703
	<hr/>	<hr/>	<hr/>
Operating income (loss)	\$ 65	\$ 53	\$ (138)
	=====	=====	=====
Company's Share			
<hr/>			
Revenue	\$ 430	\$ 269	\$ 337
Costs	372	243	352
	<hr/>	<hr/>	<hr/>
Operating income (loss)	\$ 58	\$ 26	\$ (15)
	=====	=====	=====

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

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(8) Investment in Construction Joint Ventures (continued)**

Operating income in 1991 was unfavorably impacted by losses on certain joint venture contracts including recording estimated losses on the nonsponsored Denmark tunnel project of \$32 million.

**(9) Investments**

During 1992, the Company purchased additional shares of California Energy Company, Inc. ("California Energy") common stock for \$23 million, increasing its ownership interest to 21%. The cumulative investment in common stock, accounted for on the equity method, totals \$80 million. The Company has certain options to purchase additional shares of California Energy common stock. The excess purchase price over the underlying equity is being amortized over 20 years. Equity earnings, net of the amortization of the excess purchase price over the underlying equity, were \$7 million, \$4 million and \$3 million in 1993, 1992 and 1991, respectively. California Energy common stock is traded on the New York Stock Exchange. On December 25, 1993, the market value of the Company's investment in California Energy common stock was \$138 million.

In 1993 and 1992, the Company also recorded dividends in kind declared by California Energy consisting of voting convertible preferred stock valued at \$5 million and \$4 million, respectively. The stock dividends brought the Company's total investment in convertible preferred stock to \$59 million at December 25, 1993.

Investments also include equity securities classified as noncurrent and carried at the fair value of \$93 million (See Note 6).

**(10) Intangible Assets**

Intangible assets consist of the following at December 25, 1993 and December 26, 1992 (dollars in millions):

	1993	1992
Goodwill	\$ 234	\$ 52
Franchise and subscriber lists	60	5
Noncompete agreements	36	-
Licenses and right-of-ways	32	11
Deferred development costs	64	13
	<u>426</u>	<u>81</u>
Less accumulated amortization	(11)	(6)
	<u>\$ 415</u>	<u>\$ 75</u>
	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

At December 25, 1993 and December 26, 1992, long-term debt was as follows:

(dollars in millions)	1993	1992
C-TEC Long-term Debt (with recourse only to C-TEC)		
Mortgage notes payable to the United States of America -		
Rural Telephone Bank (RTB)		
5% - 6.05%, with monthly payments through 2009	\$ 64	\$ -
6.5% - 7%, with quarterly sinking fund payments through 2015	58	-
Federal Financing Bank (FFB)		
7.69% - 8.36%, with quarterly sinking fund payments through 2012	14	-
Senior Secured Notes		
9.65%, with annual principal payments 1996 through 1999 (includes unamortized premium of \$7 based on imputed rate of 6.12%)	157	-
9.52%, with annual principal payments 1996 through 2001 (includes unamortized premium of \$4 based on imputed rate of 6.93%)	104	-
Revolving Credit Agreements and Other	30	-
	<u>427</u>	<u>-</u>
Other PKS Long-term Debt		
7.5% to 11.6% Notes to former stockholders due 1994-2001	16	17
6.25% to 10.5% Convertible debentures due 1999-2003	7	5
Other	27	11
	<u>50</u>	<u>33</u>
	<u>477</u>	<u>33</u>
Less current portion	(15)	(3)
	<u>\$ 462</u>	<u>\$ 30</u>
	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

Substantially all of the assets of C-TEC's telephone group (\$353 million) collateralize the mortgage notes payable to the United States of America. These note agreements restrict telephone group dividends.

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

C-TEC's Revolving Credit agreements are collateralized by a pledge of the stock of C-TEC's telephone and mobile services subsidiaries.

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 14,322, 10,468, and 36,598, shares of Class C and Class D common stock in 1993, 1992 and 1991, respectively. At December 25, 1993, 215,180 shares of Class C common stock and 86,736 shares of Class D common stock are reserved for future conversions.

Other PKS long-term debt consists primarily of construction financing of a privately owned toll road which will be converted to term debt upon completion of the project. Variable interest rates on this debt ranged from 5% to 9% at December 25, 1993.

Scheduled maturities of long-term debt through 1998 are as follows (in millions): 1994 - \$11; 1995 - \$25; 1996 - \$56; 1997 - \$68 and \$70 in 1998.

The Company has the following unutilized borrowing arrangements at December 25, 1993:

C-TEC's telephone group's agreement with the RTB provides for an additional \$23 million of borrowings. The agreement requires C-TEC to invest in RTB stock for approximately 5% of the available amount.

C-TEC's Revolving Credit agreements provide for an additional \$11 million of borrowings collateralized by stock pledges. The total commitments are reduced on a quarterly basis through maturity in September 1996.

An additional \$50 million Credit Agreement collateralized by stock pledges may be utilized by C-TEC. The agreement provides revolving borrowings through June 1, 1994 at which time the outstanding balance converts to a term loan with quarterly payments through 1997. Under the arrangement, C-TEC must maintain specified debt to cash flow ratios.



**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

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

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

MFS has a \$75 million secured revolving credit agreement dependent in part on their ability to attain certain cash flow requirements.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(12) Income Taxes**

An analysis of the provision for income taxes related to continuing operations before minority interest and cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Current:			
U.S. federal	\$ 52	\$ 62	\$ 32
Foreign	2	5	7
State	8	6	6
	<u>62</u>	<u>73</u>	<u>45</u>
Deferred:			
U.S. federal	51	(2)	(4)
Foreign	(1)	(4)	-
State	(1)	2	-
	<u>49</u>	<u>(4)</u>	<u>(4)</u>
	<u>\$ 111</u>	<u>\$ 69</u>	<u>\$ 41</u>
	=====	=====	=====

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

(dollars in millions)	1993	1992	1991
United States	\$ 362	\$ 215	\$ 74
Foreign	7	4	16
	<u>\$ 369</u>	<u>\$ 219</u>	<u>\$ 90</u>
	=====	=====	=====

The components of the deferred income tax benefit, prior to adopting SFAS No. 109, in 1991 were as follows:

(dollars in millions)	1991
Depreciation and fixed assets	\$ 4
Retirement benefits and other compensation	1
Mining revenue and costs	5
Insurance reserves	(3)
Construction contract accounting	(18)
Equity earnings	4
Accrued revenue	4
Other	(1)
	<u>\$ (4)</u>
	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(12) Income Taxes (continued)**

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1993 and 34% in 1992 and 1991) to the earnings from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Computed tax at statutory rate	\$ 129	\$ 74	\$ 31
State income taxes	4	5	4
Depletion	(4)	(4)	(4)
Dividend exclusion	(4)	(3)	(2)
Equity earnings	-	(3)	-
Foreign taxes	-	-	3
Prior year tax adjustments	(13)	-	3
Nondeductible expenses	-	-	3
Other	(1)	-	3
	<u>\$ 111</u>	<u>\$ 69</u>	<u>\$ 41</u>
	=====	=====	=====

The Company and its domestic subsidiaries file a consolidated federal income tax return. 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 25, 1993 and December 26, 1992 were as follows:

(dollars in millions)	1993	1992
Deferred tax liabilities:		
Investments in joint ventures	\$ 112	\$ 108
Investments in subsidiaries	84	-
Asset bases - accumulated depreciation	198	149
Deferred coal sales	26	25
Other	48	34
Total deferred tax liabilities	<u>468</u>	<u>316</u>
Deferred tax assets:		
Construction accounts	16	8
Insurance claims	20	22
Compensation - retirement benefits	22	38
Provision for estimated expenses	8	10
Net operating losses of subsidiaries	52	7
Alternative minimum tax credits realizable by subsidiary	11	-
Other	37	26
Valuation adjustments	(17)	(7)
Total deferred tax assets	<u>149</u>	<u>104</u>
Net deferred tax liabilities	<u>\$ 319</u>	<u>\$ 212</u>
	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(12) Income Taxes (continued)**

The Company's subsidiaries have federal income tax net operating loss carryforwards of \$120 million which begin to expire in 2001.

**(13) Employee Benefit Plans**

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

The Company's defined benefit pension plans cover primarily packaging employees who retired prior to the disposition of the packaging operations. The expense related to these plans was approximately \$7 million in 1993 and \$1 million in 1992 and 1991.

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

The Company also has a long-term incentive plan, consisting of stock appreciation rights, for certain employees. The expense related to this plan was \$3 million, \$6 million, and \$8 million in 1993, 1992 and 1991, respectively. Substantially all employees of the Company, with the exception of stockholders and MFS and C-TEC employees, are covered under the Company's profit sharing plans. The expense related to these plans was \$2 million, \$3 million and \$2 million in 1993, 1992 and 1991, respectively.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(14) Postretirement Benefits**

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

The net periodic costs for health care benefits were \$4 million in 1993, 1992, and 1991. The net periodic costs for life insurance benefits were \$2 million, \$2 million, and \$1 million in 1993, 1992, and 1991, respectively. In all years, the costs related entirely to interest on accumulated benefits.

The accrued postretirement benefit liability as of December 25, 1993 was as follows:

(dollars in millions)	Health Insurance	Life Insurance
Retirees	\$ 34	\$ 17
Fully eligible active plan participants	-	-
Other active plan participants	-	-
Total accumulated postretirement benefit obligation	34	17
Unrecognized prior service cost	24	1
Unrecognized net loss	(7)	(2)
Accrued postretirement benefit liability	\$ 51	\$ 16
	=====	=====

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

A 8.3% increase in the cost of covered health care benefits was assumed for fiscal 1993. This rate is assumed to gradually decline to 6.2% in the year 2020 and remain at that level thereafter. A 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation ("APBO") by \$1 million at year-end 1993. The weighted average discount rate used in determining the APBO was 7.0%.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(15) Stockholders' Equity**

Under the Company's Restated Certificate of Incorporation, effective January 8, 1992, the Company now has three classes of common stock: Class B Construction and Mining Group Nonvoting Restricted Redeemable Convertible Common Stock ("Class B"), Class C Construction and Mining Group Restricted Redeemable Convertible Exchangeable Common Stock ("Class C"), and Class D Diversified Group Convertible Exchangeable Common Stock ("Class D"). In connection with a reclassification in January 1992, each "old" Class B share was exchanged for one "new" Class B share and one Class D share, and each "old" Class C share was exchanged for one "new" Class C share and one Class D share. New Class B and Class C shares can be issued only to Company employees and can be resold only to the Company at a formula price based on the book value of the Construction & Mining Group. The Company is generally required to repurchase Class B and Class C shares for cash upon stockholder demand. Class D shares have a formula price based on the book value of the Diversified Group. The Company must generally repurchase Class D shares for cash upon stockholder demand at the formula price, unless the Class D shares become publicly traded. Although the Class D shares are predominantly owned by employees and former employees, such shares are not subject to ownership or transfer restrictions.

In accordance with the January 8, 1992 reorganization, the number of authorized shares of Class B, C and D common stock were increased to 8 million, 125 million and 50 million, respectively.

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

For comparative purposes, the table below presents issuances and repurchases of common shares assuming the plan of exchange was effected at the beginning of 1991 since each outstanding share of existing Class B and Class C stock was exchanged for one share of new Class B&C stock and one share of new Class D stock.

**PETER KIEWIT SONS' INC.**

**Notes to Consolidated Financial Statements**

(15) Stockholders' Equity (continued)

For the three years ended December 25, 1993, issuances and repurchases of common shares including conversions were as follows:

	Class B Common Stock	Class C Common Stock	Class D Common Stock
Shares issued in 1991	-	514,518	514,518
Shares repurchased in 1991	206,000	2,897,335	3,103,335
Shares issued in 1992	-	2,886,418	1,019,553
Shares repurchased in 1992	137,000	4,765,161	1,693,353
Shares issued in 1993	-	1,027,657	748,026
Shares repurchased in 1993	76,600	2,217,122	841,808

(16) Other Income

Other income includes net investment income of \$16 million, \$86 million, and \$108 million in 1993, 1992 and 1991, respectively, gains and losses on sales of property, plant and equipment and other assets, and other miscellaneous income. Net investment income in 1993 includes \$59 million of losses on the sale and permanent writedown of certain derivative securities.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(17) Industry and Geographic Data**

The Company operates primarily in three reportable segments: construction, mining and telecommunications. The packaging segment is reported as discontinued operations.

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

Geographic Data (dollars in millions)	1993	1992	1991
Revenue:			
United States	\$ 1,930	\$ 1,808	\$ 1,834
Canada	175	182	238
Other	74	30	14
	<u>\$ 2,179</u>	<u>\$ 2,020</u>	<u>\$ 2,086</u>
	=====	=====	=====
Operating earnings:			
United States	\$ 107	\$ 131	\$ 48
Canada	4	(2)	13
Other	22	-	(32)
	<u>133</u>	<u>129</u>	<u>29</u>
Gain on sales of subsidiary's stock	211	-	-
Interest income, net	41	63	35
Nonoperating income (expense), net	<u>(16)</u>	<u>27</u>	<u>26</u>
	=====	=====	=====
Earnings from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	\$ 369	\$ 219	\$ 90
	=====	=====	=====
Identifiable assets:			
United States	\$ 2,445	\$ 1,049	\$ 861
Canada	82	90	102
Other areas	17	10	-
Corporate (1)	1,140	1,450	1,657
Discontinued packaging operations	-	-	12
	<u>\$ 3,684</u>	<u>\$ 2,599</u>	<u>\$ 2,632</u>
	=====	=====	=====

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



**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(17) Industry and Geographic Data (continued)**

Industry Data (dollars in millions)	1993	1992	1991
Revenue:			
Construction	\$ 1,757	\$ 1,659	\$ 1,825
Mining	230	246	219
Telecommunications	189	109	37
Other	3	6	5
	<u>\$ 2,179</u>	<u>\$ 2,020</u>	<u>\$ 2,086</u>
	=====	=====	=====
Operating earnings:			
Construction	\$ 94	\$ 72	\$ 29
Mining	99	96	71
Telecommunications	(26)	(12)	(27)
Other	(34)	(27)	(44)
	<u>133</u>	<u>129</u>	<u>29</u>
Gain on sale of subsidiary's stock	211	-	-
Interest income, net	41	63	35
Nonoperating income (expense), net	<u>(16)</u>	<u>27</u>	<u>26</u>
	=====	=====	=====
Earnings from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	\$ 369	\$ 219	\$ 90
	=====	=====	=====
Identifiable assets:			
Construction	\$ 594	\$ 543	\$ 527
Mining	206	217	196
Telecommunications	1,682	363	205
Other	62	26	35
Corporate	1,140	1,450	1,657
Discontinued packaging	-	-	12
	<u>\$ 3,684</u>	<u>\$ 2,599</u>	<u>\$ 2,632</u>
	=====	=====	=====
Capital expenditures:			
Construction	\$ 48	\$ 37	\$ 57
Mining	5	8	6
Telecommunications	127	80	51
Other	-	-	5
Corporate	12	4	3
	<u>\$ 192</u>	<u>\$ 129</u>	<u>\$ 122</u>
	=====	=====	=====
Depreciation, depletion and amortization:			
Construction	\$ 43	\$ 45	\$ 53
Mining	13	12	11
Telecommunications	35	21	12
Other	2	3	3
Corporate	6	5	3
	<u>\$ 99</u>	<u>\$ 86</u>	<u>\$ 82</u>
	=====	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(18) Summarized Financial Information**

Holders of Class B&C Stock (Construction & Mining Group) and Class D Stock (Diversified Group) are stockholders of PKS. The Construction & Mining Group contains the Company's traditional construction operations performed by Kiewit Construction Group Inc. and certain mining services, performed by Kiewit Mining Group Inc. The Diversified Group contains coal mining properties owned by Kiewit Coal Properties Inc., communications companies owned by MFS, the 34.5% interest in C-TEC, a minority interest in California Energy and miscellaneous investments. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the groups.

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

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

Construction & Mining Group:

	1993	1992	1991
	<u>          </u>	<u>          </u>	<u>          </u>
Results of Operations:			
Revenue	\$ 1,777	\$ 1,671	\$ 1,834
	=====	=====	=====
Earnings before cumulative effect of change in accounting principle	\$ 80	\$ 69	\$ 23
Cumulative effect of change in accounting principle	-	13	-
	<u>          </u>	<u>          </u>	<u>          </u>
Net Earnings	\$ 80	\$ 82	\$ 23
	=====	=====	=====
Earnings per Share:			
Earnings before cumulative effect of change in accounting principle	\$ 4.63	\$ 3.79	\$ 1.12
Cumulative effect of change in accounting principle	-	.69	-
	<u>          </u>	<u>          </u>	<u>          </u>
Net Earnings	\$ 4.63	\$ 4.48	\$ 1.12
	=====	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

(18) Summarized Financial Information (continued)

**Construction & Mining Group (continued):**

	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Financial Position:			
Working capital	\$ 372	\$ 342	\$ 285
Total assets	889	862	849
Long-term debt, less current portion	10	12	13
Stockholders' equity	480	437	400

Included within earnings before income taxes is mine service income from the Diversified Group of \$29 million in 1993 and 1992 and \$8 million in 1991.

Diversified Group:

	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Results of Operations:			
Revenue	\$ 402	\$ 349	\$ 252
	=====	=====	=====
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 181	\$ 81	\$ 26
Cumulative effect of change in accounting principle	-	(1)	-
Discontinued Operations	-	19	392
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 181	\$ 99	\$ 418
	=====	=====	=====
Earnings per Share:			
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 9.08	\$ 4.00	\$ 1.26
Cumulative effect of change in accounting principle	-	(.05)	-
Discontinued operations	-	.97	19.04
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 9.08	\$ 4.92	\$ 20.30
	=====	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(18) Summarized Financial Information (continued)**

Diversified Group:

	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Financial Position:			
Working capital	\$ 993	\$ 796	\$ 788
Total assets	2,809	1,759	1,801
Long-term debt, less current portion	452	18	97
Stockholders' equity	1,191	1,021	996

Included within earnings from continuing operations before income taxes is mine management fees paid to the Kiewit Construction & Mining Group of \$29 million in 1993 and 1992 and \$8 million in 1991.

**(19) Other Matters**

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

In many pending proceedings, the Company is one of numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited in landfills or other sites.

The Company has established reserves to cover its probable liabilities for environmental cases and believes that any additional liabilities will not materially affect the Company's financial condition or results of operations.

On March 4, 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, Kiewit Diversified Group, Inc. ("KDG") and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

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

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

#### **(19) Other Matters (continued)**

It is customary in the Company's industries to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Company in accordance with specified terms and conditions. As of December 25, 1993, the Company had outstanding letters of credit of approximately \$141 million.

A subsidiary of the Company, Continental Holdings Inc. remains contingently liable as a guarantor of \$111 million of debt relating to various businesses which have been sold.

The Company leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 24 years aggregate \$104 million.

In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease agreement with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying approximately a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMCRA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Whitney and Kiewit filed an action now titled Whitney Benefits, Inc. and Peter Kiewit Sons', Co. v. The United States, in the U.S. Court of Federal Claims ("Claims Court") alleging that the enactment of SMCRA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Claims Court. In 1991, the U.S. Supreme Court denied certiorari. On February 10, 1994, the Claims Court issued an opinion which provided that the \$60 million judgement would bear interest compounded annually from 1977 until payment. Interest for the 1977-1993 period is \$230 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award.

The government filed two post-trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the value of the property. The government also filed a motion to reopen and set aside the 1989 judgement as void and to dismiss plaintiffs' complaint for lack of jurisdiction. In August 1992, the Claims Court indicated that both motions would be denied. A written order has not yet been entered. The government may appeal from the order, as well as the order regarding compound interest.

It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment of that amount will occur.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Financial Statements**

**(19) Other Matters (continued)**

C-TEC has an outstanding interest rate swap agreement which expires in December 1994. Under this agreement, the Company received a fixed rate of 9.52% on \$100 million and pays a floating rate of LIBOR plus 502 basis points (8.52% at December 31, 1993), as determined in six-month intervals. The transaction effectively changes C-TEC's interest rate exposure from a fixed-rate to a floating-rate basis on the \$100 million underlying debt. The counter-party to the interest rate swap contract is a major financial institution. C-TEC is exposed to economic loss in the event of nonperformance by the counter-party, however, it does not anticipate such non-performance.

**(20) Subsequent Events**

On January 19, 1994, MFS issued 9 3/8% Senior Discount Notes due January 15, 2004. Cash interest will not accrue on the notes prior to January 15, 1999. Commencing July 15, 1999 cash interest will be payable semi-annually. Accordingly, MFS will initially record the proceeds it received from the offering of \$500 million and accrue to the principal amount of the notes of \$788 million through January 1999. On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. The notes contain certain covenants which, among other things, will restrict MFS' ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets or merge with another company.

On February 28, 1994 the Company completed the purchase of APAC- Arizona, Inc. ("APAC") from Ashland Oil Company, Inc. for approximately \$49 million, subject to adjustments. APAC is engaged in the construction materials and contracting businesses in Arizona and surrounding states. The acquisition will be accounted for as a purchase, and accordingly, the purchase price will be allocated to the assets and liabilities of APAC based upon their estimated fair values at the acquisition date. Results of operations of APAC will be included in the Company's consolidated results of operations subsequent to the date of acquisition.

On March 16, 1994, MFS made an offer to purchase all outstanding shares of common stock and associated preferred share purchase rights to Centex Telemanagement, Inc. at \$9 per share. The net consideration of the offer approximates \$150 million. The offer, which will expire on April 12, 1994, is conditioned upon, among other things, acquiring a majority of the common shares and the preferred share purchase rights being redeemed or invalidated.

# SCHEDULE VIII

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Valuation and Qualifying Accounts and Reserves

(dollars in millions)	Balance, Beginning of Period	Amounts Charged to Costs and Expenses	Charged to Reserves	Other	Balance End of Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 7	\$ 5	\$ (6)	\$ 1	\$ 7
Reserves:					
Insurance claims	66	14	(13)	-	67
Retirement benefits	74	12	(17)	2	71
Year ended December 26, 1992					
<hr/>					
Allowance for doubtful trade accounts	\$ 7	\$ 1	\$ (1)	\$ -	\$ 7
Reserves:					
Insurance claims	61	20	(15)	-	66
Retirement benefits	58	8	(8)	16 (a)	74
Year ended December 28, 1991					
<hr/>					
Allowance for doubtful trade accounts	\$ 8	\$ 1	\$ (2)	\$ -	\$ 7
Reserves:					
Insurance claims	45	25	(9)	-	61
Retirement benefits	21	37	(5)	5	58

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

# SCHEDULE IX

## PETER KIEWIT SONS', INC. AND SUBSIDIARIES

### Short-Term Borrowings

(dollars in millions)	Balance, End of Period	Weighted Average Interest Rate, End of Period	Maximum Month-End Amount Outstanding During the Period	Average Amount Outstanding During the Period (a)	Weighted Average Interest Rate During the Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Bank Borrowings	\$ -	-%	\$ 50	\$ 24	3.4%
Year ended December 26, 1992					
<hr/>					
Bank Borrowings	\$ 80	3.4%	\$ 80	\$ -	-%
Year ended December 28, 1991					
<hr/>					

**Bank Borrowings \$ - -% \$ 264 \$ 92 10.8%**

(a) Determined on the basis of average daily balances of short-term borrowings. The 1992 bank borrowings were made during the last week of the year.

The bank borrowings provided for interest at various rates and matured on various dates within one year.



## SCHEDULE X

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

#### Supplementary Income Statement Information

(dollars in millions)	Charged to Costs and Expenses		
	1993	1992	1991
Royalties (a)	\$ 22	\$ 27	\$ 24
Production taxes (a)	16	26	19

(a) The Company incurred royalty costs and production taxes with respect to its mining operations based on the tons of coal mined or sold from various properties.

Advertising costs and amortization of intangible assets are not presented as such amounts represent less than one percent of revenue as reported in the related consolidated statements of earnings.

The costs to repair equipment used on construction contracts, which are charged against such contracts, are excluded because it is impractical to segregate them from other contract costs. Maintenance and repair costs in 1993 and 1992 were less than one percent of revenue.

Maintenance and repair costs, primarily related to the Company's discontinued packaging operations, were \$50 million in 1991.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

#### INDEX TO EXHIBITS

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

**LIST OF SUBSIDIARIES  
OF  
PETER KIEWIT SONS', INC.  
DECEMBER 25, 1993**

(Subsidiaries with total assets of less than \$10 million have been omitted)

Peter Kiewit Sons', Inc. (Delaware)

Kiewit Construction Group Inc. (Delaware) Bentson Contracting Company (Arizona) Gilbert Central Corp. (Delaware) Gilbert Industrial Corporation (Delaware) Gulf Marine Fabricators, Inc. (Delaware) Aker Gulf Marine (49%)(Texas partnership) Gilbert Southern Corp. (Delaware) Gilbert Texas Construction Corp. (Texas) Gilbert Western Corp. (Delaware) Global Surety & Insurance Co. (Nebraska) Grow Tunneling Corp. (Delaware) Guernsey Stone and Construction Company (Wyoming) Kiewit Construction Company (Delaware) CMF Leasing Company (Nebraska partnership) K-G Leasing Company (65%)(Nebraska partnership) Kiewit Industrial Co. (Delaware) Kiewit Pacific Co. (Delaware)

Kiewit Western Co. (Delaware)

Peter Kiewit Sons Co. Ltd. (Canada) Les Entreprises Kiewit Ltee (Quebec) V. K. Mason Construction Ltd. (Canada) Union Rock & Materials Corporation (Arizona) Kiewit Diversified Group Inc. (Delaware) Continental Holdings Inc. (Wyoming) CCC Canada Holding, Inc. (Delaware) The Continental Group of Canada, Inc. (Canada) SKD Company (50%) (Canada partnership) Continental Forest Investments, Inc. (Delaware) Continental Kiewit Inc.

Continental Land Sales, Inc. (Delaware) Continental Mineral Sales, Inc. (Delaware) KMI Continental Jeffersonville, Inc. (Delaware) KMI Continental Lignite, Inc. (Delaware) KMI Continental Timberlands, Inc. (Delaware) Kiewit Coal Properties Inc. (Delaware) Big Horn Coal Company (Wyoming) Kiewit Texas Mining Company (Delaware) Walnut Creek Mining Company (50%) (joint venture) Black Butte Coal Company (50%) (joint venture) Decker Coal Company (50%) (joint venture) Rosebud Coal Sales Company (Wyoming) R-K Leasing Company (50%)(Nebraska partnership) Kiewit Energy Company (Delaware) California Energy Company, Inc. (21%) (Delaware) MFS Communications Company, Inc. (Delaware) MFS Telecom, Inc. (Delaware) Chicago Fiber Optic Corporation (90%) (Illinois) Institutional Communications Company (85%) (Delaware) MFSA Holding Inc. (80%) (Delaware) Metrex Corporation (Georgia) Metropolitan Fiber Systems of California, Inc. (Delaware)

Metropolitan Fiber Systems of Dallas, Inc. (Delaware) Metropolitan Fiber Systems of Houston, Inc. (86.75%)

(Delaware)

**Metropolitan Fiber Systems/McCourt, Inc. (82.5%)**  
(Delaware)

Metropolitan Fiber Systems of New York, Inc. (Delaware)

MFS Network Technologies, Inc. (Delaware) RCN Corporation (90%)(Delaware) RCN Holdings, Inc. (Delaware) C-TEC Corporation (56.6%)  
(Pennsylvania) C-TEC Cable Systems, Inc. (Delaware) C-TEC Cable Systems of Michigan, Inc.

(Pennsylvania)

**C-TEC Cable Systems of New York, Inc.**  
(Pennsylvania)

**C-TEC Cable Systems Services, Inc.**  
(Pennsylvania)

ComVideo Systems, Inc. (Pennsylvania)  
C-TEC Financial Services, Inc. (Nebraska)  
C-TEC Properties, Inc. (Delaware)  
C-TEC Services, Inc. (Pennsylvania)  
Cellular Plus, Inc. (Delaware)  
Cellular Plus of Iowa, Inc. (Delaware)  
Commonwealth Cellular Telephone Services, Inc.  
(Delaware)

NEPA SMSA Limited Partnership (Pennsylvania)  
Commonwealth Telephone Company (Pennsylvania)

Peter Kiewit Sons' Co. (Nebraska) Kiewit SR 91 Corp. (Delaware) California Private Transportation Company, L.P. (64.8%)

(California)

Kiewit Mining Group Inc. (Delaware) PKS Information Services, Inc. (96%)(Delaware)

# KIEWIT CONSTRUCTION & MINING GROUP

## Index to Financial Statements and Financial Statement Schedules and Management's Discussion and Analysis

of Financial Condition and Results of Operations

### Pages

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

Financial Statements as of December 25, 1993 and December 26, 1992 and for the three years ended December 25, 1993:

Statements of Earnings

Balance Sheets

Statements of Cash Flows

Statements of Changes in Stockholders' Equity Notes to Financial Statements

Financial Statement Schedules for the three years ended December 25, 1993:

#### **VIII--Valuation and Qualifying Accounts and Reserves**

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

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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 schedules 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 schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules 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 25, 1993 and December 26, 1992, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 1993 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

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

**COOPERS & LYBRAND**

Omaha, Nebraska  
March 18, 1994

# KIEWIT CONSTRUCTION & MINING GROUP

## Statements of Earnings

For the three years ended December 25, 1993

(dollars in millions, except per share data)	1993	1992	1991
Revenue	\$ 1,777	\$ 1,671	\$ 1,834
Other Income	45	70	49
	<u>1,822</u>	<u>1,741</u>	<u>1,883</u>
Costs and Expenses:			
Cost of revenue	1,583	1,513	1,725
Selling and administrative	118	114	111
Interest	3	2	5
	<u>1,704</u>	<u>1,629</u>	<u>1,841</u>
Earnings from Continuing Operations Before Income Taxes and Cumulative Effect of Change in Accounting Principle	118	112	42
Provision for Income Taxes	38	43	19
	<u>80</u>	<u>69</u>	<u>23</u>
Earnings Before Cumulative Effect of Change in Accounting Principle	80	69	23
Cumulative Effect of Change in Accounting Principle	-	13	-
	<u>80</u>	<u>82</u>	<u>23</u>
Net Earnings	\$ 80 =====	\$ 82 =====	\$ 23 =====
Net Earnings Per Common and Common Equivalent Share:			
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 4.63	\$ 3.79	\$ 1.12
Cumulative Effect of Change in Accounting Principle	-	.69	-
	<u>4.63</u>	<u>4.48</u>	<u>1.12</u>
Net Earnings	\$ 4.63 =====	\$ 4.48 =====	\$ 1.12 =====

See accompanying notes to financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Balance Sheets

December 25, 1993 and December 26, 1992

(dollars in millions)	1993	1992
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 99	\$ 68
Marketable securities	183	248
Receivables, less allowance of \$5 and \$2	215	220
Costs and earnings in excess of billings on		
uncompleted construction contracts	75	53
Investment in construction joint ventures	81	48
Deferred income taxes	48	52
Other	18	14
	<hr/>	<hr/>
Total Current Assets	719	703
Property, Plant and Equipment, at cost:		
Land	14	14
Buildings	28	22
Equipment	449	434
	<hr/>	<hr/>
	491	470
Less accumulated depreciation and amortization	(384)	(366)
	<hr/>	<hr/>
Net Property, Plant and Equipment	107	104
Deferred Income Taxes	9	5
Other Assets	54	50
	<hr/>	<hr/>
	\$ 889	\$ 862
	=====	=====
<hr/>		

See accompanying notes to financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Balance Sheets

December 25, 1993 and December 26, 1992

(dollars in millions)	1993	1992
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$37 and \$35	\$ 148	\$ 159
Current portion of long-term debt	4	2
Accrued construction costs and billings in excess of revenue on uncompleted contracts	87	95
Accrued insurance costs	65	66
Other	43	39
	<hr/>	<hr/>
Total Current Liabilities	347	361
Long-Term Debt, less current portion	10	12
Other Liabilities	52	52
Stockholders' Equity (Redeemable Common Stock, \$391 million aggregate redemption value)		
Common equity	483	438
Foreign currency adjustment	(3)	(1)
	<hr/>	<hr/>
Total Stockholders' Equity	480	437
	<hr/>	<hr/>
	\$ 889	\$ 862
	=====	=====
<hr/>		

See accompanying notes to financial statements.



# KIEWIT CONSTRUCTION & MINING GROUP

## Statements of Cash Flows

For the three years ended December 25, 1993

(dollars in millions)	1993	1992	1991
Cash flows from operations:			
Net earnings	\$ 80	\$ 82	\$ 23
Adjustments to reconcile net earnings to net cash provided by operations:			
Cumulative effect of change in accounting principle	-	(13)	-
Depreciation and amortization	48	47	54
(Gain) loss on sale of property, plant and equipment, and other assets	15	(11)	(14)
Change in other noncurrent liabilities	7	16	14
Deferred income taxes	4	(12)	(22)
Change in working capital items:			
Receivables	5	(9)	5
Costs and earnings in excess of billings on uncompleted construction contracts	(22)	18	4
Investment in construction joint ventures	(33)	(3)	25
Other current assets	7	1	5
Accounts payable	(9)	(9)	18
Accrued construction costs and billings in excess of revenue on uncompleted contracts	(8)	(21)	(21)
Other liabilities	3	(6)	42
Other	(10)	11	(11)
Net cash provided by operations	87	91	122
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	773	931	605
Purchases of marketable securities	(741)	(983)	(685)
Proceeds from sale of property, plant and equipment	14	19	23
Capital expenditures	(54)	(40)	(57)
Investment in affiliates	(9)	(16)	-
Other	(3)	(5)	(4)
Net cash used in investing activities	(20)	(94)	(118)

See accompanying notes to financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Statements of Cash Flows (continued)

For the three years ended December 25, 1993

(dollars in millions)	1993	1992	1991
Cash flows from financing activities:			
Long-term debt borrowings	\$ 2	\$ 2	\$ 10
Payments on long-term debt, including current portion	(2)	(9)	(20)
Issuances of common stock	16	24	5
Repurchases of common stock	(14)	(21)	(32)
Dividends paid	(10)	(7)	(6)
Exchange of Class B&C Stock for Class D Stock, net	(26)	(32)	-
Contribution from parent	-	-	58
Net cash provided by (used in) financing activities	(34)	(43)	15
Effect of exchange rates on cash	(2)	(4)	-
Net increase (decrease) in cash and cash equivalents	31	(50)	19
Cash and cash equivalents at beginning of year	68	118	99
Cash and cash equivalents at end of year	\$ 99	\$ 68	\$ 118
Supplemental disclosures of cash flow information:			
Taxes	\$ 54	\$ 66	\$ 7
Interest	3	3	5

See accompanying notes to financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Statements of Changes in Stockholders' Equity

For three years ended December 25, 1993

(dollars in millions, except per share data)	1993	1992	1991
<hr/>			
Common equity:			
Balance at beginning of year	\$ 438	\$ 398	\$ 350
Issuances of stock	16	24	5
Repurchases of stock	(14)	(21)	(32)
Exchange of Class B&C Stock for Class D Stock, net	(26)	(32)	-
Net earnings	80	82	23
Dividends (per share: \$.70 in 1993, \$.70 in 1992 and \$.30 in 1991) (a)	(11)	(13)	(6)
Contribution from parent	-	-	58
	<hr/>	<hr/>	<hr/>
Balance at end of year	\$ 483	\$ 438	\$ 398
	=====	=====	=====
Other equity adjustments:			
Balance at beginning of year	\$ (1)	\$ 2	\$ -
Foreign currency adjustment	(2)	(3)	2
	<hr/>	<hr/>	<hr/>
Balance at end of year	\$ (3)	\$ (1)	\$ 2
	=====	=====	=====
Total stockholders' equity	\$ 480	\$ 437	\$ 400
	=====	=====	=====
<hr/>			

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

See accompanying notes to financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (1) Basis of Presentation

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

The financial statements of the Construction & Mining Group include the financial position, results of operations and cash flows for PKS' construction business and certain mining service businesses held by wholly-owned subsidiaries, Kiewit Construction Group Inc. and Kiewit Mining Group Inc., respectively, and a portion of the PKS corporate assets and liabilities and related transactions which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements. Corporate amounts reflected in these financial statements are determined based upon methods which management believes to be reasonable (Note 3).

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

### (2) Summary of Significant Accounting Policies

#### **Principles of Group Presentation**

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

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies (continued)

#### **Construction Contracts**

The Group operates generally within North America as a general contractor and engages in various types of construction projects for both public and private owners. Credit risk is minimal with public (government) owners since the 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, plus a reasonable profit on such costs. Credit risk with private owners is minimized because of statutory mechanics liens, which give the Group high priority in the event of lien foreclosures following financial difficulties of private owners.

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

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

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

#### **Depreciation and Amortization**

Depreciation and amortization are computed on accelerated and straight-line methods.

#### **Foreign Currencies**

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

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies (continued)

#### **Earnings Per Share**

Primary earnings per share of Class B&C Stock have been computed using the weighted average number of shares outstanding during each year. For purposes of computing earnings per share data for periods prior to January 8, 1992, the number of Class B&C shares are assumed to be the same as the aggregate number of previous Class B and Class C shares. The number of shares used in computing primary earnings per share was 17,290,971 in 1993, 18,262,680 in 1992 and 20,588,236 in 1991. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

#### **Marketable Securities**

On December 25, 1993, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries. No significant impact resulted from adopting SFAS No. 115. See Note 4 for additional disclosures.

#### **Income Taxes**

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

#### **Reclassifications**

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

#### **Fiscal Year**

The Group's fiscal year ends on the last Saturday in December. There were 52 weeks each in the fiscal years 1993, 1992 and 1991.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (3) Corporate Activities

Financial structure - Cash, cash equivalents and marketable securities were allocated to the Group and the Diversified Group based on the desired capital structure of the two groups at December 28, 1991. Financial statement impacts of dividends paid to holders of Class B&C Stock and repurchases and issuances of Class B&C Stock in 1993 and 1992 were reflected in their entirety in the Group's financial statements. The value of common stock issuances and repurchases and related dividends in 1991 were generally attributed to the Group and the Diversified Group based upon the relative formula values of each group, which were determined at the end of 1990.

The desired capital structure at December 28, 1991 for the Group was stockholders' equity of \$400 million. It was determined by PKS management that this was the appropriate level of equity at December 28, 1991 necessary for the Group to continue its traditional construction and mining service businesses, based upon certain factors such as contract volume, prequalification requirements to bid on projects, bonding requirements of its outside insurance company, and working capital requirements. The capital structure of the Diversified Group consisted of the remaining equity of PKS and provided the equity and liquidity to allow the Diversified Group the opportunity to invest in capital intensive businesses, a primary objective of the reorganization. In order to attain the desired capital structure, PKS contributed \$58 million of equity to the Group on December 28, 1991.

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

	1993	1992	
Cash and cash equivalents	\$ 47	\$ 45	
Marketable securities	11	12	
Property, plant and equipment, net	12	9	
Deferred taxes and other	11	15	
Total Assets	<u>\$ 81</u>	<u>\$ 81</u>	
	=====	=====	
Accounts payable	\$ 27	\$ 25	
Convertible debentures	2	2	
Notes to former stockholders	8	9	
Liability for stock appreciation rights	2	3	
Other liabilities	5	5	
Total Liabilities	<u>\$ 44</u>	<u>\$ 44</u>	
	=====	=====	
	1993	1992	1991
	<u></u>	<u></u>	<u></u>
Net investment income (expense)	\$(1)	\$ 3	\$ 4
Depreciation	(2)	(2)	(1)
Stock appreciation rights costs	(1)	(1)	(3)
Other income (expense)	4	4	(2)

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (3) Corporate Activities (continued)

Corporate general and administrative costs - a portion of corporate general and administrative costs has been allocated to the Group based upon certain measures of business activities, such as employment, investments and sales, which method management believes to be reasonable. The allocations were \$26 million, \$27 million, and \$25 million in 1993, 1992 and 1991, respectively.

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

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

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

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

#### **Cash and Cash Equivalents**

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

#### **Marketable Securities**

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



# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (4) Disclosures about Fair Value of Financial Instruments (continued)

At December 26, 1992 the cost of marketable securities approximated fair value. At December 25, 1993 the cost, unrealized holding gains and losses, and estimated fair values of marketable securities are as follows:

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

For debt securities, amortized costs do not vary significantly from principal amounts. Realized gains and losses on sales of marketable securities were \$2 and \$25, respectively, in 1993.

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
U.S. debt securities:		
less than 1 year	\$ 23	\$ 23
1-5 years	17	17
	<u>\$ 40</u>	<u>\$ 40</u>
	=====	=====
State and political subdivision debt securities:		
less than 1 year	\$ 2	\$ 2
1-5 years	40	41
5-10 years	-	-
over 10 years	6	6
	<u>\$ 48</u>	<u>\$ 49</u>
	=====	=====
Corporate debt securities:		
less than 1 year	\$ 3	\$ 3
1-5 years	46	45
	<u>\$ 49</u>	<u>\$ 48</u>
	=====	=====
Certificates of deposit:		
less than 1 year	\$ 15	\$ 15
	=====	=====

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

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (4) Disclosures about Fair Value of Financial Instruments (continued)

#### **Long-term Debt:**

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

### (5) Retainage on Construction Contracts

Marketable securities at December 25, 1993 and December 26, 1992 include approximately \$56 million and \$48 million, respectively of investments which are being held by the owners of various construction projects in lieu of retainage.

Receivables at December 25, 1993 and December 26, 1992 include approximately \$37 million and \$35 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (6) Investment in Construction Joint Ventures

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

Summary joint venture financial information follows:

Financial Position (dollars in millions)		1993	1992
<hr/>			
Total Joint Ventures			
Current assets		\$ 563	\$ 395
Other assets (principally construction equipment)		71	39
		<hr/> 634	<hr/> 434
Current liabilities		(481)	(181)
Net assets		<hr/> \$ 153	<hr/> \$ 253
		=====	=====
Group's Share			
Equity in net assets		\$ 80	\$ 51
Receivable (payable) from (to) joint ventures		1	(3)
		<hr/>	<hr/>
Investment in construction joint ventures		\$ 81	\$ 48
		=====	=====
<hr/>			
Operations (dollars in millions)	1993	1992	1991
<hr/>			
Total Joint Ventures			
<hr/>			
Revenue	\$ 906	\$ 575	\$ 565
Costs	841	522	703
Operating income (loss)	<hr/> \$ 65	<hr/> \$ 53	<hr/> \$ (138)
	=====	=====	=====
Group's Share			
<hr/>			
Revenue	\$ 430	\$ 269	\$ 337
Costs	372	243	352
Operating income (loss)	<hr/> \$ 58	<hr/> \$ 26	<hr/> \$ (15)
	=====	=====	=====

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (6) Investment in Construction Joint Ventures (continued)

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

Operating income in 1991 was unfavorably impacted by losses on certain joint venture contracts including recording estimated losses on a nonsponsored Denmark tunnel project of \$32 million.

### (7) Other Assets

In 1992 the Group purchased a 30% ownership interest in an electrical contracting business for approximately \$16 million. In 1993 the Group purchased an additional 6% ownership interest for approximately \$3 million. The investment is accounted for on the equity method.

### (8) Long-Term Debt

At December 25, 1993 and December 26, 1992, long-term debt consisting of a portion of PKS' notes to former stockholders and convertible debentures which have been allocated equally to the Group and the Diversified Group, and specifically attributed debt was as follows:

(dollars in millions)	1993	1992
7.5%-11.6% Notes to former stockholders, 1994-2001	\$ 8	\$ 9
6.25%-10.50% Convertible debentures, 1999-2003	3	2
Other	3	3
	<u>14</u>	<u>14</u>
Less current portion	(4)	(2)
	<u>\$ 10</u>	<u>\$ 12</u>
	=====	=====

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 14,322, 10,468 and 36,598 shares of Class C common stock in 1993, 1992 and 1991, respectively. At December 25, 1993, 215,180 shares of Class C common stock are reserved for future conversions.

Assuming conversion of debentures, scheduled maturities of long-term through 1998 are as follows (in millions): 1994 - \$4, 1995 - \$3; 1996 - \$3; 1997 - \$1, and 1998 - \$1.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (9) Income Taxes

An analysis of the provision for income taxes relating to earnings before cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Current:			
U.S. federal	\$ 28	\$ 47	\$ 30
Foreign	2	5	7
State	4	3	4
	<u>34</u>	<u>55</u>	<u>41</u>
Deferred:			
U.S. federal	4	(10)	(22)
Foreign	1	(4)	-
State	(1)	2	-
	<u>4</u>	<u>(12)</u>	<u>(22)</u>
	<u>\$ 38</u>	<u>\$ 43</u>	<u>\$ 19</u>
	=====	=====	=====

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

(dollars in millions)	1993	1992	1991
United States	\$ 111	\$ 110	\$ 28
Foreign	7	2	14
	<u>\$ 118</u>	<u>\$ 112</u>	<u>\$ 42</u>
	=====	=====	=====

The components of the deferred income tax benefit, prior to adopting SFAS No. 109, in 1991 were as follows:

(dollars in millions)	1991
Retirement benefits and other compensation	\$ (1)
Insurance reserves	(3)
Construction contract accounting	(18)
	<u>\$ (22)</u>
	=====

**Notes to Financial Statements****(9) Income Taxes (continued)**

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1993 and 34% in 1992 and 1991) to the earnings before income taxes and cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Computed tax at statutory rate	\$ 41	\$ 38	\$ 15
State income taxes	1	3	2
Foreign taxes	-	-	2
Other	(2)	2	-
Effect of federal income tax rate change	(2)	-	-
	<u>\$ 38</u>	<u>\$ 43</u>	<u>\$ 19</u>
	=====	=====	=====

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

The components of the net deferred tax assets as of December 25, 1993 and December 26, 1992 were as follows:

(dollars in millions)	1993	1992
Deferred tax assets:		
Construction accounts	\$ 16	\$ 8
Investments in construction joint ventures	13	18
Insurance claims	24	26
Compensation - retirement benefits	6	6
Other	11	6
Total deferred tax assets	<u>70</u>	<u>64</u>
Deferred tax liabilities:		
Other	13	7
Total deferred tax liabilities	<u>13</u>	<u>7</u>
Net deferred tax assets	<u>\$ 57</u>	<u>\$ 57</u>
	=====	=====

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (10) Employee Benefit Plans

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

The Group also has a long-term incentive plan, stock appreciation rights, for certain employees. The expense related to this plan was \$2 million in 1993, \$4 million in 1992 and \$5 million in 1991. Substantially all employees of the Group, with the exception of stockholders, are covered under the Group's profit sharing plans. The expense related to these plans was \$1 million, \$2 million, and \$1 million in 1993, 1992 and 1991, respectively.

### (11) Stockholders' Equity

Ownership of the Class B&C Stock is restricted to certain employees conditioned upon the execution of repurchase agreements which restrict the employees from transferring the stock. PKS is generally committed to purchase all Class B&C Stock at the amount computed pursuant to the Restated Certificate of Incorporation. Issuances and repurchases of common shares including conversions for the three years ended December 25, 1993 (1991 attributed shares) were as follows:

#### B&C

	Stock
Shares issued in 1991	514,518
Shares repurchased in 1991	3,103,335
Shares issued in 1992	2,886,418
Shares repurchased in 1992	4,902,161
Shares issued in 1993	1,027,657
Shares repurchased in 1993	2,293,722
(12) Other Income	

Investment income (loss) was \$(8) million, \$20 million and \$19 million in 1993, 1992 and 1991, respectively. In 1993, losses of \$24 million from the sale and permanent writedown of certain derivative securities adversely affected the results. Mining service income that the Group recognized as a result of the Group's mining service arrangements with the Diversified Group was \$29 million in 1993 and 1992 and \$8 million in 1991. Generally, gains from miscellaneous asset dispositions, including property, plant and equipment, made up the remaining activity of Other Income.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (13) Industry and Geographic Data

The Group's operations are primarily conducted in one business segment; construction contracting.

The following is derived from geographic information in the PKS consolidated financial statements as it relates to the Group.

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

Geographic Data (dollars in millions)	1993	1992	1991
<hr/>			
Revenue:			
United States	\$ 1,550	\$ 1,466	\$ 1,584
Canada	175	182	238
Other	52	23	12
	<hr/>	<hr/>	<hr/>
	\$ 1,777	\$ 1,671	\$ 1,834
	=====	=====	=====
Operating earnings:			
United States	\$ 93	\$ 92	\$ 31
Canada	4	(2)	13
Other	22	-	(32)
	<hr/>	<hr/>	<hr/>
	119	90	12
Interest income, net	10	15	10
Nonoperating income (expense), net	(11)	7	20
	<hr/>	<hr/>	<hr/>
Earnings before income taxes and cumulative effect of change in accounting principle	\$ 118	\$ 112	\$ 42
	=====	=====	=====
Identifiable assets:			
United States	\$ 530	\$ 473	\$ 465
Canada	82	90	102
Other areas	13	9	-
Corporate (1)	264	290	282
	<hr/>	<hr/>	<hr/>
	\$ 889	\$ 862	\$ 849
	=====	=====	=====
<hr/>			

(1) Principally cash, cash equivalents and marketable securities.



# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Financial Statements

### (14) Other Matters

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

The Group leases various buildings and equipment under both operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancellable operating leases during the next 17 years aggregate \$10 million.

It is customary in the Group's industry to use various financial instruments in the normal course of business. These instruments include items such as letters of credit. Letters of credit are conditional commitments issued on behalf of the Group in accordance with specified terms and conditions. As of December 25, 1993, the Group had outstanding letters of credit of approximately \$78 million.

### (15) Subsequent Events

On February 28, 1994 the Group completed the purchase of APAC-Arizona, Inc. ("APAC") from Ashland Oil Company, Inc. for approximately \$49 million, subject to adjustments. APAC is engaged in the construction materials and contracting businesses in Arizona and surrounding states. The acquisition will be accounted for as a purchase, and accordingly, the purchase price will be allocated to the assets and liabilities of APAC based upon their estimated fair values at the acquisition date. Results of operations of APAC will be included in the Group's results of operations subsequent to the date of acquisition.

# SCHEDULE VIII

## KIEWIT CONSTRUCTION & MINING GROUP

### Valuation and Qualifying Accounts and Reserves

(dollars) in millions)	Balance Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 4	\$ (1)	\$ -	\$ 5
Reserves:					
Insurance claims	66	13	(13)	(1)	65
Year ended December 26, 1992					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 1	\$ (1)	\$ -	\$ 2
Reserves:					
Insurance claims	61	20	(15)	-	66
Year ended December 28, 1991					
<hr/>					
Allowance for doubtful trade accounts	\$ 2	\$ 1	\$ (1)	\$ -	\$ 2
Reserves:					
Insurance claims	45	25	(9)	-	61

## **KIEWIT CONSTRUCTION & MINING GROUP**

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

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

#### **Results of Operations - 1993 vs. 1992**

##### **Construction**

Construction revenue increased by \$98 million or 6% in 1993. The Group's share of joint venture revenue rose by 60% and accounted for 24% of the total construction revenue for the period as compared to 16% for 1992. Several large contracts awarded in 1992 and early 1993 contributed to the overall increase, the largest of which was the San Joaquin Toll Road Joint Venture ("San Joaquin"). The increase in joint venture revenue was partially offset by a small decrease in sole contract revenue recognized due to a decrease in the average size of sole contracts awarded. Contract backlog at December 25, 1993 was \$2.1 billion, of which 6% is attributable to foreign operations, principally, Canada. Projects on the west coast comprised 50% of the total backlog of which San Joaquin accounts for \$435 million. San Joaquin is scheduled for completion in 1997.

Direct costs associated with construction contracts increased \$66 million or 4% to \$1.569 billion in 1993. The increase is net of a \$20 million reduction in reserves previously established for the non-sponsored Denmark tunnel project. The overall rise in costs is directly attributable to the increase in volume. Costs as a percentage of revenue, excluding the reduction in reserves, approximated 90% and 91% for 1993 and 1992, respectively.

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

##### **Other Income**

Other income decreased \$25 million in 1993. Approximately 90% of the decline resulted from the realization of losses on the sale of and valuation adjustments to certain derivative instruments. Slight increases in miscellaneous income partially offset declines in interest income and net gains on asset dispositions.

## KIEWIT CONSTRUCTION & MINING GROUP

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

#### Results of Operations - 1993 vs. 1992 (continued)

##### Selling and Administrative

Selling and administrative expenses increased 4% in 1993 as a result of moderate increases in several of the Group's operating districts.

##### Taxes

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

#### Results of Operations - 1992 vs. 1991

##### Construction

Revenue from construction activity in 1992 decreased 9% compared to 1991. Although the number of new contracts awarded in 1992 increased approximately 15%, the average size of new contracts, excluding the \$520 million contract awarded from the San Joaquin Hills Transportation Corridor Agency ("San Joaquin"), decreased by approximately 20%. Contract backlog at December 26, 1992 was \$2.2 billion, a \$300 million increase from backlog at December 28, 1991. Of the 1992 backlog, 9% relates to foreign projects mainly in Canada and the remainder relates to projects in the United States. Sixty-four percent of the U.S. projects are on the west coast. The decrease in revenue as well as in contract backlog (excluding San Joaquin) is the result of the general state of the economy in Canada and the United States. Fluctuating demand cycles are typical of the industry. The gross margin was 9% in 1992 and 6% in 1991. The 1991 gross margin was unfavorably impacted primarily by losses on the Denmark tunnel project and on several U.S. projects.

Management of the nonsponsored Denmark tunnel project completed negotiations with respect to the settlement of claims against the project owner and equipment supplier. The new agreement covered the reimbursement of certain costs incurred and time extensions due to differing soil conditions at the site of the tunnels. Costs incurred with respect to the flooding of two of the four tunnels being drilled as part of the project have been covered by insurers. Because of the remaining uncertainties involved in completing the tunnels, due primarily to the adverse soil conditions, no adjustments were made in 1992 for the Company's share of the estimated losses. Management believed that the resolution of the uncertainties would not materially affect on the Company's financial position.

## KIEWIT CONSTRUCTION & MINING GROUP

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

#### Results of Operations - 1992 vs. 1991 (continued)

##### Other Income

Other income increased 43% in 1992 compared to 1991. The Group's investment income of \$20 million in 1992 approximated the 1991 amount. The overall increase in Other Income is principally the result of a \$21 million increase in mine service income that the Group recognized as a result of a new mine management service agreement, effective as of the beginning of 1992, with the Diversified Group. Significant increases are not expected to continue in the future. The new agreement provides that a percentage of the Diversified Group's operating income from mining operations is to be paid to the Group.

##### Selling and Administrative

Selling and administrative expenses increased 3% in 1992 as result of moderate increases in several of the Group's administrative departments.

##### Interest Expense

Interest expense decreased from \$5 million in 1991 to \$2 million in 1992 due primarily to interest incurred in 1991 on settlements of various tax issues.

##### Taxes

The effective income tax rates are 38% in 1992 and 45% in 1991, which are higher than the statutory rate of 34%, primarily due to state income taxes in 1992 and foreign and state income taxes in 1991.

#### Financial Condition - December 25, 1993

In 1993, the Group's working capital increased \$30 million or 9% to \$372 million.

For the year, the Group generated \$87 million of cash from operating activities, a decrease of 4% from the prior year.

The Group's 1993 net investing activities used \$20 million. Capital expenditures of \$54 million and other outlays of \$12 million exceeded net proceeds from sales and maturities of marketable securities of \$32 million and proceeds from sales of fixed assets of \$14 million. Future investing activity includes the acquisition of APAC, purchasing additional shares of an electrical contractor - the Group is committed to 80% ownership by 1997 - and investing between \$40 and \$75 million annually in the construction business.

## **KIEWIT CONSTRUCTION & MINING GROUP**

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

#### **Financial Condition - December 25, 1993 (continued)**

Financing activities reducing cash during 1993 consisted of net conversions of Class B&C stock for Class D stock of \$26 million, stock repurchases of \$14 million and dividends of \$10 million. Stock issuances and long-term debt borrowings generated cash of \$16 million and \$2 million, respectively, in 1993. Stock conversions and repurchases, dividends (\$6 million paid in January of 1994), and stock issuances will continue as the Group's major financing activities.

The Group's existing cash and cash equivalents, marketable securities and operating cash flows, along with existing borrowing capacity, should suffice for 1994 working capital and capital expenditure requirements and provide adequate liquidity for the expenditures discussed above.

# KIEWIT DIVERSIFIED GROUP

## Index to Financial Statements

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

### Pages

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

Financial Statements as of December 25, 1993 and December 26, 1992 and for the three years ended December 25, 1993:

Statements of Earnings  
Balance Sheets  
Statements of Cash Flows  
Statements of Changes in Stockholders' Equity Notes to Financial Statements

Financial Statement Schedules for the three years ended December 25, 1993:

V--Property, Plant and Equipment  
VI--Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment VIII--Valuation and Qualifying Accounts and Reserves IX--Short-Term Borrowings  
X--Supplementary Income Statement Information

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

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

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

In our opinion, the financial statements referred to above, when read in conjunction with the consolidated financial statements of Peter Kiewit Sons', Inc. and Subsidiaries, present fairly, in all material respects, the financial position of Kiewit Diversified Group as of December 25, 1993 and December 26, 1992 and the results of its operations and its cash flows for each of the three years in the period ended December 25, 1993 in conformity with generally accepted accounting principles. In addition, in our opinion the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information required to be included therein.

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

**COOPERS & LYBRAND**

Omaha, Nebraska  
March 18, 1994



# KIEWIT DIVERSIFIED GROUP

## Statements of Earnings

For the three years ended December 25, 1993

(dollars in millions, except per share data)	1993	1992	1991
Revenue	\$ 402	\$ 349	\$ 252
Other Income	47	87	84
	<u>449</u>	<u>436</u>	<u>336</u>
Costs and Expenses:			
Cost of revenue	285	228	184
Selling and administrative	113	92	62
Interest	11	9	42
	<u>409</u>	<u>329</u>	<u>288</u>
	<u>40</u>	<u>107</u>	<u>48</u>
Gain on Sale of Subsidiary's Stock	211	-	-
	<u>251</u>	<u>107</u>	<u>48</u>
Earnings from Continuing Operations Before Income Taxes, Minority Interest and Cumulative Effect of Change in Accounting Principle	251	107	48
Provision for Incomes Taxes	(73)	(26)	(22)
Minority Interest in Loss of Subsidiaries	3	-	-
	<u>181</u>	<u>81</u>	<u>26</u>
Earnings from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	181	81	26
Cumulative Effect of Change in Accounting Principle	-	(1)	-
Earnings from Continuing Operations	<u>181</u>	<u>80</u>	<u>26</u>
Discontinued Operations:			
Earnings from discontinued operations net of income taxes of \$- and \$26 in 1992 and 1991, respectively	-	1	19
Gain on disposal of discontinued operations net of income taxes (benefit) of \$(19) and \$221 in 1992 and 1991, respectively	-	18	373
	<u>\$ 181</u>	<u>\$ 99</u>	<u>\$ 418</u>
Net Earnings	=====	=====	=====

See accompanying notes to financial statements.

**KIEWIT DIVERSIFIED GROUP**

Statements of Earnings (continued)  
For the three years ended December 25, 1993

(dollars in millions, except per share data)	1993	1992	1991
<hr/>			
Earnings Per Common and Common Equivalent Share:			
Continuing Operations:			
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 9.08	\$ 4.00	\$ 1.26
Cumulative Effect of Change in Accounting Principle	-	(.05)	-
	<hr/>	<hr/>	<hr/>
Earnings from Continuing Operations	9.08	3.95	1.26
Discontinued Operations:			
Earnings	-	.04	.94
Gain on disposal	-	.93	18.10
	<hr/>	<hr/>	<hr/>
Net Earnings	\$ 9.08	\$ 4.92	\$ 20.30
	=====	=====	=====
<hr/>			

See accompanying notes to financial statements.

# KIEWIT DIVERSIFIED GROUP

## Balance Sheets

December 25, 1993 and December 26, 1992

(dollars in millions)	1993	1992
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 197	\$ 135
Marketable securities	899	657
Receivables, less allowance of \$2 and \$5	81	67
Note receivable from sale of discontinued operations	5	60
Deferred income taxes	18	3
Other	40	77
Total Current Assets	<hr/> 1,240	<hr/> 999
Property, Plant and Equipment, at cost:		
Land	15	12
Buildings	172	26
Equipment	802	461
	<hr/> 989	<hr/> 499
Less accumulated depreciation and amortization	(252)	(209)
	<hr/>	<hr/>
Net Property, Plant and Equipment	737	290
Note Receivable from Sale of Discontinued Operations	29	84
Investments	233	180
Intangible Assets, net	415	75
Other Assets	155	131
	<hr/> \$ 2,809	<hr/> \$ 1,759
	=====	=====
<hr/>		

See accompanying notes to financial statements.

# KIEWIT DIVERSIFIED GROUP

## Balance Sheets

December 25, 1993 and December 26, 1992

(dollars in millions)	1993	1992
<hr/>		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 113	\$ 55
Short-term borrowings	-	80
Current portion of long-term debt:		
Telecommunications	7	-
Other	4	1
Accrued costs and billings in excess of revenue on uncompleted contracts	20	12
Accrued reclamation and other mining costs	23	16
Other	80	39
Total Current Liabilities	<hr/> 247	<hr/> 203
Long-Term Debt, less current portion:		
Telecommunications	420	-
Other	32	18
Deferred Income Taxes	394	272
Retirement Benefits	71	74
Accrued Reclamation Costs	92	94
Other Liabilities	64	65
Minority Interest	298	12
Stockholders' Equity (Redeemable Common Stock, \$1.2 billion aggregate redemption value)		
Common equity	1,182	1,017
Foreign currency adjustment	-	4
Net unrealized holding gain	9	-
Total Stockholders' Equity	<hr/> 1,191	<hr/> 1,021
	<hr/> \$ 2,809	<hr/> \$ 1,759
	=====	=====
<hr/>		

See accompanying notes to financial statements.

**KIEWIT DIVERSIFIED GROUP**  
Statements of Cash Flows

For the three years ended December 25, 1993

(dollars in millions)	1993	1992	1991
Cash flows from operations:			
Earnings from continuing operations	\$ 181	\$ 80	\$ 26
Adjustments to reconcile earnings from continuing operations to net cash provided by continuing operations:			
Cumulative effect of change in accounting principle	-	1	-
Depreciation, depletion and amortization	51	39	28
(Gain) loss on sale of property, plant and equipment, and other investments	8	(7)	3
Gain on sale of subsidiary's stock	(211)	-	-
Decline in market value of investments	25	12	-
Retirement benefits paid	(17)	(8)	(5)
Change in retirement benefits and other noncurrent liabilities	1	3	54
Deferred income taxes	45	8	18
Change in working capital items:			
Receivables	8	(14)	8
Other current assets	-	16	(30)
Payables	51	13	5
Other liabilities	36	(29)	(11)
Other	18	(5)	(27)
Net cash provided by continuing operations	196	109	69
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	4,155	5,611	3,112
Purchases of marketable securities	(4,490)	(5,646)	(3,431)
Proceeds from sale of property, plant and equipment, and other investments	25	12	11
Capital expenditures	(139)	(89)	(63)
Investments in affiliates	(3)	(26)	(135)
Acquisition of C-TEC, excluding cash acquired	(146)	-	-
Acquisition of minority interest	-	(27)	-
Deferred development costs and other	(36)	11	(4)
Net cash used in investing activities	(634)	(154)	(510)
Cash flows from financing activities:			
Long-term debt borrowings	19	1	11
Payments on long-term debt, including current portion	(7)	(89)	(179)
Net change in short-term borrowings	(80)	80	(231)
Issuances of common stock	8	-	16
Issuances of subsidiary's stock	458	-	-
Repurchases of common stock	(40)	(64)	(105)
Dividends paid	(17)	(33)	(15)
Dividend to parent	-	-	(58)
Exchange of B&C Stock for Class D Stock, net	26	32	-
Other	3	(1)	(3)
Net cash provided by (used in) financing activities	370	(74)	(564)

# KIEWIT DIVERSIFIED GROUP

## Statements of Cash Flows

For the three years ended December 25, 1993 (continued)

(dollars in millions)	1993	1992	1991
Cash flows from discontinued packaging operations:			
Proceeds from sales of discontinued packaging operations	110	163	1,285
USW ERISA Litigation settlement installment payment	-	-	(207)
Other cash provided by (used in) discontinued packaging operations	20	(34)	(105)
Net cash provided by discontinued packaging operations	130	129	973
Net increase (decrease) in cash and cash equivalents	62	10	(32)
Cash and cash equivalents at beginning of year	135	125	157
Cash and cash equivalents at end of year	\$ 197 =====	\$ 135 =====	\$ 125 =====
Supplemental disclosure of cash flow information for continuing and discontinued operations:			
Taxes	\$ 29	\$ 117	\$ 206
Interest	4	11	48

See accompanying notes to financial statements.

# KIEWIT DIVERSIFIED GROUP

## Statements of Changes in Stockholders' Equity

For the three years ended December 25, 1993

(dollars in millions except per share data)	1993	1992	1991
Common equity:			
Balance at beginning of year	\$ 1,017	\$ 989	\$ 733
Issuances of stock	8	-	16
Repurchases of stock	(40)	(64)	(105)
Exchange of Class B&C Stock for Class D Stock, net	26	32	-
Net earnings	181	99	418
Dividends (per share: \$.50 in 1993, \$1.95 in 1992, and \$.70 in 1991) (a)	(10)	(39)	(15)
Dividend to parent	-	-	(58)
Balance at end of year	<u>\$ 1,182</u> =====	<u>\$ 1,017</u> =====	<u>\$ 989</u> =====
Other equity adjustments:			
Balance at beginning of year	\$ 4	\$ 7	\$ 102
Foreign currency adjustment	(4)	(3)	(95)
Net unrealized holding gain	9	-	-
Balance at end of year	<u>\$ 9</u> =====	<u>\$ 4</u> =====	<u>\$ 7</u> =====
Total stockholders' equity	<u>\$ 1,191</u> =====	<u>\$ 1,021</u> =====	<u>\$ 996</u> =====

(a) 1992 includes \$.35 per share for dividends declared in 1992 but paid in 1993. 1991 reflects dividends paid by PKS on its previous common stock that have been attributed to the Diversified Group and the Construction & Mining Group based upon the relative formula values of each group which were determined at the end of each preceding year. Accordingly, the dividends reflected for those years may bear no relationship to the dividends that would have been declared by the Board in such years had the D Stock and B&C Stock been outstanding.

See accompanying notes to financial statements.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (1) Basis of Presentation

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

The financial statements of the Diversified Group include the financial position, results of operations and cash flows for PKS' businesses other than its Construction & Mining Group businesses, held by a wholly-owned subsidiary, Kiewit Diversified Group Inc. ("KDG") and a portion of the PKS corporate assets and liabilities and related transactions which are not separately identified with the ongoing operations of the Diversified Group or the Construction & Mining Group. These financial statements have been prepared using the historical amounts included in the PKS consolidated financial statements. Corporate amounts reflected in these financial statements are determined based upon methods which management believes to be reasonable (Note 3).

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

### (2) Summary of Significant Accounting Policies

#### **Principles of Group Presentation**

These financial statements include the accounts of the Diversified Group ("the Group"). The Group's and Construction & Mining Group's financial statements, taken together, comprise all of the accounts included in the PKS consolidated financial statements. The Group's enterprises include coal mining properties, telecommunications, energy production facilities and timberlands. The Group's only reportable segments are coal mining properties and telecommunications. See Note 4 with respect to discontinued packaging operations. Fifty-percent-owned mining joint ventures are consolidated on a pro rata basis. All significant intercompany accounts and transactions, except those directly between the Group and the Construction & Mining Group, have been eliminated. Investments in other companies in which the Group exercises significant influence over operating and financial policies are accounted for by the equity method.



# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies (continued)

#### Coal Sales Contracts

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

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

#### Telecommunications Revenues

A subsidiary of the Group, MFS Communications Company, Inc. ("MFS"), provides private line and special access telecommunications services to major businesses, governmental entities and long distance carriers in major metropolitan areas of the United States through a competitive access provider subsidiary. Another subsidiary of MFS is a network systems integrator that designs, engineers, develops and installs telecommunications networks and systems and also provides facilities management services. MFS recognizes revenue on telecommunications services in the month the related service is provided. Network systems integration revenue is recognized on the percentage-of-completion method of accounting.

In October 1993, the Group acquired 34.5% of the outstanding shares of C-TEC Corporation ("C-TEC") that have 56.6% of the available voting rights. C-TEC's results of operations have been consolidated from the acquisition date. 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 basic and premium cable programming services are recorded in the month service is provided.

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

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (2) Summary of Significant Accounting Policies (continued)

##### **Depreciation and Amortization**

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

In accordance with industry practice, certain telephone plant owned by C-TEC valued at \$216 million is depreciated based on the estimated remaining lives of the various classes of depreciable property and straight-line composite rates. At the time property is retired, the original cost, plus cost of removal, less salvage, is charged to accumulated depreciation.

##### **Intangible Assets**

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

##### **Pension Plans**

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

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

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

##### **Reserves for Reclamation**

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

##### **Foreign Currencies**

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

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies (continued)

#### Subsidiary Stock Sales

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

#### Earnings Per Share

Primary earnings per share of Class D Stock have been computed using the weighted average number of shares outstanding during each year. For periods prior to January 8, 1992, the number of Class D shares are assumed to be the same as the total corresponding weighted average shares of PKS. The number of shares used in computing primary earnings per share was 19,941,885 in 1993, 20,126,768 in 1992 and 20,588,236 in 1991. Fully diluted earnings per share have not been presented because it is not significantly different from primary earnings per share.

#### Marketable Securities and Investments

On December 25 1993, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting of investments in equity securities with readily determinable fair values and all investments in debt securities. The statement does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries. At December 25, 1993, a net unrealized holding gain of \$9 million net of income taxes, was reported in stockholders' equity. See Note 8 for additional disclosures.

#### Income Taxes

At the beginning of 1992, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial and tax basis for assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. In 1992, the Group recorded expense of \$1 million, which represented the increase in the net deferred tax liabilities as a result of the accounting change. This amount has been reflected in the statements of earnings as a cumulative effect of a change in accounting principle.

#### Reclassifications

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

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (2) Summary of Significant Accounting Policies (continued)

#### Fiscal Year

The Group's fiscal year ends on the last Saturday in December. There were 52 weeks each in the fiscal years 1993, 1992 and 1991.

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

### (3) Corporate Activities

Financial structure - Cash, cash equivalents and marketable securities have been allocated to the Group and the Construction & Mining Group based upon the desired capital structure of the two at December 28, 1991. Financial statement impacts of dividends paid to holders of Class D Stock and repurchases and issuances of Class D Stock in 1993 and 1992 were reflected in their entirety in the Diversified Group's financial statements. The value of common stock issuances and repurchases and related dividends in 1991 were generally attributed to the Group and the Construction & Mining Group based upon the relative formula values of each group which were determined at the end of 1990.

The desired capital structure at December 28, 1991 for the Construction & Mining Group was stockholders' equity of \$400 million. It was determined by PKS management that this was the appropriate level of equity at December 28, 1991 necessary for the Construction & Mining Group to continue its traditional construction and mining service businesses, based upon certain factors such as contract volume, prequalification requirements to bid on projects, bonding requirements of its outside insurance company, and working capital requirements. The capital structure of the Group consisted of the remaining equity of PKS and provided equity and liquidity to allow the Group the opportunity to invest in capital intensive businesses, a primary objective of the Reorganization. In order to attain the desired capital structure, the Group dividended \$58 million of equity to PKS which was contributed by PKS to the Construction & Mining Group.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (3) Corporate Activities (continued)

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

	1993	1992	
	<hr/>	<hr/>	
Cash and cash equivalents	\$ 47	\$ 45	
Marketable securities	11	13	
Property, plant and equipment, net	12	8	
Other assets	11	15	
	<hr/>	<hr/>	
Total Assets	\$ 81	\$ 81	
	=====	=====	
Accounts payable	\$ 27	\$ 25	
Convertible debentures	2	3	
Notes to former stockholders	8	8	
Liability for stock appreciation rights	2	2	
Other liabilities	5	6	
	<hr/>	<hr/>	
Total Liabilities	\$ 44	\$ 44	
	=====	=====	
	1993	1992	1991
	<hr/>	<hr/>	<hr/>
Net investment income (expense)	\$ (1)	\$ 3	\$ 4
Depreciation	(2)	(1)	(2)
Stock appreciation rights costs	(1)	(1)	(2)
Other income (expense)	4	3	(1)

Corporate general and administrative costs - a portion of corporate general and administrative costs has been allocated to the Group based upon certain measures of business activities, such as employment, investments and sales, which method management believes to be reasonable. These allocations were \$10 million, \$13 million and \$25 million in 1993, 1992 and 1991, respectively.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (3) Corporate Activities (continued)

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

### (4) Discontinued Operations

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

Discontinued Packaging Operations for the year ended December 26, 1992 reflect the equity earnings of the Group's investment in a plastics joint venture, net of tax at the statutory rate. Summary financial information relative to the discontinued packaging operations, which primarily reflects earnings from packaging operations which were sold during 1991 for the year ended December 28, 1991 is provided below:

(dollars in millions)	1991
Revenue	\$ 1,145
Earnings Before Income Taxes	45
Net Earnings	19

The effective income tax rate for 1991 is higher than the statutory rate of 34%, primarily resulting from the effects of purchase accounting, state income taxes, higher taxes on foreign earnings and minority interest.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (5) Acquisitions

In October 1993, the Group acquired 34.5% of the outstanding shares of C-TEC that have 56.6% of the available voting rights.

The acquisition of C-TEC for \$207 million in cash was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed, as follows:

Assets:		
Cash and cash equivalents	\$	61
Other current assets		49
Property, plant and equipment		354
Investments		17
Intangible assets		303
Other		8
Liabilities:		
Current liabilities		(64)
Deferred income taxes		(46)
Other liabilities		(8)
Long-term debt		(427)
Minority interest		(40)
	\$	207
		=====

Results of C-TEC operations are included in the Group's results of operations since the date of acquisition.

The following unaudited pro forma information shows the results of the Group as though the acquisition occurred at the beginning of 1992. These results include certain adjustments, primarily increased amortization, and are not necessarily indicative of what the results would have been had the acquisition been made as of that date or future results.

	1993	1992
	<hr/>	<hr/>
Revenue	\$ 638	\$ 606
Net Earnings	175	93
Earnings Per Share	8.78	4.63

(6) MFS Stock Sales

In May 1993, MFS sold 12.7 million shares of common stock to the public at an initial offering price of \$20 per share for \$233 million, net of certain transaction costs. An additional 4.6 million shares were sold to the public in September 1993 at a price of \$50 per share for \$218 million, net of certain transaction costs. These transactions have reduced the Company's ownership interest in MFS to 71% at December 25, 1993. Substantially all of the net proceeds from the offerings are intended to fund MFS' growth. Prior to the initial public offering, MFS was a wholly-owned subsidiary of the Group. The 29% outside ownership interest has been included in minority interest.

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

## (7) Disposal of Packaging Businesses

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

In April 1991, certain subsidiaries of the Group sold their European packaging operations ("Europe") to VIAG Aktiengesellschaft, a German company. The transaction closed in June 1991. Europe was engaged in developing, manufacturing and marketing metal and plastic containers, closures and related packaging products principally in western Europe. Revenue from these businesses was \$818 million prior to the transaction close in 1991. Europe's net earnings for this same period was \$34 million. The net proceeds were \$853 million in cash. With the net proceeds, the Group repaid in July 1991 short-term borrowings of \$252 million. The short-term borrowings consisted of \$123 million which was borrowed in June 1991 to repay intercompany loans made to the Group by a subsidiary of Europe and \$129 million which was directly related to financing Europe's capital expenditures.

In May 1991, the Group sold Continental Can International Corporation ("CCIC"), a wholly-owned subsidiary that held the Group's interests in metal packaging operations in Latin America, the Far East and the Middle East, to Crown Cork & Seal Company, Inc. Revenue and net earnings were not material during the period prior to closing in 1991. Proceeds from the transaction consisted of \$35 million paid in cash at closing and a receivable of \$94 million which was collected in November 1991.



# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (7) Disposal of Packaging Businesses (continued)

In August 1991, the Group sold Continental White Cap, Inc. ("White Cap"), a wholly-owned subsidiary that manufactured metal, plastic and composite closures for food vacuum-packed in both glass and plastic containers to Schmalbach Lubeca A.G., a German company, for \$279 million, after certain adjustments. Revenue from this business was \$119 million prior to the transaction close in 1991. Net earnings for this same period was \$13 million. The proceeds consisted of a promissory note, with interest at the LIBOR rate plus .625%, receivable in installments over the next five years with the final installment due on December 31, 1995. The first installment payment of \$50 million was received in October 1991. Additional payments totalling \$25 million were received in December 1991 and January 1992, \$60 million was received in December 1992, and \$110 million was received in 1993.

In November 1991, the Group sold Continental Plastic Containers, Inc. and Continental Caribbean Containers, Inc. (collectively "PCD"), two wholly-owned subsidiaries that manufactured blow-molded rigid plastic containers for household, automotive, industrial and food products, to Plastic Containers, Inc., a newly formed corporation, for approximately \$150 million, after adjustments. Revenue from this business was \$190 million prior to the transaction close in 1991. Net earnings for this same period were \$4 million. The proceeds consisted of \$50 million in cash at the closing and a \$100 million bridge note receivable which was collected in April 1992.

The table below summarizes the gain on disposal for each sale and for the combined sales (in millions) during 1991:

	Europe	CCIC	White Cap	PCD	Total
Net Proceeds	\$ 853	\$ 129	\$ 279	\$ 150	\$ 1,411
Financial Reporting Basis	560	41	109	96	806
Pre-Tax Gain	293	88	170	54	605
Estimated Tax Provision	94	33	78	28	233
Gain on Disposal	\$ 199	\$ 55	\$ 92	\$ 26	\$ 372
	=====	=====	=====	=====	=====

The effective income tax rates differ from the expected statutory income tax rates due to state income taxes and the tax bases being different than the financial reporting bases.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (7) Disposal of Packaging Businesses (continued)

Included in the gain on disposal of Europe is \$43 million of cumulative translation adjustments, consisting of \$95 million of foreign currency adjustments, recorded at December 29, 1990, offset by \$52 million of foreign currency losses incurred in 1991.

The difference between the gain summarized above and the gain per the statements of earnings is \$1 million, net of tax, consisting of the following (in millions):

Purchase price adjustment for Continental PET Technologies, Inc.	\$ 17
Gain on sale of investment in unconsolidated subsidiary	6
Reserves for various sales of discontinued packaging operations	( 22 )
	<hr/>
	\$ 1
	=====

During 1991, the Group received \$176 million in cash related to the remaining receivable, along with accrued interest, from the sale of the Group's domestic Beverage and Food packaging business in 1990.

In December 1990, the Group sold Continental PET Technologies, Inc. ("PET") to BTR Nylex Limited ("BTR"), an Australian company. Closing date proceeds, subject to adjustment, approximated \$110 million. BTR paid an additional \$40 million for revenue recognized by PET during 1991-1993 from certain new products. At closing, the Group received a note receivable of \$110 million, which was collected in cash in January 1991.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

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

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

#### Cash and Cash Equivalents

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

#### Marketable Securities and Investments

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

At December 26, 1992 the cost of marketable securities approximated fair value. At December 25, 1993 the cost, unrealized holding gains and losses and estimated fair values of marketable securities and noncurrent investments are as follows:

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Marketable securities:				
Equity securities	\$ 50	\$ 2	\$ 2	\$ 50
U.S. debt securities	496	-	-	496
State and political subdivision debt securities	88	-	-	88
Foreign government debt securities	84	-	-	84
Corporate debt securities	155	-	-	155
Collateralized mortgage obligations	25	-	-	25
Certificates of deposit	1	-	-	1
	<u>\$ 899</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 899</u>
	=====	=====	=====	=====
Non-current investments:				
Equity securities	\$ 80	\$ 13	\$ -	\$ 93
	=====	=====	=====	=====

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

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

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

The contractual maturities of the debt securities are as follows:

	Amortized Cost	Fair Value
U.S. debt securities:		
less than 1 year	\$ 494	\$ 494
1-5 years	2	2
	<u>\$ 496</u>	<u>\$ 496</u>
	=====	=====
State and political subdivision		
debt securities:		
less than 1 year	\$ 2	\$ 2
1-5 years	74	74
5-10 years	5	5
over 10 years	7	7
	<u>\$ 88</u>	<u>\$ 88</u>
	=====	=====
Foreign government debt securities:		
1-5 years	\$ 67	\$ 67
5-10 years	17	17
	<u>\$ 84</u>	<u>\$ 84</u>
	=====	=====
Corporate debt securities:		
less than 1 year	\$ 62	\$ 62
1-5 years	57	57
5-10 years	16	16
over 10 years	20	20
	<u>\$ 155</u>	<u>\$ 155</u>
	=====	=====
Certificates of deposit:		
less than 1 year	\$ 1	\$ 1
	=====	=====

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

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

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

##### **Note Receivable from Sale of Discontinued Operations:**

The carrying amount approximates fair value for both the current and the long-term portion due to the interest rate provided in the note.

##### **Short-term Borrowings and 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, except for certain Rural Telephone Bank debt which C-TEC may refinance. (See Note 11).

#### (9) Investments

During 1992, the Group purchased additional shares of California Energy Company, Inc. ("California Energy") common stock for \$23 million, increasing its ownership to 21%. The cumulative investment in common stock, accounted for on the equity method, totals \$80 million. The Group has certain options to purchase additional shares of California Energy common stock. The excess purchase price over the underlying equity is being amortized over 20 years. Equity earnings, net of the amortization of the excess purchase price over the underlying equity, were \$7 million, \$4 million and \$3 million in 1993, 1992 and 1991, respectively. California Energy common stock is traded on the New York Stock Exchange. On December 25, 1993, the market value of the Group's investment in California Energy common stock was \$138 million, based on the closing price.

In 1993 and 1992, the Group also recorded dividends in kind declared by California Energy, consisting of voting convertible preferred stock valued at \$5 million and \$4 million, respectively. The stock dividends brought the Group's total investment in convertible preferred stock to \$59 million at December, 25, 1993.

Investments also include equity securities classified as noncurrent and carried at the fair value of \$93 million. See Note 8.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (10) Intangible Assets

Intangible assets consist of the following at December 25, 1993 and December 26, 1992 (dollars in millions):

	1993	1992
	<hr/>	<hr/>
Goodwill	\$ 234	\$ 52
Franchise and subscriber lists	60	5
Noncompete agreements	36	-
Licenses and rights-of-ways	32	11
Deferred development costs	64	13
	<hr/>	<hr/>
	426	81
Less accumulated amortization	(11)	(6)
	<hr/>	<hr/>
	\$ 415	\$ 75
	=====	=====

Amortization expense for these assets was \$6, \$3 and \$2 in 1993, 1992 and 1991, respectively.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

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

At December 25, 1993 and December 26, 1992, long-term debt consisting of a portion of PKS' notes to former stockholders and convertible debentures which have been allocated equally to the Group and the Construction & Mining Group, and specifically attributed debt was as follows:

(dollars in millions)	1993	1992
C-TEC Long-term Debt (with recourse only to C-TEC)		
Mortgage notes payable to the United States of America -		
Rural Telephone Bank (RTB)		
5% - 6.05%, with monthly payments through 2009	\$ 64	\$ -
6.5% - 7%, with quarterly sinking fund payments through 2015	58	-
Federal Financing Bank (FFB)		
7.69% - 8.36%, with quarterly sinking fund payments through 2012	14	-
Senior Secured Notes		
9.65%, with annual principal payments, 1996 through 1999 (includes unamortized premium of \$7 based on imputed rate of 6.12%)	157	-
9.52%, with annual principal payments 1996 through 2001 (includes unamortized premium of \$4 based on imputed rate of 6.93%)	104	-
Revolving Credit Agreements and Other	30	-
	<u>427</u>	<u>-</u>
Other Long-term Debt		
7.5% to 11.6% Notes to former stockholders due 1994-2001	8	8
6.25% to 10.5% Convertible debentures due 1999-2003	4	3
Other	24	8
	<u>36</u>	<u>19</u>
	463	19
Less current portion	(11)	(1)
	<u>\$ 452</u>	<u>\$ 18</u>
	=====	=====

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

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

Substantially all of the assets of C-TEC's telephone group (\$353 million) collateralize the mortgage notes payable to the United States of America. These note agreements restrict telephone group dividends.

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

C-TEC's Revolving Credit agreements are collateralized by a pledge of the stock of C-TEC's telephone and mobile services subsidiaries.

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 14,322, 10,468 and 36,598 shares of Class D common stock in 1993, 1992 and 1991, respectively. At December 25, 1993, 86,736 shares of Class D common stock are reserved for future conversions.

Other long-term debt consists primarily of construction financing of a privately owned toll road which will be converted to term debt upon completion of the project. Variable interest rates on this debt ranged from 5% to 9% at December 25, 1993.

Scheduled maturities of long-term debt through 1998 are as follows (in millions): 1994 - \$11; 1995 - \$25; 1996 - \$56; 1997 - \$68 and \$70 in 1998.



## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

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

The Group has the following unutilized borrowing arrangements at December 25, 1993:

C-TEC's telephone group's agreement with the RTB provides for an additional \$23 million of borrowings. The agreement requires C-TEC to invest in RTB stock for approximately 5% of the available amount.

C-TEC's Revolving Credit agreements provide for an additional \$11 million of borrowings collateralized by stock pledges. The total commitments are reduced on a quarterly basis through maturity in September 1996.

An additional \$50 million Credit Agreement collateralized by stock pledges may be utilized by C-TEC. The agreement provides revolving borrowings through June 1, 1994 at which time the outstanding balance converts to a term loan with quarterly payments through 1997. Under the arrangement, C-TEC must maintain specified debt to cash flow ratios.

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

MFS has a \$75 million secured revolving credit agreement dependent in part on their ability to attain certain cash flow requirements.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (12) Income Taxes

An analysis of the provision for income taxes related to continuing operations before minority interest and cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Current:			
U.S. federal	\$ 24	\$ 15	\$ 2
State	4	3	2
	<u>28</u>	<u>18</u>	<u>4</u>
Deferred:			
U.S. federal	45	8	18
	<u>\$ 73</u>	<u>\$ 26</u>	<u>\$ 22</u>
	=====	=====	=====

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

(dollars in millions)	1993	1992	1991
United States	\$ 251	\$ 105	\$ 46
Foreign	-	2	2
	<u>\$ 251</u>	<u>\$ 107</u>	<u>\$ 48</u>
	=====	=====	=====

The components of the deferred income tax provision, prior to adopting SFAS No. 109, in 1991 were as follows:

(dollars in millions)	1991
Depreciation and fixed assets	\$ 3
Retirement benefits and other compensation	2
Mining revenue and costs	5
Equity earnings	4
Accrued revenue	4
	<u>\$ 18</u>
	=====

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (12) Income Taxes (continued)

A reconciliation of the actual provision for income taxes and the tax computed by applying the U.S. federal rate (35% in 1993, 34% in 1992 and 1991) to the earnings from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle for the three years ended December 25, 1993 follows:

(dollars in millions)	1993	1992	1991
Computed tax at statutory rate	\$ 88	\$ 36	\$ 16
State income taxes	3	2	2
Depletion	(3)	(4)	(3)
Dividend exclusion	(3)	(3)	(2)
Equity earnings	-	(2)	-
Nondeductible expense	-	-	4
Prior year tax adjustments	(12)	-	4
Other	-	(3)	1
	<u>\$ 73</u>	<u>\$ 26</u>	<u>\$ 22</u>
	=====	=====	=====

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

The components of the net deferred tax liabilities as of December 25, 1993 and December 26, 1992 were as follows:

(dollars in millions)	1993	1992
Deferred tax liabilities:		
Investments in joint ventures	\$ 126	\$ 126
Asset bases - accumulated depreciation	198	148
Investment in subsidiaries	84	-
Deferred coal sales	26	25
Other	38	35
	<u>472</u>	<u>334</u>
Deferred tax assets:		
Compensation - retirement benefits	16	32
Net operating losses realizable by subsidiaries	52	7
Alternative minimum tax credits realizable by subsidiary	11	-
Provision for estimated expenses	8	10
Other	26	23
Valuation allowances	(17)	(7)
	<u>96</u>	<u>65</u>
Total deferred tax liabilities	<u>472</u>	<u>334</u>
Net deferred tax liabilities	<u>\$ 376</u>	<u>\$ 269</u>
	=====	=====

The Group's subsidiaries have federal income tax net operating loss carryforwards of \$120 million which begin to expire in 2001.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (13) Employee Benefit Plans

The Group's defined benefit pension plans cover primarily packaging employees who retired prior to the disposition of the packaging operations. The expense related to these plans was approximately \$7 million in 1993 and \$1 million in 1992 and 1991.

C-TEC maintains a separate defined benefit plan for substantially all of its employees. The prepaid cost and income related to this plan is not significant at December 25, 1993 or for the period from the acquisition date due through December 25, 1993.

Substantially all employees of the Group, with the exception of stockholders and MFS and C-TEC employees, are covered under the Group's profit sharing plans. The expense related to these plans was \$1 million in each of the three years in the period ended December 25, 1993.

#### (14) Postretirement Benefits

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

The net periodic costs for health care benefits were \$4 million in 1993, 1992 and 1991. The net periodic costs for life insurance benefits were \$2 million, \$2 million, and \$1 million in 1993, 1992 and 1991, respectively. In all years, the costs related entirely to interest on accumulated benefits.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (14) Postretirement Benefits (continued)

The accrued postretirement benefit liability as of December 25, 1993 was as follows:

(dollars in millions)

	Health Insurance	Life Insurance
Retirees	\$ 34	\$ 17
Fully eligible active plan participants	-	-
Other active plan participants	-	-
Total accumulated postretirement benefit obligation	34	17
Unrecognized prior service cost	24	1
Unrecognized net loss	(7)	(2)
Accrued postretirement benefit liability	\$ 51 =====	\$ 16 =====

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

An 8.3% increase in the cost of covered health care benefits was assumed for fiscal 1993. This rate is assumed to gradually decline to 6.2% in the year 2020 and remain at that level thereafter. A 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation ("APBO") by \$1 million at year-end 1993. The weighted average discount rate used in determining the APBO was 7.0%.

### (15) Stockholders' Equity

PKS is generally committed to purchase all Class D Stock in accordance with the Restated Certificate of Incorporation. Issuances and repurchases of common shares including conversions for the three years ended December 23, 1993 (1991 are attributed shares) were as follows:

	Stock
Shares issued in 1991	514,518
Shares repurchased in 1991	3,103,335
Shares issued in 1992	1,019,553
Shares repurchased in 1992	1,693,353
Shares issued in 1993	748,026
Shares repurchased in 1993	841,808

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Financial Statements**

#### **(16) Other Income**

Other income includes net investment income of \$19 million, \$66 million, and \$89 million in 1993, 1992 and 1991, respectively, gains and losses on sales of property, plant and equipment and other assets, and other miscellaneous income. In 1993, the Group recognized \$35 million of losses on the sale and permanent writedown of certain derivative securities.

#### **(17) Industry and Geographic Data**

The Diversified Group's continuing operations are conducted domestically in two reportable business segments: mining and telecommunications. The packaging segment is reported as discontinued operations.

In 1993 and 1992, three customers individually accounted for 10% or more of the Group's revenues. In 1993, Commonwealth Edison Company, Detroit Edison Company and the Department of General Services - State of Iowa accounted for 29%, 10%, and 11%, respectively, of revenue. In 1992, these same entities accounted for 26%, 11%, and 13% of revenue. Commonwealth Edison Company and Detroit Edison Company accounted for 33% and 16% of revenue in 1991.

# KIEWIT DIVERSIFIED GROUP

## Notes to Financial Statements

### (17) Industry and Geographic Data (continued)

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

Industry Data (dollars in millions)	1993	1992	1991
Revenue:			
Mining	\$ 210	\$ 234	\$ 211
Telecommunications	189	109	37
Other	3	6	4
	<u>\$ 402</u>	<u>\$ 349</u>	<u>\$ 252</u>
	=====	=====	=====
Operating earnings:			
Mining	\$ 75	\$ 77	\$ 71
Telecommunications	(26)	(12)	(27)
Other	(35)	(26)	(27)
	<u>14</u>	<u>39</u>	<u>17</u>
Gain on Sale of Subsidiary's Stock	211	-	-
Interest income, net	31	48	25
Nonoperating income (expense), net	(5)	20	6
	<u></u>	<u></u>	<u></u>
Earnings from continuing operations before minority interest, income taxes and cumulative effect of change in accounting principle	\$ 251	\$ 107	\$ 48
	=====	=====	=====
Identifiable assets:			
Mining	\$ 185	\$ 198	\$ 194
Telecommunications	1,682	363	192
Other	62	26	47
Corporate (1)	880	1,172	1,356
Discontinued Operations	-	-	12
	<u>\$ 2,809</u>	<u>\$ 1,759</u>	<u>\$ 1,801</u>
	=====	=====	=====
Capital Expenditures:			
Mining	\$ 5	\$ 8	\$ 6
Telecommunications	127	80	51
Other	-	-	5
Corporate	7	1	1
	<u>\$ 139</u>	<u>\$ 89</u>	<u>\$ 63</u>
	=====	=====	=====
Depreciation, depletion and amortization:			
Mining	\$ 12	\$ 12	\$ 11
Telecommunications	35	21	12
Other	2	3	3
Corporate	2	3	2
	<u>\$ 51</u>	<u>\$ 39</u>	<u>\$ 28</u>
	=====	=====	=====

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

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (18) Related Party Transaction

The Group receives certain mining services from the Construction & Mining Group. The expense for these services was \$29 million in 1993, \$29 million in 1992 and \$8 million in 1991.

#### (19) Other Matters

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

In many pending proceedings, the Group is one of numerous defendants who may be "potentially responsible parties" liable for the cleanup of hazardous substances deposited in landfills or other sites.

The Group has established reserves to cover its probable liabilities for environmental cases and believes that any additional liabilities will not materially affect the Group's financial condition or results of operations.

On March 4, 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, KDG and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

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



## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (19) Other Matters (continued)

U.S. Court of Appeals for the Federal Circuit Court affirmed the decision of the claims court. In 1991, the U.S. Supreme Court denied certiorari. On February 10, 1994, the Claims Court issued an opinion which provided that the \$60 million judgement would bear interest compounded annually from 1977 until payment. Interest for the 1977-1993 period is \$230 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award.

The government filed two-post trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the value of the property. The government also filed a motion to reopen and set aside the 1989 judgement as void and to dismiss plaintiff's complaint for lack of jurisdiction. In August 1992, the Claims Court indicated that both motions would be denied. A written order has not yet been entered. The government may appeal from the order, as well as the order regarding compound interest.

It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment of that amount will occur.

A subsidiary of the Group, Continental Holdings Inc., remains contingently liable as a guarantor of \$111 million of debt relating to various businesses which have been sold.

The Group leases various buildings and equipment under both the operating and capital leases. Minimum rental payments on buildings and equipment subject to noncancelable operating leases during the next 24 years aggregate \$94 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 25, 1993, the Group had outstanding letters of credit of approximately \$63 million.

C-TEC has an outstanding interest rate swap agreement which expires in December 1994. Under this agreement, the Group received a fixed rate of 9.52% on \$100 million and pays a floating rate of LIBOR plus 502 basis points (8.52% at December 31, 1993), as determined in six-month intervals. The transaction effectively changes C-TEC's interest rate exposure from a fixed-rate to a floating-rate basis on the \$100 million underlying debt. The counter-party to the interest swap contract is a major financial institution. C-TEC is exposed to economic loss in the event of nonperformance by the counter-party, however, it does not anticipate such non-performance.

## KIEWIT DIVERSIFIED GROUP

### Notes to Financial Statements

#### (20) Subsequent Event

On January 19, 1994, MFS issued 9 3/8% Senior Discount Notes due January 15, 2004. Cash interest will not accrue on the notes prior to January 15, 1999. Commencing July 15, 1999 cash interest will be payable semi-annually. Accordingly, MFS will initially record the proceeds it received from the offering of \$500 million and accrue to the principal amount of the notes of \$788 million through January 1999. On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. The notes contain certain covenants which, among other things, will restrict MFS' ability to incur additional debt, create liens, enter into sale and leaseback transactions with affiliates, and sell assets or merge with another company.

On March 16, 1994, MFS made an offer to purchase all outstanding shares of common stock and associated preferred share purchase rights of Centex Telemanagement, Inc. at \$9 per share. The aggregate consideration of the offer approximates \$150 million. The offer, which will expire on April 12, 1994, is conditioned upon, among other things, acquiring a majority of the common shares and the preferred share purchase rights being redeemed or invalidated.

# SCHEDULE V

## KIEWIT DIVERSIFIED GROUP

### Property, Plant and Equipment

(dollars in millions)	Balance Beginning of Period	Additions at Cost	Retire- ments	Other (a)	Balance End of Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Land	\$ 12	\$ -	\$ -	\$ 3	\$ 15
Buildings	26	2	-	144	172
Equipment	461	137	(6)	210	802
	<u>\$ 499</u>	<u>\$ 139</u>	<u>\$ (6)</u>	<u>\$ 357</u>	<u>\$ 989</u>
	=====	=====	=====	=====	=====
 Year ended December 26, 1992					
<hr/>					
Land	\$ 11	\$ -	\$ -	\$ 1	\$ 12
Buildings	25	-	-	1	26
Equipment	380	89	(8)	-	461
	<u>\$ 416</u>	<u>\$ 89</u>	<u>\$ (8)</u>	<u>\$ 2</u>	<u>\$ 499</u>
	=====	=====	=====	=====	=====
 Year ended December 28, 1991					
<hr/>					
Land	\$ 5	\$ -	\$ -	\$ 6	\$ 11
Buildings	20	-	-	5	25
Equipment	292	63	(5)	30	380
	<u>\$ 317</u>	<u>\$ 63</u>	<u>\$ (5)</u>	<u>\$ 41</u>	<u>\$ 416</u>
	=====	=====	=====	=====	=====
<hr/>					

(a) Primarily network and equipment obtained in the acquisitions of telecommunications businesses.

# SCHEDULE VI

## KIEWIT DIVERSIFIED GROUP

### Accumulated Depreciation and Amortization of Property, Plant and Equipment

(dollars in millions)	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Retire-ments	Other	Balance End of Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Buildings	\$ 25	\$ 2	\$ -	\$ 2	\$ 29
Equipment	184	41	(4)	2	223
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 209	\$ 43	\$ (4)	\$ 4	\$ 252
	=====	=====	=====	=====	=====
Year ended December 26, 1992					
<hr/>					
Buildings	\$ 24	\$ 1	\$ -	\$ -	\$ 25
Equipment	164	29	(7)	(2)	184
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 188	\$ 30	\$ (7)	\$ (2)	\$ 209
	=====	=====	=====	=====	=====
Year ended December 28, 1991					
<hr/>					
Buildings	\$ 18	\$ 1	\$ -	\$ 5	\$ 24
Equipment	137	25	(5)	7	164
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 155	\$ 26	\$ (5)	\$ 12	\$ 188
	=====	=====	=====	=====	=====
<hr/>					

The estimated service lives used to calculate depreciation are 15 to 40 years for buildings and improvements and 3 to 25 years for equipment.

Improvements to leased properties are amortized over the lives of the leases or the estimated useful lives of the improvements, whichever is less.

# SCHEDULE VII

## KIEWIT DIVERSIFIED GROUP

### Valuation and Qualifying Accounts and Reserves

(dollars in millions)	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Amounts Charged to Reserves	Other	Balance End of Period
<hr/>					
Year ended December 25, 1993					
<hr/>					
Allowance for doubtful trade accounts	\$ 5	\$ 1	\$ (4)	\$ -	\$ 2
Reserves:					
Retirement benefits	74	12	(17)	2	71
Year ended December 26, 1992					
<hr/>					
Allowance for doubtful trade accounts	\$ 5	\$ -	\$ -	\$ -	\$ 5
Reserves:					
Retirement benefits	58	8	(8)	16 (a)	74
Year ended December 28, 1991					
<hr/>					
Allowance for doubtful trade accounts	\$ 6	\$ -	\$ (1)	\$ -	\$ 5
Reserves:					
Retirement benefits	21	37	(5)	5	58

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

# SCHEDULE IX

## KIEWIT DIVERSIFIED GROUP

### Short-Term Borrowings

	Balance, End of Period	Weighted Average Interest Rate, End of Period	Maximum Month-End Amount Outstanding During the Period	Average Amount Outstanding During the Period (a)	Weighted Average Interest Rate During the Period
(dollars in millions)					
Year ended December 25, 1993					
Bank Borrowings	\$ -	-%	\$ 50	\$ 24	3.4%
Year ended December 26, 1992					
Bank Borrowings	\$ 80	3.4%	\$ 80	\$ -	-%
Year ended December 28, 1991					
Bank Borrowings	\$ -	-%	\$ 264	\$ 92	10.8%

(a) Determined on the basis of average daily balances of short-term borrowings. The 1992 bank borrowings were made the last week of the year.

The bank borrowings provided for interest at various rates and matured on various dates within one year.

## SCHEDULE X

### KIEWIT DIVERSIFIED GROUP

#### Supplementary Income Statement Information

(dollars in millions)	Charged to Costs and Expenses		
	1993	1992	1991
Royalties (a)	\$ 22	\$ 27	\$ 24
Production taxes (a)	16	26	19
Federal Black Lung taxes (b)	4	5	4

(a) The Company incurred royalty costs and production taxes with respect to its mining operations based on the tons of coal mined or sold from various properties.

(b) Federal Black Lung taxes were assessed on the various mines based on the tons of coal mined.

Advertising costs, amortization of intangible assets, and taxes other than payroll and income taxes are not presented as such amounts represent less than one percent of revenue as reported in the related statements of earnings or because the information called for is shown in the financial statements or in the notes thereto.

Maintenance and repair costs in 1993 and 1992 were less than one percent of revenue. Maintenance and repair costs, primarily related to the Group's discontinued packaging operations, were \$50 million in 1991.

## KIEWIT DIVERSIFIED GROUP

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

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

#### **Results of Operations - 1993 vs. 1992**

##### **Mining**

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

Alternate source coal sales by the Black Butte mine produced the increase in the average price per ton of coal shipped. Alternate source coal consists of coal purchased from two unaffiliated mines located in the Powder River Basin area of Wyoming and from the Group's Decker mine. The purchased coal is sold to Commonwealth under terms of the renegotiated agreements. Alternate source coal sales in 1993 comprised 35% of 1993 mining revenue.

The gross margin on mining revenue increased to 49% in 1993 from 44% in 1992. Alternate source coal sales, which result in larger margins than mined coal, led to the increase.

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

##### **Telecommunications**

In 1993, the components of telecommunications revenue were as follows:

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



## KIEWIT DIVERSIFIED GROUP

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

#### **Results of Operations - 1993 vs. 1992 (continued)**

##### **Telecommunications (continued)**

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

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

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

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

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

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

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

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

## KIEWIT DIVERSIFIED GROUP

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

#### **Results of Operations - 1993 vs. 1992 (continued)**

##### **Other Income**

Other income decreased from \$87 million in 1992 to \$47 million in 1993, a decrease of 46%. The decline primarily relates to a \$21 million increase in realized losses and permanent valuation adjustments on marketable securities, including certain derivatives. Interest income declined by \$16 million due to lower interest rates and to a change in portfolio mix. Dividend income decreased by \$10 million due to dividends accrued in 1992 on an investment in United States Can Company preferred stock redeemed in March of 1993. Slight increases in equity earnings and miscellaneous income partially offset the declines noted above.

##### **Selling and Administrative**

Selling and administrative expenses increased 23% in 1993. Costs incurred in developing MFS Datanet and MFS Intelenet account for a large portion of the increase. MFS expects to incur significant expense developing the high-speed data communications and integrated, single-source telecommunication services in 1994. Increased legal costs, primarily reserves established for environmental matters (See "Legal Proceedings"), also contributed to the increase.

##### **Interest Expense**

Interest expense increased by \$2 million or 22% in 1993. The increase is due to the C-TEC debt assumed in the acquisition. Interest on C-TEC debt during the last two months approximated \$6 million. The extinguishment of significant debt in 1992 partially offset the additions of C-TEC interest. The Group anticipates significant increases in interest due to the C-TEC acquisition and the MFS debt issuance of \$500 million in January 1994.

##### **Gain on Sale of Subsidiary's Stock**

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

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

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

**Results of Operations - 1993 vs. 1992 (continued)**

**Income Taxes**

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

**Results of Operations - 1992 vs. 1991**

**Mining**

Mining revenue increased 12% in 1992. The increase was due to the mines collectively shipping 20% more tons of coal and lignite in 1992. The increase in tonnage was due principally to new short-term contracts at the Black Butte mine and sales on the spot market. This increase was partially offset by a 4% decrease in the average price per ton, the result of increased lower-priced spot sales from the Decker mine. Revenue recognition on previously consummated sales of undivided interests in coal reserves to be mined in the future represented \$40 million of 1992 revenue and \$39 million of 1991 revenue. The gross margin on mining revenue (including coal reserves) approximated 44% in 1992, which is higher than the gross margin in 1991. The 1991 gross margin was unfavorably impacted by certain one-time charges for production taxes and additional reclamation costs, and expenses incurred to repair a dragline.

In 1992, the contracts with Commonwealth Edison Company ("Commonwealth") were renegotiated. Beginning January 1, 1993, the Black Butte mine discontinued coal shipments to Commonwealth. Coal is now purchased from two unaffiliated mines located in the Powder River Basin area of Wyoming and from the Group's Decker mine to satisfy the delivery commitments under the renegotiated Commonwealth agreements. In accordance with the renegotiation, there will be no sales of interests in coal reserves subsequent to January 1, 1993. The Group does not expect that the financial impact of the renegotiation will be material to its mining operations, cash flows, or financial position.

**Telecommunications**

Revenue in 1992 was comprised of 56% network systems integration and facilities management and 44% telecommunications services. Revenue in 1991 was comprised of 38% network systems integration and facilities management and 62% telecommunications services. Network systems integration and facilities management's backlog at December 26, 1992 was \$74 million, of which \$16 million relates to the United Kingdom joint venture and the remainder relates mainly to the State of Iowa project. Revenue increased from \$37 million in 1991 to \$109 million in 1992, representing a 192% increase. Of the increase, 66% was from network systems integration and facilities management. This increase resulted primarily from network systems integration projects in Iowa, Minnesota and the United Kingdom. Telecommunications services accounted for the remaining increase in total revenue. This increase in revenue primarily reflects increased services provided on networks in New York

## KIEWIT DIVERSIFIED GROUP

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

#### **Results of Operations 1992 vs. 1991 (continued)**

##### **Telecommunications (continued)**

City and Dallas which commenced operations in early 1991 and a full year of results for the Washington, D.C. metropolitan area network which was acquired in October 1991. The balance of the increase in telecommunications services revenue resulted from continued market growth of other networks. The Atlanta network became operational during the fourth quarter of 1992, but generated insignificant revenues.

The cost of revenue in 1992 increased 112% compared to 1991. Seventy-three percent of the increase relates to direct costs incurred on network systems integration and facilities management projects for third parties. Another 17% of the increase is due to increased depreciation and amortization expense primarily on the telecommunications networks in Washington, D.C., New York City and Dallas. The balance of the increase relates to an increase in other costs associated directly with network operations; primarily from the Washington, D.C., New York City and Dallas networks. The cost of revenue, as a percentage of total revenue, has decreased from 123% in 1991 to 89% in 1992. This change resulted generally from increased utilization of existing network capacity.

##### **Other Income**

The Group recognized investment income of \$78 million in 1992 and \$89 million in 1991. The decrease in investment income is generally attributable to the collection of various receivables from the sales of the discontinued packaging operations. In 1992, the Group recognized \$11 million of interest on these receivables compared to \$20 million in 1991. Included in 1992 investment income are \$4 million of dividends in kind received from an investment in California Energy Company, Inc. ("California Energy") preferred stock and \$11 million of dividends accrued on an investment in United States Can Company ("U.S. Can") preferred stock which was redeemed in March 1993. Included in 1991 investment income is \$12 million of dividends received from U.S. Can preferred stock. Other Income in 1992 and 1991 also reflects gains on the sales of timberlands of \$5 million and \$3 million, respectively, net equity earnings from an investment in California Energy of \$4 million and \$3 million, respectively, and information services income of \$4 million and \$2 million, respectively. The increase in Other Income in 1992 was partially offset by a decline in market value considered to be other than temporary of \$12 million recorded for two of the Group's marketable securities, one of which was sold in 1993. Generally gains and losses from miscellaneous asset dispositions made up the remaining balance of Other Income.

## KIEWIT DIVERSIFIED GROUP

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

#### **Results of Operations 1992 vs. 1991 (continued)**

##### **Selling and Administrative**

Selling and administrative expenses increased 48% in 1992 as compared to 1991. The increase was primarily due to a \$21 million increase in mine management fees paid to the Construction & Mining Group and increases within the telecommunications operations relating to the development of new telecommunications services. Significant increases in mine management fees are not expected to continue in the future. The new agreement, effective as of the beginning of 1992, provided that the Group pay a percentage of the operating income from mining operations to the Construction & Mining Group.

##### **Interest Expense**

Interest expense in 1992 reflects the anticipated decrease due to the significant reductions during 1991 in both short-term borrowings and long-term debt. All short-term borrowings were repaid in July 1991 and no new borrowings were incurred until December 1992. The Group also redeemed \$150 million of debt in October 1991 and extinguished \$73 million of debt in 1992 with no new material debt incurred since year-end 1991.

##### **Taxes**

The effective income tax rate, with respect to continuing operations before cumulative effect of change in accounting principle, is 24% in 1992 and 46% in 1991. The 1992 rate is lower than the 1991 rate primarily due to nondeductible expenses and prior year tax adjustments in 1991. In both 1992 and 1991, dividend exclusions and mineral depletion expenses reduced the overall effective rate.

##### **Discontinued Packaging Operations**

The gain on disposal of discontinued operations in 1992 resulted from a \$19 million adjustment to prior year tax estimates and an \$8 million payment, net of tax, received from BTR Nylex Limited and a \$1 million accrual, net of tax, relating to additional sales proceeds from the 1990 sale of Continental PET Technologies, Inc. The gain was partially offset by miscellaneous sales adjustments related to the 1991 and 1990 sales of certain discontinued packaging operations. The gain on disposal of discontinued operations in 1991 reflects the sales of the European packaging operations, Continental Can International Corporation, Continental White Cap, Inc. and Continental Plastic Containers, Inc. The significant decrease in 1992 in earnings from discontinued operations is due to the sales of the remaining packaging operations in 1991. Earnings in 1992 reflect the equity earnings from the Company's investment in a plastics joint venture, which was sold to Ball Corporation in July 1992. No significant gain or loss was recognized as a result of this transaction.

## KIEWIT DIVERSIFIED GROUP

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

#### **Financial Condition - December 25, 1993**

The Group's working capital increased \$197 million or 25% to \$993 million in 1993.

During 1993, the Group generated \$196 million in cash from operating activities, an \$87 million increase from the prior year.

The Group's 1993 net investing activities used \$634 million in cash. Net purchases of marketable securities expended \$335 million while capital expenditures for fixed assets and other investments and the acquisition of C-TEC accounted for \$139 million and \$146 million of cash outlays, respectively. These investments were necessary to support existing operations and develop opportunities for future growth.

In 1993, the Group generated \$370 million in cash from financing activities. The Group raised \$451 million in cash from the sale of 17.3 million shares of MFS' common stock in two public offerings. The net proceeds will fund MFS growth. The Group also raised \$8 million in cash from the sale of Class D common stock and \$26 million in cash from the net exchange of Class B&C stock for Class D stock, to be used for general corporate purposes.

Financing activities requiring cash during 1993 consisted of dividends of \$17 million, stock repurchased of \$40 million, and short-term borrowing repayments of \$80 million. Throughout 1993, the Group borrowed funds to meet short-term liquidity needs. All borrowings were repaid. During 1993, the Group collected \$110 million related to notes receivable from sales of discontinued operations.

The Group's working capital position at the end of 1993, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for 1994 cash requirements. It is expected that C-TEC will be able to independently finance its working capital and investment requirements in 1994.

The Group anticipates that it will invest between \$5 million and \$10 million annually in its mining business, make significant investments in its energy business - including its joint venture agreement with California Energy covering international power project development activities - and searching for opportunities to acquire capital intensive operating businesses which provide for long-term growth. Investigation of other investment opportunities continues.

These investments, along with the payment of income taxes and repurchases of common stock will be the significant long-term uses of liquidity. The Group's existing cash and cash equivalents, marketable securities, cash flows from future operations and existing borrowing capacity are expected to fund these expenditures.

## KIEWIT DIVERSIFIED GROUP

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

#### **Financial Condition - December 25, 1993**

MFS requires significant capital to fund future building, expansion or acquisition of communications networks in major metropolitan areas. In January 1994, MFS issued \$500 million of Senior Discount Notes due in 2004. In June 1993, MFS entered into a secured revolving credit agreement in the amount of \$75 million. The indenture pursuant to which the Senior Discount Notes were issued permits MFS to have a \$150 million secured credit facility. These transactions will provide liquidity to fund future expansion, including the proposed acquisition of Centex Telemanagement, Inc., for net consideration of approximately \$150 million, announced by MFS on March 16, 1994. MFS may fund future capital expenditures and acquisitions through additional issuances of debt and equity securities. MFS intends to invest \$250 million in 1994 and in excess of \$1 billion over the next five years to expand its networks to an additional 55 markets.

In July 1993, financing was approved to construct a 10-mile privately-owned toll road in southern California. The Group has a 65% interest in this project. Management expects \$107 million of third party debt to be incurred by the project's completion in 1995.

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