

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 08/14/97 for the Period Ending 06/30/97

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

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| Address | 1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021 |
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| CIK | 0000794323 |
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| Sector | Services |
| Fiscal Year | 12/31 |

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 1997

or

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

Commission file number 0-15658

PETER KIEWIT SONS', INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

68131
(Zip Code)

(402)-342-2052

(Registrant's telephone number,
including area code)

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

The number of shares outstanding of each class of the issuer's common stock, as of August 1, 1997:

| | |
|----------------------------|-------------------|
| Class C Common Stock | 10,088,879 shares |
| Class D Common Stock | 24,575,825 shares |

PETER KIEWIT SONS', INC.

Part I - Financial Information

Item 1. Financial Statements:

Consolidated Condensed Statements of Earnings

Consolidated Condensed Balance Sheets Consolidated Condensed Statements of Cash Flows Notes to Consolidated Condensed Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Part II - Other Information****Item 4. Submission of Matters to a Vote of Security Holders****Item 6. Exhibits and Reports on Form 8-K****Signatures****Index to Exhibits****PETER KIEWIT SONS', INC.****Consolidated Condensed Statements of Earnings**
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------|------------------------------|----------|
| (dollars in millions, except per share data) | 1997 | 1996 | 1997 | 1996 |
| Revenue | \$ 735 | \$ 718 | \$ 1,381 | \$ 1,363 |
| Cost of Revenue | (595) | (598) | (1,143) | (1,159) |
| | ----- | ----- | ----- | ----- |
| | 140 | 120 | 238 | 204 |
| General and Administrative Expenses | (77) | (63) | (153) | (125) |
| | ----- | ----- | ----- | ----- |
| Operating Earnings | 63 | 57 | 85 | 79 |
| Other Income (Expense): | | | | |
| Equity Earnings, net | 15 | 3 | 20 | 3 |
| Investment Income, net | 13 | 18 | 27 | 37 |
| Interest Expense, net | (12) | (8) | (20) | (15) |
| Other, net | 7 | 9 | 20 | 14 |
| | ----- | ----- | ----- | ----- |
| | 23 | 22 | 47 | 39 |
| | ----- | ----- | ----- | ----- |
| Earnings Before Income Taxes and Minority Interest | 86 | 79 | 132 | 118 |
| Provision for Income Taxes | (33) | (32) | (50) | (46) |
| Minority Interest in Net Loss (Income) of Subsidiaries | 3 | (1) | 9 | (1) |
| | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 56 | \$ 46 | \$ 91 | \$ 71 |
| | ===== | ===== | ===== | ===== |
| Earnings Attributable to Class B&C Stock | \$ 35 | \$ 29 | \$ 50 | \$ 36 |
| | ===== | ===== | ===== | ===== |
| Earnings Attributable to Class D Stock | \$ 21 | \$ 17 | \$ 41 | \$ 35 |
| | ===== | ===== | ===== | ===== |
| Primary Earnings per Share: | | | | |
| Class B&C | \$ 3.70 | \$ 2.79 | \$ 5.34 | \$ 3.46 |
| | ===== | ===== | ===== | ===== |
| Class D | \$.87 | \$.77 | \$ 1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |
| Fully Diluted Earnings per Share: | | | | |
| Class B&C | \$ 3.55 | \$ 2.70 | \$ 5.13 | \$ 3.36 |
| | ===== | ===== | ===== | ===== |
| Class D | \$.87 | \$.77 | \$ 1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |
| Cash Dividends per Common Share: | | | | |
| Class B&C | \$.70 | \$.60 | \$.70 | \$.60 |
| | ===== | ===== | ===== | ===== |
| Class D | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

| | June 30, 1997 | December 28, 1996 |
|--|------------------|----------------------|
| (dollars in millions, except per share data) (unaudited) | | |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 388 | \$ 320 |
| Marketable securities | 368 | 426 |
| Restricted securities | 24 | 25 |
| Receivables, less allowance of \$18 and \$20 | 421 | 357 |
| Costs and earnings in excess of billings on uncompleted contracts | 95 | 80 |
| Investment in construction joint ventures | 113 | 91 |
| Deferred income taxes | 65 | 59 |
| Other | 50 | 45 |
| | ----- | ----- |
| Total Current Assets | 1,524 | 1,403 |
| Property, Plant and Equipment, less accumulated depreciation and amortization of \$812 and \$744 | 872 | 807 |
| Investments | 946 | 900 |
| Intangible Assets, net | 393 | 368 |
| Other Assets | 70 | 72 |
| | ----- | ----- |
| | \$3,805 | \$3,550 |
| | ===== | ===== |

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

| | June 30, 1997 | December 28, 1996 |
|---|------------------|----------------------|
| (dollars in millions, except per share data) (unaudited) | | |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 227 | \$ 235 |
| Current portion of long-term debt: | | |
| Telecommunications | 11 | 55 |
| Other | 3 | 2 |
| Accrued costs and billings in excess of revenue on uncompleted contracts | 193 | 124 |
| Accrued insurance costs | 85 | 81 |
| Other | 142 | 140 |
| | ----- | ----- |
| Total Current Liabilities | 661 | 637 |
| Long-Term Debt, less current portion: | | |
| Telecommunications | 244 | 207 |
| Other | 149 | 125 |
| Deferred Income Taxes | 227 | 163 |
| Retirement Benefits | 47 | 48 |
| Accrued Reclamation Costs | 102 | 99 |
| Other Liabilities | 231 | 234 |
| Minority Interest | 218 | 218 |
| Stockholders' Equity: | | |
| Preferred stock, no par value, authorized 250,000 shares: no shares outstanding | - | - |

| | | |
|---|----------|---------|
| Common stock, \$.0625 par value, \$1.7 billion aggregate redemption value: | | |
| Class B, authorized 8,000,000 shares: | | |
| -0- outstanding in 1997 and 263,468 in 1996 | - | - |
| Class C, authorized 125,000,000 shares: | | |
| 10,093,635 outstanding in 1997 and 10,743,173 in 1996 | 1 | 1 |
| Class D, authorized 50,000,000 shares: | | |
| 24,575,825 outstanding in 1997 and 23,219,744 in 1996 | 1 | 1 |
| Additional paid-in capital | 273 | 235 |
| Foreign currency adjustment | (8) | (7) |
| Net unrealized holding gain | 10 | 23 |
| Retained earnings | 1,649 | 1,566 |
| | ----- | ----- |
| Total Stockholders' Equity | 1,926 | 1,819 |
| | ----- | ----- |
| | \$ 3,805 | \$3,550 |
| | ===== | ===== |

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows (unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|--------|
| (dollars in millions) | 1997 | 1996 |
| Cash flows from operations: | | |
| Net cash provided by operations | \$ 175 | \$ 137 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of marketable securities | 186 | 194 |
| Purchases of marketable securities | (124) | (156) |
| Change in restricted securities | 2 | 2 |
| Proceeds from sale of property, plant and equipment, and other investments | 26 | 20 |
| Capital expenditures | (132) | (80) |
| Acquisitions and investments, net | (89) | (86) |
| Other | - | 2 |
| | ----- | ----- |
| Net cash used in investing activities | (131) | (104) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt borrowings | 18 | 11 |
| Payments on long-term debt, including current portion | (7) | (17) |
| Net change in short-term borrowings | - | (45) |
| Repurchases of common stock | (1) | (15) |
| Dividends paid | (25) | (25) |
| Issuance of common stock | 39 | 27 |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 24 | (64) |
| | ----- | ----- |
| Net change in cash and cash equivalents | 68 | (31) |
| Cash and cash equivalents at beginning of period | 320 | 457 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 388 | \$ 426 |
| | ===== | ===== |

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

1. Basis of Presentation

The consolidated condensed balance sheet of Peter Kiewit Sons', Inc. ("PKS") and subsidiaries (the "Company") at December 28, 1996 has

been condensed from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position and results of operations for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 28, 1996.

Receivables at June 30, 1997 and December 28, 1996 include approximately \$72 million and \$86 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year. Included in the retainage amounts are \$32 million and \$53 million of securities which are being held by the owners of various construction projects in lieu of retainage.

The results of operations for the six months ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year.

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

2. Earnings Per Share:

Primary and fully diluted earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period after giving effect to common stock equivalents and other dilutive securities. The number of shares used in computing earnings per share was as follows:

| Three Months Ended | | Six Months Ended | |
|--------------------|------|------------------|------|
| June 30, | | June 30, | |
| 1997 | 1996 | 1997 | 1996 |

Primary earnings per share:

Class B&C 9,301,036 10,353,305 9,307,834 10,305,087 Class D 24,579,927 23,205,830 24,544,153 23,221,026

Fully diluted earnings per share:

Class B&C 9,737,869 10,712,305 9,744,667 10,664,087 Class D 24,579,927 23,205,830 24,544,153 23,221,026

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share". The statement establishes standards for computing and presenting earnings per share and requires the restatement of prior period earnings per share data presented. This statement is effective for financial statements issued for periods ending after December 15, 1997 and earlier application is not permitted. Basic and diluted earnings per share, as defined in SFAS No. 128, are not expected to vary significantly from the primary and fully diluted earnings per share shown on the consolidated statements of earnings.

3. Summarized Financial Information:

Holders of Class B&C Stock (Construction & Mining Group) and Class D Stock (Diversified Group) are stockholders of PKS. The Construction & Mining Group ("KCG") contains the Company's construction and materials operations of Kiewit Construction Group Inc. The Diversified Group ("KDG") contains coal mining properties owned by Kiewit Coal Properties Inc., energy investments, including 30% interests in CalEnergy Company, Inc. ("CalEnergy") and CE Electric UK, plc ("CE Electric"), investments in international energy projects, communications companies owned by C-TEC Corporation ("C-TEC"), California Private Transportation Company, L.P. ("CPTC"), the owner-operator of the SR91 toll road in California, an information services business and miscellaneous investments, all owned by Kiewit Diversified Group Inc. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the two groups.

A summary of the results of operations and financial position for the Construction & Mining Group and the Diversified Group follows. The summary information for December 28, 1996 was derived from the audited financial statements of the respective groups which were exhibits to the 1996 Form 10-K. All other summary information was derived from the unaudited financial statements of the respective groups which are exhibits to this Form 10-Q. All significant intercompany accounts and transactions, except those directly between the Construction & Mining Group and the Diversified Group, have been eliminated.

(in millions, except per share data)

Construction & Mining Group:

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|--------|------------------|---------|
| | June 30, | | June 30, | |
| | 1997 | 1996 | 1997 | 1996 |
| Results of Operations: | | | | |
| Revenue | \$ 569 | \$ 570 | \$ 1,047 | \$1,072 |
| Net earnings | 35 | 29 | 50 | 36 |
| Primary earnings per share | 3.70 | 2.79 | 5.34 | 3.46 |
| Fully diluted earnings per share | 3.55 | 2.70 | 5.13 | 3.36 |

| | June 30, 1997 | December 28, 1996 |
|--------------------------------------|------------------|----------------------|
| Financial Position: | | |
| Working capital | \$ 324 | \$ 367 |
| Total assets | 1,117 | 1,042 |
| Long-term debt, less current portion | 16 | 12 |
| Stockholders' equity | 559 | 562 |

Included within the results of operations are mine management fees paid by the Diversified Group of \$7 million and \$8 million for the three months ended June 30, 1997 and 1996 and \$16 million and \$15 million for the six months ended June 30, 1997 and 1996.

(in millions, except per share data)

| Diversified Group: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|--------------------------------|--------|------------------------------|----------------------|
| | 1997 | 1996 | 1997 | 1996 |
| Results of Operations: | | | | |
| Revenue | \$ 179 | \$ 162 | \$ 355 | \$ 317 |
| Net earnings | 21 | 17 | 41 | 35 |
| Primary earnings per share | .87 | .77 | 1.67 | 1.54 |
| Fully diluted earnings per share | .87 | .77 | 1.67 | 1.54 |
| Financial Position: | | | June 30, 1997 | December 28, 1996 |
| Working capital | | | \$ 539 | \$ 399 |
| Total assets | | | 2,715 | 2,528 |
| Long-term debt, less current portion | | | 377 | 320 |
| Stockholders' equity | | | 1,367 | 1,257 |

Included within the results of operations are mine management fees paid to the Construction & Mining Group of \$7 million and \$8 million for the three months ended June 30, 1997 and 1996 and \$16 million and \$15 million for the six months ended June 30, 1997 and 1996.

4. Acquisitions:

In 1996, C-TEC purchased 80% of Freedom New York, L.L.C. ("Freedom"). Freedom provides subscription television services using microwave frequencies in New York City and selected areas of New Jersey. In March 1997, C-TEC paid \$40 million (including \$10 million of non-capitalizable costs) in connection with a series of transactions which resulted in C-TEC having a 100% ownership interest in the assets of Freedom. The acquisition was accounted for as a purchase. The purchase price (net of non-capitalizable costs) exceeded the fair value of net assets acquired by \$25 million, which is recognized as goodwill and is being amortized over approximately 6 years.

On December 24, 1996, CE Electric which is 70% owned indirectly by CalEnergy and 30% owned indirectly by KDG, acquired majority ownership of the outstanding ordinary share capital of Northern Electric plc ("Northern") pursuant to a tender offer (the "Tender Offer") commenced in the United Kingdom by CE Electric on November 5, 1996. As of March 18, 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

As of June 30, 1997, CalEnergy and KDG had contributed to CE Electric approximately \$410 million and \$176 million, respectively, of the approximately \$1.3 billion required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The remaining funds necessary to consummate the Tender Offer were provided by a term loan (\$921 million) and revolving facility agreement obtained by CE Electric. KDG has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax will be 23% of the difference between the value at the time of privatization and the utility's current value based on profits over a period of up to four years. At the time of acquisition, CE Electric accounted for the potential tax as a purchase accounting contingent liability. However, the Securities and Exchange Commission has subsequently permitted an acquiring company, in a similar situation, to account for the tax as a one-time charge. CE Electric will take a charge of approximately \$200 million when the tax is enacted. The total impact to the Company, directly through its investment in CE Electric and indirectly through its investment in CalEnergy, is expected to approximate \$85 million.

On April 18, 1997, KCG and a partner each invested \$15 million to acquire a 96% interest in Oak Mountain Energy L.L.C. ("Oak Mountain"). Oak Mountain then acquired the existing assets of an underground coal mine in Alabama for approximately \$18 million and assumed approximately \$14 million of related liabilities. Oak Mountain intends to use the remaining cash and \$30 million of nonrecourse bank borrowings to retire the existing debt and further develop and modernize the mine. Oak Mountain's results are consolidated with those of the Company on a pro-rata basis since the date of acquisition. The coal mine's results of operations prior to the acquisition were not significant relative to the Company's results.

5. Investments:

The Company is able to defer \$40 million of taxable gain with respect to the 1995 Whitney Benefits litigation settlement by investing in real estate. In February 1997, KDG purchased an office building in Aurora, Colorado for \$22 million. KDG may make additional real estate investments to defer the remaining balance. On June 30, 1997, KDG closed a \$16 million financing agreement with Metropolitan Life Insurance Company. The 15 year note is collateralized by the Aurora property and carries an interest rate of 8.38%.

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

The Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. ("HECC"), (together, "Contractors"), both of which are South Korean corporations. Hanbo Corporation and HECC are under common ownership. The Contractor's obligations under the construction contract ("Hanbo Contract") are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractor's obligations are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of \$118 million. During the first quarter of 1997 Hanbo Corporation, HECC and Hanbo Steel each filed to seek bankruptcy protection in South Korea and KFB's credit rating was downgraded because of the substantial loans it made to Hanbo Steel.

On May 7, 1997, Casecnan announced that it had terminated the Hanbo Contract and had entered into a new engineer, procure and construct contract to complete the construction of the project (the "Replacement Contract"). The work under the Replacement Contract will be conducted by a consortium of contractors and subcontractors including Siemens A.G., Sulzer Hydro Ltd., Black & Veatch and Colenco Power Engineering Ltd., and will be headed by Cooperativa Muratori Cementista CMC di Ravenna and Impresa Pizzarotti & C. Spa. The Hanbo Contract was terminated because of events of default under that contract including the fact that the Contractors had filed for court receivership protection in South Korea. In connection with the contract termination, Casecnan made a \$79 million draw request under the letter of credit issued by KFB to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request and Casecnan filed suit in New York State court. KFB funded, pursuant to a court order, the \$79 million into an interest bearing account at an independent financial institution in the United States. This matter is still unresolved. If KFB should fail to honor its obligations under the letter of credit, such action may have a material adverse effect on the Casecnan project. However, based on information available, KDG does not currently believe its investment is impaired.

The Company and CalEnergy have agreed to jointly develop and construct geothermal power facilities at the Dieng and Patuha sites in Indonesia. Dieng Unit 1 is being constructed and is expected to be placed in commercial operation later this year. An additional five units are expected to be constructed on a modular basis as the geothermal resources are developed. On June 12, 1997, the Company and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to the Company.

6. C-TEC Restructuring:

In February 1997, C-TEC announced a plan to separate its operations along business lines into three separate, publicly traded companies:

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

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

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

The restructuring should permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring will allow C-TEC to raise capital on the most efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million. C-TEC intends to use these credit facilities to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

On June 18, 1997, C-TEC received approval by the Internal Revenue Service to conduct the tax-free spin-off of Cable Michigan and RCN Corporation. While it is anticipated the proposed restructuring will occur by the fourth quarter, the spin-offs are subject to receipt of other regulatory approvals and certain other conditions. If the reorganization and spin-offs occur, KDG will own less than 50% of the outstanding shares and voting rights of each entity, and will therefore account for each entity using the equity method for all of 1997.

On May 12, 1997, C-TEC announced that it had proposed to acquire the 38% of the common stock of Mercom Inc. ("Mercom") not currently owned by it in exchange for 8.75% of the common stock of Cable Michigan. The proposed exchange ratio is based on the assumption that Cable Michigan will have \$125 million of debt outstanding at the time of the transaction.

The proposal is subject to certain conditions, including the consummation of C-TEC's restructuring and the receipt of all required regulatory approvals. On June 23, 1997, C-TEC announced that due to the earlier than anticipated IRS approval of its own restructuring, it was suspending discussions with Mercom until after its restructuring was complete. C-TEC reserves the right to withdraw its proposal at any time prior to the execution of a definitive agreement. There can be no assurance as to the terms of any transaction or that any transaction will take place.

The following is financial information of the Company had C-TEC been accounted for utilizing the equity method in the consolidated condensed financial statements as of June 30, 1997, and December 28, 1996 and for the three and six months ended June 30, 1997 and 1996.

| (dollars in millions) | June 30, 1997 | December 28, 1996 |
|--|------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 330 | \$ 244 |
| Marketable securities | 364 | 379 |
| Restricted securities | 24 | 25 |
| Receivables, less allowance of \$15 and \$17 | 370 | 315 |
| Costs and earnings in excess of billings on uncompleted contracts | 95 | 80 |
| Investment in construction joint ventures | 113 | 91 |
| Deferred income taxes | 55 | 49 |
| Other | 38 | 32 |
| | ----- | ----- |
| Total Current Assets | 1,389 | 1,215 |
| Property, Plant and Equipment, net | 377 | 339 |
| Investments | 1,211 | 1,166 |
| Intangible Assets, net | 45 | 38 |
| Other Assets | 44 | 47 |
| | ----- | ----- |
| | \$ 3,066 | \$ 2,805 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 191 | \$ 197 |
| Current portion of long-term debt | 3 | 2 |
| Accrued costs and billings in excess of revenue on uncompleted contracts | 180 | 112 |
| Accrued insurance costs | 85 | 81 |
| Other | 76 | 78 |
| | ----- | ----- |
| Total Current Liabilities | 535 | 470 |
| Long-Term Debt, less current portion | 149 | 125 |
| Deferred Income Taxes | 128 | 62 |
| Retirement Benefits | 45 | 45 |
| Accrued Reclamation Costs | 102 | 99 |
| Other Liabilities | 179 | 181 |
| Minority Interest | 2 | 4 |
| | ----- | ----- |
| Total Stockholders' Equity | 1,926 | 1,819 |
| | ----- | ----- |
| | \$ 3,066 | \$ 2,805 |
| | ===== | ===== |

| (dollars in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|----------|
| | 1997 | 1996 | 1997 | 1996 |
| Revenue | \$ 637 | \$ 625 | \$ 1,187 | \$ 1,180 |
| Cost of Revenue | (524) | (534) | (1,004) | (1,035) |
| | ----- | ----- | ----- | ----- |
| | 113 | 91 | 183 | 145 |
| General and Administrative Expenses | (48) | (42) | (89) | (82) |
| | ----- | ----- | ----- | ----- |
| Operating Earnings | 65 | 49 | 94 | 63 |
| Other Income (Expense): | | | | |
| Equity Earnings, net | 10 | (2) | 11 | (2) |
| Investment Income, net | 11 | 15 | 22 | 30 |
| Interest Expense, net | (5) | (3) | (8) | (3) |
| Other, net | 6 | 13 | 20 | 20 |
| | ----- | ----- | ----- | ----- |
| | 22 | 23 | 45 | 45 |
| | ----- | ----- | ----- | ----- |
| Earnings Before Income Taxes and Minority Interest | 87 | 72 | 139 | 108 |

| | | | | |
|--|-------|-------|-------|-------|
| Provision for Income Taxes | (32) | (28) | (50) | (39) |
| Minority Interest in Net Loss of Subsidiaries | 1 | 2 | 2 | 2 |
| | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 56 | \$ 46 | \$ 91 | \$ 71 |
| | ===== | ===== | ===== | ===== |

| | Six Months Ended June 30, | |
|---|------------------------------|--------|
| (dollars in millions) | 1997 | 1996 |
| Cash flows from operations: | | |
| Net cash provided by operations | \$ 145 | \$ 105 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of marketable securities | 142 | 76 |
| Purchases of marketable securities | (124) | (104) |
| Change in restricted securities | 3 | 2 |
| Proceeds from sale of property, plant and equipment, and other investments | 26 | 20 |
| Capital expenditures | (74) | (53) |
| Acquisitions and investments, net | (61) | (103) |
| Other | - | 1 |
| | ----- | ----- |
| Net cash used in investing activities | (88) | (161) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt borrowings | 18 | 11 |
| Payments on long-term debt including current portion | (2) | (5) |
| Net change in short-term borrowings | - | (45) |
| Repurchases of common stock | (1) | (15) |
| Dividends paid | (25) | (24) |
| Issuance of common stock | 39 | 27 |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 29 | (51) |
| | ----- | ----- |
| Net change in cash and cash equivalents | 86 | (107) |
| Cash and cash equivalents at beginning of period | 244 | 408 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 330 | \$ 301 |
| | ===== | ===== |

7. Other Matters:

On June 19, 1997, James Q. Crowe was appointed President and CEO of Kiewit Diversified Group Inc. Mr. Crowe assumed the position previously held by Richard R. Jaros, who will continue to serve on the PKS Board of Directors. Mr. Crowe was the Chairman and CEO of MFS Communications Company until December 31, 1996, when the company was purchased by WorldCom, Inc. MFS was a subsidiary of the Company until September 1995, when it was spun-off and became an independent, publicly owned corporation.

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

PETER KIEWIT SONS', INC.

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

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

Results of Operations- Second Quarter 1997 vs. Second Quarter 1996

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

1997

1996

| | | |
|--------------------|--------|--------|
| Construction | \$ 569 | \$ 570 |
| Coal Mining | 54 | 58 |
| Telecommunications | 98 | 93 |
| Other | 27 | 11 |
| Eliminations | (13) | (14) |
| | ----- | ----- |
| | \$ 735 | \$ 718 |
| | ===== | ===== |

Construction. KCG's construction operations can be separated into two components; construction and materials. Revenue for the construction business was down 3% to \$494 million compared to \$510 million in 1996. The decline is due to several large projects being in the start-up phase and the substantial completion of the San Joaquin toll road project at the end of 1996. Although construction revenue was down, materials revenue increased 25% due to the strong demand for aggregates in the Arizona market.

Contract backlog at June 30, 1997 was \$3.5 billion of which 4% is attributable to foreign operations located in Canada and Indonesia. Domestic projects are spread geographically throughout the United States. Included in backlog is \$755 million for the "I-15" project awarded in late March. Kiewit is the sponsoring partner on the design-build joint venture reconstructing 16 miles of Interstate 15 through the Salt Lake City area. The project is expected to be completed in 2001.

Margins on construction projects for the second quarter of 1997 increased to 13% compared to 10% for the same period in 1996. The recognition of additional revenue from San Joaquin toll road was the primary factor contributing to the increase. Material margins, as a percentage of revenue, in 1997 were unchanged from 1996.

Mining. Mining revenue declined 7% in the second quarter of 1997 compared to the same period in 1996. Commonwealth Edison Company ("Commonwealth") has the flexibility under the amended contract to accelerate or defer delivery of alternate source coal provided it accepts delivery of the aggregate minimum commitment at the end of each year. In early 1996, alternate source coal shipments fell below minimum levels. These shortfalls were partially made up in the second quarter of 1996. In 1997, the opposite scenario occurred. Commonwealth took delivery of more coal in the first quarter than the second quarter. Partially offsetting the decline in alternate source coal sales were additional spot sales to utilities in the northwestern United States.

Cost as a percentage of revenue for the coal mining operations in the second quarter of 1997 was consistent with that of the prior year. A spot market customer bought out a portion of its contract by making a payment equivalent to 60% of the price of coal. These proceeds, with no corresponding costs, offset the decline in higher margin alternate coal sales.

Telecommunications. The telecommunications segment is comprised of C-TEC's telephone, cable and RCN groups. Due to the receipt of the IRS approval to spin-off Cable Michigan and RCN, C-TEC has reclassified these businesses as discontinued operations and has recognized, in the second quarter, their estimated losses through the projected spin-off date. KDG's equity ownership in all three businesses will remain at approximately 48% at the spin-off date. Therefore, KDG will continue to reflect the operations of Cable Michigan and RCN as continuing operations and has not accrued the estimated losses of these businesses through the spin-off date.

Telecommunications revenue for the Company increased \$5 million or 5% for the three months ended June 30, 1997 compared to the same period in 1996. The telephone group's revenue was essentially unchanged in 1997. Higher local network service revenue, and interstate and intrastate access revenue were primarily offset by a decline in construction revenue from the communications services business. The communications services business is continually subject to fluctuations due to its nonrecurring revenue streams, market conditions and the effect of competition on margins. As of June 30, 1997, the business had minimal backlog and does not anticipate a significant change in the foreseeable future. Sales for the cable group increased \$5 million or 12% in 1997. The increase is attributable to higher basic service revenue resulting from additional subscribers during the period and the effects of a rate increase implemented during the first quarter of 1997. RCN's revenue increased to \$3 million in the second quarter of 1997. An increase of subscribers in the Boston and New York markets is responsible for the increase.

Telecommunications cost of sales increased 11% in the second quarter of 1997. Expenses for the telephone group remained level with those of the same period in 1996 as increases in advertising, information systems services expenses and the costs associated with the development of a competitive local telephone effort were substantially offset by lower materials costs associated with the video conferencing sales and lower construction costs of the communications services business resulting from the decline in sales. The cable group's costs increased 10% in 1997. The increase is primarily attributable to higher basic programming costs, resulting from higher programming rates, additional channels and additional subscribers. The costs associated with the development of new business in New York and Boston, primarily personnel, advertising and programming, resulted in a \$7 million increase in RCN's costs.

General and Administrative Expenses. General and administrative expenses increased 23% in the second quarter of 1997 compared to the same period in 1996. The expenses of Freedom and the professional fees incurred by C-TEC for its restructuring were the primary factors for the increase. Also contributing to the increase were general and administrative expenses associated with the growing information services business.

Equity Earnings, net. Equity earnings increased significantly in 1997. KDG's proportionate share of CalEnergy's earnings increased \$5 million in the second quarter of 1997 to \$9 million. The conversion of CalEnergy debentures to common stock and the exercising of options increased the Company's ownership interest in CalEnergy from 23% at June 30, 1996 to 30% at June 30, 1997. CalEnergy's earnings also increased primarily due to the completion and commencement of operations in the Salton Sea Unit IV and two Philippine geothermal facilities, the

purchase of three cogeneration facilities and the acquisition of Northern Electric, all of which occurred in the last half of 1996. In addition to contributing to CalEnergy's earnings, KDG's proportionate share of Northern Electric also provided \$6 million of income. Partially offsetting these gains were losses attributable to the Casecnan project. The Casecnan loss during construction results from the variance in borrowing and investing interest rates on the funds generated by the project's debt offering in 1995.

Investment Income, net. The decline in investment income is attributable to a reduction of interest income, due to a smaller average portfolio balance and the conversion of CalEnergy debentures into common stock in September 1996, and a decline in gains on the disposal of marketable and equity securities.

Interest Expense, net. Interest expense increased from \$8 million in 1996 to \$12 million in 1997. Interest of \$2 million was capitalized by CPTC in 1996 due to the construction of the SR91 toll road. Due to the commencement of operations, interest of \$3 million was charged against earnings in 1997.

Other, net. Other income declined slightly in 1997. Gains on the disposal of property, plant and equipment declined in the second quarter of 1997 to \$5 million from \$8 million in the same period in 1996. This decline was partially offset by an increase in other miscellaneous income.

Provision for Income Taxes. The effective income tax rate for the second quarter of 1997 and 1996 differs from the expected statutory rate of 35% primarily due to the state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. C-TEC's losses, primarily due to the development of the RCN business and restructuring expenses, and the losses associated with the SR91 toll road, resulted in the increased losses attributable to minority shareholders.

Results of Operations - Six Months 1997 vs. Six Months 1996

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

| | 1997 | 1996 |
|--------------------|----------|----------|
| Construction | \$ 1,047 | \$ 1,072 |
| Coal Mining | 115 | 111 |
| Telecommunications | 194 | 183 |
| Other | 46 | 23 |
| Eliminations | (21) | (26) |
| | ----- | ----- |
| | \$ 1,381 | \$ 1,363 |
| | ===== | ===== |

Construction. Total revenue for the construction segment for the six months ended June 30, 1997 decreased \$25 million or 2% compared to the same period in 1996. Revenue for the construction business was down 4% to \$918 million compared to \$961 million in 1996. The decline is due to several large projects being in the start-up phase and the substantial completion of the San Joaquin toll road project at the end of 1996. Although construction revenue was down, materials revenue increased 16% due to the strong demand for aggregates in the Arizona market.

Margins on construction projects for the first six months of 1997 increased to 10% compared to 8% for the same period in 1996. Claim settlements received in the first quarter of 1997 and the recognition of additional revenue from San Joaquin toll road were the primary factors contributing to the increase. Materials margins in 1997 were consistent with those of 1996.

Mining. Coal sales increased 4% during the first half of 1997. Additional spot coal sales, partially due to a decline in hydroelectric power generated in the northwestern United States, and additional contract sales to Mississippi Power were primarily responsible for the increase in revenue.

Operating costs as a percentage of revenue were virtually unchanged from the same period in 1996. The increase in lower margin contract and spot sales was substantially offset by the proceeds from the partial buy-out of a spot sales contract.

Telecommunications. The Company's telecommunications revenue increased 6% to \$194 million for the six months ended June 30, 1997 compared to the same period in 1996. Sales for the telephone group were consistent with that of the prior year. A decline in revenue from the communications services business was substantially offset by increases in higher local network service revenue, interstate and intrastate access revenue, and internet access revenue. Sales for the cable group increased 9% to \$79 million for the period. The increase is primarily attributable to higher basic service revenue resulting from additional subscribers and the effects of a rate increase implemented during the first quarter of 1997. RCN's revenue increased \$5 million to \$6 million for the first half of 1997. This increase is due to additional subscribers in the Boston and New York markets.

The cost of revenue for the Company's telecommunications segment increased 12% in 1997. The costs associated with the development of a competitive local telephone effort in 1997 and the positive effect of a one-time postemployment benefit adjustment in 1996 were primarily responsible for the 5% increase in the telephone group's cost of revenue. Partially offsetting these items was a decline in costs for the communications services business resulting from a decrease in sales. The cable group's costs increased 9% for the six months ended June 30,

1997. The increase is primarily due to higher basic programming costs. The development of the New York and Boston markets resulted in an \$11 million increase in costs for RCN during the period. The most significant increases occurred in personnel related costs, origination and programming costs and advertising expenses.

General and Administrative Expenses. General and administrative expenses increased 22% in 1997. The expenses of Freedom, acquired by C-TEC in 1996, and certain non capitalized costs of \$10 million incurred in connection with the March 1997 transactions with Freedom's minority shareholders, and the professional fees incurred for C-TEC's restructuring were primarily responsible for the higher costs. Also contributing to the increase was additional costs associated with KDG's growing information services business.

Equity Earnings, net. Equity earnings increased significantly in 1997. KDG's proportionate share of CalEnergy's earnings increased \$10 million in 1997 to \$16 million. An increase in the Company's share of CalEnergy's earnings and improvements in those earnings, primarily due to the commencement of operations of additional geothermal facilities, the acquisitions of three cogeneration facilities and Northern Electric. KDG's share of Northern Electric provided \$9 million of income. Partially offsetting these gains were losses attributable to the Casecnan project.

Investment Income, net. Investment income declined 27% in 1997. The conversion of CalEnergy convertible debentures into common stock, a reduction in the average portfolio balance due to significant investments in CE Electric and the RCN businesses and a decline in the gains recognized on sales of securities, all contributed to reduction in investment income.

Interest Expense, net. Interest expense increased in 1997 to \$20 million from \$15 million in 1996. Through June 1996 and 1997, CPTC incurred \$4 million and \$5 million of interest on its long-term debt. In 1996 the interest was capitalized due to the construction of the SR91 toll road. In 1997 the interest was charged against earnings.

Other, net. Other income is primarily comprised of gains and losses on the sale and disposition of property, plant and equipment and other assets. Increased income from the sale of operating assets, and the absence of a one-time charge for C-TEC's write-off of regulatory assets, led to the increase in other income.

Provision for Income Taxes. The effective income tax rate for 1997 and 1996 differs from the expected statutory of 35% primarily due to the state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. C-TEC's losses, primarily due to the development of the RCN business, certain non-capitalized costs incurred in connection with the March 1997 transactions with Freedom's minority shareholders and restructuring expenses, and the losses associated with the SR91 toll road, resulted in the increased losses attributable to minority shareholders.

Financial Condition - June 30, 1997 vs. December 28, 1996

Excluding C-TEC, described in a separate paragraph below, The Company's working capital increased \$109 million or 15% during the first six months of 1997. The increase was mainly due to cash provided by operations, including \$93 million of tax refunds, and financing activities. The increase was offset by cash used to fund investing activities.

Investing activities include \$61 million of investments, and \$74 million of capital expenditures, including \$62 million for construction equipment and \$8 million for the information services business. The investments primarily include KDG's \$5 million investment in a Philippine power project, \$14 million investment in three Indonesian power projects, \$22 million for a real estate investment and KCG's \$15 million investment in Oak Mountain. These capital outlays were partially offset by \$17 million of net proceeds from the sale of marketable securities and \$26 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$34 million and \$5 million for the issuance of Class C Stock and Class D Stock, and \$16 million and \$2 million of long-term debt borrowing to finance KDG's real estate investment and to modernize KCG's Oak Mountain mine. Financing uses primarily consisted of \$13 million of Class C dividends and \$12 million of Class D dividends.

C-TEC's working capital decreased slightly in 1997. The series of transactions with Freedom's minority shareholders for \$40 million, \$61 million of capital expenditures to expand the RCN, cable and telephone networks, and \$7 million to repay long-term debt and preferred dividends were partially funded by the sale of marketable securities of \$43 million.

The Company also anticipates making significant investments in its construction, telecommunications and energy businesses - including its joint venture agreement with CE covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchasing the Company's stock. The Company's current financial condition and borrowing capacity should be sufficient for immediate operating and investing activities.

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

The Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. ("HECC"), (together, "Contractors"), both of which are South Korean corporations. Hanbo Corporation and HECC are under common ownership. The Contractor's obligations under the construction contract ("Hanbo Contract") are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractor's obligations are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of \$118 million. During the first quarter of 1997 Hanbo Corporation, HECC and Hanbo Steel each filed to seek bankruptcy protection in South Korea and KFB's credit rating was downgraded because of the substantial loans it made to Hanbo Steel.

On May 7, 1997, Casecnan announced that it had terminated the Hanbo Contract and had entered into a new engineer, procure and construct contract to complete the construction of the project (the "Replacement Contract"). The work under the Replacement Contract will be conducted by a consortium of contractors and subcontractors including Siemens A.G., Sulzer Hydro Ltd., Black & Veatch and Colenco Power Engineering Ltd., and will be headed by Cooperativa Muratori Cementista CMC di Ravenna and Impresa Pizzarotti & C Spa. The Hanbo Contract was terminated because of events of default under that contract including the fact that the Contractors had filed for court receivership protection in South Korea. In connection with the contract termination, Casecnan made a \$79 million draw request under the letter of credit issued by KFB to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request and Casecnan filed suit in New York State Court. KFB funded, pursuant to a court order, the \$79 million into an interest bearing account at an independent financial institution. This matter still has not been resolved. If KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the Casecnan project. However, based on the information available, KDG does not currently believe its investment is impaired.

In February 1997, C-TEC announced a plan to separate its operations along business lines into three separate, publicly traded companies:

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

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

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

The restructuring should permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring will allow C-TEC to raise capital on the most efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million. C-TEC intends to use these credit facilities to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

On June 18, 1997 C-TEC received approval by the Internal Revenue Service to conduct the tax-free spin-off of Cable Michigan and RCN Corporation. While it is anticipated the proposed restructuring will occur by the fourth quarter, the spin-offs are subject to receipt of other regulatory approvals and certain other conditions. If the reorganization and spin-offs occur, KDG will own less than 50% of the outstanding shares and voting rights of each entity, and will therefore account for each entity using the equity method.

On May 12, 1997, C-TEC announced that it had proposed to acquire the 38% of the common stock of Mercom not currently owned by it in exchange for 8.75% of the common stock of Cable Michigan. The proposed exchange ratio is based on the assumption that Cable Michigan will have \$125 million of debt outstanding at the time of the transaction.

The proposal is subject to certain conditions, including the consummation of C-TEC's restructuring and the receipt of all required regulatory approvals. On June 23, 1997, C-TEC announced that due to the earlier than anticipated IRS approval of its own restructuring, it was suspending discussions with Mercom until after its restructuring was complete. C-TEC reserves the right to withdraw its proposal at any time prior to the execution of a definitive agreement. There can be no assurance as to the terms of any transaction or that any transaction will take place.

PETER KIEWIT SONS', INC.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Corporation's annual stockholders meeting was held on June 7, 1997. Stockholders were asked to elect separate Class C and Class D directors. Proxies were received representing 9,085,115 of the 9,260,707 eligible Class C votes and 22,593,124 of the 24,509,301 eligible Class D votes. Directors were elected to serve one-year terms. A slate of nominees was proposed by the incumbent directors. No additional nominations were received and all the nominees proposed by the board were elected. The following table shows the votes counted for each candidate and the votes counted against (or withheld from) each candidate.

| | | |
|-------------------|-----------|---------------|
| Class C Directors | Votes For | Votes Against |
|-------------------|-----------|---------------|

| | | |
|---------------------|-----------|---------|
| Richard W. Colf | 9,085,115 | - |
| Richard Geary | 9,085,115 | - |
| Bruce E. Grewcock | 9,066,309 | 18,806 |
| William L. Grewcock | 9,079,815 | 5,300 |
| Tait P. Johnson | 8,907,701 | 177,414 |
| Peter Kiewit, Jr. | 9,085,115 | - |
| Allan K. Kirkwood | 9,085,115 | - |
| Walter Scott, Jr. | 9,077,515 | 7,600 |
| Kenneth E. Stinson | 9,085,115 | - |
| George B. Toll | 9,068,729 | 16,386 |

| Class D Directors | Votes For | Votes Against |
|---------------------|------------|---------------|
| James Q. Crowe | 22,548,802 | 44,322 |
| Robert B. Daugherty | 22,577,751 | 15,373 |
| Charles M. Harper | 22,577,751 | 15,373 |
| Richard R. Jaros | 22,517,106 | 76,018 |

PETER KIEWIT SONS', INC.

PART II - OTHER INFORMATION

Item 6. Exhibits & Reports on Form 8-K

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

| Exhibit Number | |
|-------------------|--|
| 11 | Statement regarding computation of per share earnings |
| 27 | Financial Data Schedule |
| 99.A | Kiewit Construction & Mining Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. |
| 99.B | Kiewit Diversified Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. |

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

SIGNATURES

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

PETER KIEWIT SONS', INC.

Dated: August 14, 1997

*\s\ Eric J. Mortensen
Eric J. Mortensen
Controller and Chief
Accounting Officer*

PETER KIEWIT SONS', INC.

INDEX TO EXHIBITS

Exhibit

| No. | |
|------|--|
| 11 | Statement regarding computation of per share earnings |
| 27 | Financial Data Schedule (For electronic filing purposes only) |
| 99.A | Kiewit Construction & Mining Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of |

Operations.

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

Exhibit 11 Peter Kiewit Sons', Inc.
Calculation of Earnings per Share
For the three and six months ended
June 30, 1997 and 1996

| | Class C Stock | | | |
|---|--|------------|--------------------------------------|------------|
| | Three Months Ended June 30, 1997 | | Six Months Ended June 30, 1996 | |
| Actual weighted shares outstanding for the period | 9,301,036 | 10,353,305 | 9,307,834 | 10,305,087 |
| Dilutive stock options using average market price | - | - | - | - |
| Total number of shares used to compute primary earnings per share. | 9,301,036 | 10,353,305 | 9,307,834 | 10,305,087 |
| Additional dilutive stock options using ending market price | - | - | - | - |
| Additional dilutive shares assuming conversion of convertible debentures | 436,833 | 359,000 | 436,833 | 359,000 |
| Total number of shares used to compute fully diluted earnings per share. | 9,737,869 | 10,712,305 | 9,744,667 | 10,664,087 |
| Net income available to common shareholders | \$ 34,381 | \$ 28,877 | \$ 49,717 | \$ 35,648 |
| Add: Interest expense, net of tax effect associated with convertible debentures | 140 | 95 | 267 | 190 |
| Net income for fully diluted shares | \$ 35,521 | \$ 28,972 | \$ 49,984 | \$ 35,838 |
| Primary earnings per share | \$ 3.70 | \$ 2.79 | \$ 5.34 | \$ 3.46 |
| Fully diluted earnings per share | \$ 3.55 | \$ 2.70 | \$ 5.13 | \$ 3.36 |

| | Class D Stock | | | |
|---|--|------------|--------------------------------------|------------|
| | Three Months Ended June 30, 1997 | | Six Months Ended June 30, 1996 | |
| Actual weighted shares outstanding for the period | 24,512,273 | 23,205,830 | 24,476,499 | 23,221,026 |
| Dilutive stock options using average market price | 67,654 | - | 67,654 | - |
| Total number of shares used to compute primary earnings per share. | 24,579,927 | 23,205,830 | 24,544,153 | 23,221,026 |
| Additional dilutive stock options using ending market price | - | - | - | - |
| Additional dilutive shares assuming conversion of convertible debentures | - | - | - | - |
| Total number of shares used to compute fully diluted earnings per share. | 24,579,927 | 23,205,830 | 24,544,153 | 23,221,026 |
| Net income available to | | | | |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| common shareholders | \$ 21,499 | \$ 17,801 | \$ 40,967 | \$ 35,804 |
| Add: Interest expense, net of tax effect associated with convertible debentures | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Net income for fully diluted shares | \$ 21,499 | \$ 17,801 | \$ 40,967 | \$ 35,804 |
| | ===== | ===== | ===== | ===== |
| Primary earnings per share | \$ 0.87 | \$ 0.77 | \$ 1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |
| Fully diluted earnings per share | \$ 0.87 | \$ 0.77 | \$ 1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |

ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-Q for the period ending June 30, 1997 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

| | |
|----------------------------|---------------------|
| PERIOD TYPE | 6 MOS |
| FISCAL YEAR END | DEC 27 1997 |
| PERIOD END | JUN 30 1997 |
| CASH | 388 |
| SECURITIES | 392 |
| RECEIVABLES | 439 |
| ALLOWANCES | 18 |
| INVENTORY | 19 |
| CURRENT ASSETS | 1,524 |
| PP&E | 1,684 |
| DEPRECIATION | 812 |
| TOTAL ASSETS | 3,805 |
| CURRENT LIABILITIES | 661 |
| BONDS | 393 |
| PREFERRED MANDATORY | 2 |
| PREFERRED | 0 |
| COMMON | 0 |
| OTHER SE | 1,924 |
| TOTAL LIABILITY AND EQUITY | 3,805 |
| SALES | 1,143 |
| TOTAL REVENUES | 1,381 |
| CGS | 978 |
| TOTAL COSTS | 1,143 |
| OTHER EXPENSES | 153 |
| LOSS PROVISION | 0 |
| INTEREST EXPENSE | 20 |
| INCOME PRETAX | 132 |
| INCOME TAX | 50 |
| INCOME CONTINUING | 91 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | 91 |
| EPS PRIMARY | \$5.34 ¹ |
| EPS DILUTED | \$5.13 ² |

¹ \$5.34 represents Class C Stock earnings per share, Class D earnings per share: \$1.67.

² \$5.13 represents Class C Stock earnings per share, Class D Stock earnings per share \$1.67.

KIEWIT CONSTRUCTION & MINING GROUP

Index to Financial Statements and Management's Discussion and Analysis of

Financial Condition and Results of Operations

Financial Statements:

Condensed Statements of Earnings for the three months ended June 30, 1997 and 1996 and the six months ended June 30, 1997 and 1996

Condensed Balance Sheets as of June 30, 1997 and December 28, 1996

Condensed Statements of Cash Flows for the six months ended June 30, 1997 and 1996

Notes to Condensed Financial Statements

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

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Earnings (unaudited)

| (dollars in millions, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------|------------------------------|---------|
| | 1997 | 1996 | 1997 | 1996 |
| Revenue | \$ 569 | \$ 570 | \$ 1,047 | \$1,072 |
| Cost of Revenue | (496) | (511) | (942) | (989) |
| | ----- | ----- | ----- | ----- |
| | 73 | 59 | 105 | 83 |
| General and Administrative Expenses | (32) | (29) | (64) | (59) |
| | ----- | ----- | ----- | ----- |
| Operating Earnings | 41 | 30 | 41 | 24 |
| Other Income (Expense): | | | | |
| Investment Income, net | 5 | 4 | 8 | 8 |
| Interest Expense, net | (1) | (1) | (1) | (2) |
| Other, net | 13 | 15 | 35 | 29 |
| | ----- | ----- | ----- | ----- |
| | 17 | 18 | 42 | 35 |
| | ----- | ----- | ----- | ----- |
| Earnings Before Income Taxes | 58 | 48 | 83 | 59 |
| Provision for Income Taxes | (23) | (19) | (33) | (23) |
| | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 35 | \$ 29 | \$ 50 | \$ 36 |
| | ===== | ===== | ===== | ===== |
| Primary Earnings per Share | \$ 3.70 | \$2.79 | \$ 5.34 | \$3.46 |
| | ===== | ===== | ===== | ===== |
| Fully Diluted Earnings per Share | \$ 3.55 | \$2.70 | \$ 5.13 | \$3.36 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Balance Sheets

| | June 30, 1997 | December 28, 1996 |
|-----------------------|------------------|----------------------|
| (dollars in millions) | (unaudited) | |
| Assets | | |

| | | |
|--|---------|----------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 127 | \$ 173 |
| Marketable securities | 33 | 54 |
| Receivables, less allowance of \$15 and \$17 | 336 | 289 |
| Costs and earnings in excess of billings on uncompleted contracts | 95 | 80 |
| Investment in construction joint ventures | 113 | 91 |
| Recoverable income taxes | 18 | 6 |
| Deferred income taxes | 69 | 64 |
| Other | 16 | 13 |
| | ----- | ----- |
| Total Current Assets | 807 | 770 |
| Property, Plant and Equipment, less accumulated depreciation and amortization of \$426 and \$429 | | |
| | 201 | 165 |
| Investments | 87 | 94 |
| Other Assets | 22 | 13 |
| | ----- | ----- |
| | \$1,117 | \$ 1,042 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable, including retainage of \$35 and \$33 | \$ 173 | \$ 164 |
| Current portion of long-term debt | 2 | - |
| Accrued construction costs and billings in excess of revenue on uncompleted contracts | 180 | 112 |
| Accrued insurance costs | 85 | 81 |
| Other | 43 | 46 |
| | ----- | ----- |
| Total Current Liabilities | 483 | 403 |
| Long-Term Debt, less current portion | 16 | 12 |
| Other Liabilities | 59 | 65 |
| Stockholders' Equity (Redeemable common stock, \$404 million aggregate redemption value): | | |
| Common equity | 572 | 568 |
| Net unrealized holding loss | (7) | (1) |
| Foreign currency adjustment | (6) | (5) |
| | ----- | ----- |
| Total Stockholders' Equity | 559 | 562 |
| | ----- | ----- |
| | \$1,117 | \$1,042 |
| | ===== | ===== |

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-------|
| (dollars in millions) | 1997 | 1996 |
| Cash flows from operations: | | |
| Net cash provided by operations | \$ 37 | \$ 73 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of marketable securities | 44 | 67 |
| Purchases of marketable securities | (22) | (57) |
| Proceeds from sales of property, plant and equipment | 25 | 16 |
| Acquisitions and investments, net | (18) | (3) |
| Capital expenditures | (62) | (36) |
| | ----- | ----- |
| Net cash used in investing activities | (33) | (13) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt borrowings | 2 | - |
| Payments on long-term debt, including current portion | - | (2) |
| Net change in short-term borrowings | - | (45) |
| Issuance of common stock | 34 | 27 |
| Repurchases of common stock | (1) | (4) |
| Dividends paid | (13) | (12) |
| Exchange of Class B&C Stock for Class D Stock, net | (72) | (19) |

| | | |
|--|--------------------------|-------------------------|
| Net cash used in financing activities | ----- (50) ----- | ----- (55) ----- |
| Net change in cash and cash equivalents | (46) | 5 |
| Cash and cash equivalents at beginning of period | 173 | 94 |
| Cash and cash equivalents at end of period | ----- \$ 127 ===== | ----- \$ 99 ===== |

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

1. Basis of Presentation:

The condensed balance sheet of Kiewit Construction & Mining Group (the "Group") at December 28, 1996 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using the historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 28, 1996.

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

Receivables at June 30, 1997 and December 28, 1996 include approximately \$72 million and \$86 million of retainage on uncompleted projects, the majority of which is expected to be collected within one year. Included in the retainage amounts are \$32 million and \$53 million of securities which are being held by owners of various construction projects in lieu of retainage.

The results of operations for the six months ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year.

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

2. Earnings Per Share:

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period. In addition, fully diluted earnings per share reflect the dilutive effect of convertible debentures. The numbers of shares used in computing earnings per share was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------|--------------------------------|------------|------------------------------|------------|
| | 1997 | 1996 | 1997 | 1996 |
| Primary | 9,301,036 | 10,353,305 | 9,307,834 | 10,305,087 |
| Fully Diluted | 9,737,869 | 10,712,305 | 9,744,667 | 10,664,087 |

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share". The statement establishes standards for computing and presenting earnings per share and requires the restatement of prior period earnings per share data presented. This statement is effective for financial statements issued for periods ending after December 15, 1997 and earlier application is not permitted. Basic and diluted earnings per share, as defined in SFAS No. 128, are not expected to vary significantly from the primary and fully diluted earnings per share shown on the statements of earnings.

3. Summarized Financial Information:

The Group's 50% portion of PKS' corporate assets and liabilities and related transactions, which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group, and items attributable to the Group are as follows:

(dollars in millions)

| | June 30, 1997 | December 28, 1996 |
|---|------------------|----------------------|
| Cash and marketable securities | \$ 11 | \$ 13 |
| Property, plant and equipment, net | 5 | 5 |
| Other assets | 2 | 1 |
| | ----- | ----- |
| Total Assets | \$ 18 | \$ 19 |
| | ===== | ===== |
| Accounts payable | \$ 2 | \$ 8 |
| Long-term debt, including current portion | 11 | 12 |
| | ----- | ----- |
| Total Liabilities | \$ 13 | \$ 20 |
| | ===== | ===== |

Three Months Ended Six Months Ended June 30, June 30, 1997 1996 1997 1996

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

Corporate general and administrative costs have been allocated to the Group. These allocations were less than \$1 million for the three and six months ended June 30, 1997 and 1996.

Mine management income from the Diversified Group was \$7 million and \$8 million for the three months ended June 30, 1997 and 1996 and \$16 million and \$15 million for the six months ended June 30, 1997 and 1996.

4. Acquisitions:

On April 18, 1997, the Group and a partner each invested \$15 million to acquire a 96% interest in Oak Mountain Energy L.L.C. ("Oak Mountain"). Oak Mountain then acquired the existing assets of an underground coal mine in Alabama for approximately \$18 million and assumed approximately \$14 million of related liabilities. Oak Mountain intends to use the remaining cash and \$30 million of nonrecourse bank borrowings to retire the existing debt and further develop and modernize the mine. Oak Mountain's results are consolidated with those of the Group on a pro-rata basis since the date of acquisition. The coal mine's results of operations prior to the acquisition were not significant relative to the Group's results.

5. 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, future results of operations or future cash flows.

Kiewit Construction and Mining Group

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

Results of Operations - Second Quarter 1997 vs. Second Quarter 1996

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

| | 1997 | 1996 |
|--------------|--------|--------|
| Construction | \$ 494 | \$ 510 |
| Materials | 75 | 60 |
| | ----- | ----- |
| | \$ 569 | \$ 570 |
| | ===== | ===== |

Construction. The Group's construction operations can be separated into two components; construction and materials. Revenue for the construction business was down 3% to \$494 million compared to \$510 million in 1996. The decline is due to several large projects being in the start-up phase and the substantial completion of the San Joaquin toll road project at the end of 1996. Although construction revenue was down, materials revenue increased 25% due to the strong demand for aggregates in the Arizona market.

Contract backlog at June 30, 1997 was \$3.5 billion of which 4% is attributable to foreign operations located in Canada and Indonesia. Domestic projects are spread geographically throughout the United States. Included in backlog is \$755 million for the "I-15" project awarded in late March. Kiewit is the sponsoring partner on the design-build joint venture reconstructing 16 miles of Interstate 15 through the Salt Lake City area. The project is expected to be completed in 2001.

Margins on construction projects for the second quarter of 1997 increased to 13% compared to 10% for the same period in 1996. The recognition of additional revenue from San Joaquin toll road was the primary factor contributing to the increase. Margins, as a percentage of revenue, for the materials business were unchanged from the prior year.

General and Administrative Expenses. General and administrative expenses increased 10% in 1997. An increase in travel and professional services expenses were partially offset by a decline in insurance costs.

Other, net. Other income is primarily comprised of mine management income from the Diversified Group and gains and losses on the disposition of property, plant and equipment and other assets. Other income decreased 7% in 1997 as compared to 1996. The decrease is attributable to lower mine management fee income and decreased gains on the disposition of construction equipment.

Provision for Income Taxes. The effective income tax rates for 1997 and 1996 are higher than the expected statutory rate of 35% primarily due to state income taxes.

Results of Operations - Six Months 1997 vs. Six Months 1996

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

| | 1997 | 1996 |
|--------------|---------|---------|
| Construction | \$ 918 | \$ 961 |
| Materials | 129 | 111 |
| | ----- | ----- |
| | \$1,047 | \$1,072 |
| | ===== | ===== |

Construction. The Group's total revenue for the six months ended June 30, 1997 decreased \$25 million or 2% compared to the same period in 1996. Revenue for the construction business was down 4% to \$918 million compared to \$961 million in 1996. The decline is due to several large projects being in the start-up phase and the substantial completion of the San Joaquin toll road project at the end of 1996. Although construction revenue was down, materials revenue increased 16% due to the strong demand for aggregates in the Arizona market.

Margins on construction projects for the first six months of 1997 increased to 10% compared to 8% for the same period in 1996. Claim settlements received in the first quarter of 1997 and the recognition of additional revenue from San Joaquin toll road were the primary factors contributing to the increase. Materials margins in 1997, as a percentage of revenue, were unchanged from the same period in 1996.

General and Administrative Expenses. General and administrative expenses increased 8% in 1997 compared to 1996. The increase was attributable to higher compensation, travel and professional services expenses.

Interest Expense, net. The repayment of short term borrowings in the first and second quarter of 1996 was responsible for the reduction of interest expense.

Other, net. The 21% increase in other income in 1997 is attributable to higher mine management fee income and increased gains on the disposition of construction equipment.

Provision for Income Taxes. The effective income tax rates for 1997 and 1996 differ from the expected statutory rate of 35% primarily due to state income taxes.

Financial Condition - June 30, 1997 vs. December 28, 1996

The Group's working capital decreased \$43 million or 12% during the first six months of 1997. The decrease was primarily due to capital expenditures of \$62 million, investments and acquisitions of \$18 million, the exchange and repurchase of Class B&C stock totaling \$73 million, dividend payments of \$13 million and \$37 million of cash used in operating activities. Partially offsetting these uses were the issuance of common stock totaling \$34 million, net proceeds from the sale of marketable securities of \$22 million, proceeds from the sale of property, plant and equipment and other assets of \$25 million and \$2 million of debt borrowings.

The Group typically anticipates investing between \$40 and \$75 million annually in its construction business, including opportunities to acquire additional businesses. On July 1, 1997, the Group paid \$4 million to increase its ownership in ME Holding Inc. to 80%. Other long term liquidity uses include the payment of income taxes, repurchases and conversions of common stock and the payment of dividends. The Group's current financial condition and borrowing capacity together with anticipated cash flows from operations should be sufficient for immediate cash requirements and future investing activities.

KIEWIT DIVERSIFIED GROUP

Index to Financial Statements and

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

Financial Statements:

Condensed Statements of Earnings for the three months ended June 30, 1997 and 1996 and the six months ended June 30, 1997 and 1996
Condensed Balance Sheets as of June 30, 1997 and December 28, 1996
Condensed Statements of Cash Flows for the six months ended June 30, 1997 and 1996

Notes to Condensed Financial Statements

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

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Earnings (unaudited)

| (dollars in millions, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------|------------------------------|---------|
| | 1997 | 1996 | 1997 | 1996 |
| Revenue | \$ 179 | \$ 162 | \$ 355 | \$ 317 |
| Cost of Revenue | (113) | (102) | (223) | (197) |
| | ----- | ----- | ----- | ----- |
| | 66 | 60 | 132 | 120 |
| General and Administrative Expenses | (52) | (42) | (105) | (81) |
| | ----- | ----- | ----- | ----- |
| Operating Earnings | 14 | 18 | 27 | 39 |
| Other Income (Expense): | | | | |
| Equity Earnings, net | 13 | 2 | 18 | 1 |
| Investment Income, net | 10 | 15 | 21 | 31 |
| Interest Expense, net | (11) | (7) | (19) | (13) |
| Other, net | 2 | 3 | 2 | 1 |
| | ----- | ----- | ----- | ----- |
| | 14 | 13 | 22 | 20 |
| | ----- | ----- | ----- | ----- |
| Earnings Before Income Taxes and Minority Interest | 28 | 31 | 49 | 59 |
| Provision for Income Taxes | (10) | (13) | (17) | (23) |
| Minority Interest in Net Loss (Income) of Subsidiaries | 3 | (1) | 9 | (1) |
| | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 21 | \$ 17 | \$ 41 | \$ 35 |
| | ===== | ===== | ===== | ===== |
| Primary Earnings Per Share | \$.87 | \$.77 | \$1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |
| Fully Diluted Earnings Per Share | \$.87 | \$.77 | \$1.67 | \$ 1.54 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

| (dollars in millions) | June 30, 1997 | December 28, 1996 |
|---------------------------|------------------|----------------------|
| | (unaudited) | |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 261 | \$ 147 |
| Marketable securities | 335 | 372 |
| Restricted securities | 24 | 25 |

| | | |
|--|----------|----------|
| Receivables, less allowance of \$3 and \$3 | 97 | 76 |
| Other | 27 | 33 |
| | ----- | ----- |
| Total Current Assets | 744 | 653 |
| Property, Plant and Equipment, less accumulated depreciation and amortization of \$386 and \$345 | 671 | 642 |
| Investments | 859 | 806 |
| Intangible Assets, net | 369 | 353 |
| Other Assets | 72 | 74 |
| | ----- | ----- |
| | \$ 2,715 | \$ 2,528 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 66 | \$ 79 |
| Current portion of long-term debt: | | |
| Telecommunications | 11 | 55 |
| Other | 1 | 2 |
| Accrued costs and billings in excess of revenue on uncompleted contracts | 13 | 12 |
| Accrued reclamation and other mining costs | 16 | 19 |
| Other | 98 | 87 |
| | ----- | ----- |
| Total Current Liabilities | 205 | 254 |
| Long-Term Debt, less current portion: | | |
| Telecommunications | 244 | 207 |
| Other | 133 | 113 |
| Deferred Income Taxes | 235 | 165 |
| Retirement Benefits | 47 | 48 |
| Accrued Reclamation Costs | 101 | 98 |
| Other Liabilities | 165 | 168 |
| Minority Interest | 218 | 218 |
| Stockholders' Equity (Redeemable common stock \$1,333 million aggregate redemption value): | | |
| 24,575,825 outstanding shares in 1997 and 23,219,744 in 1996 | | |
| Common equity | 1,352 | 1,235 |
| Foreign currency adjustment | (2) | (2) |
| Net unrealized holding gain | 17 | 24 |
| | ----- | ----- |
| Total Stockholders' Equity | 1,367 | 1,257 |
| | ----- | ----- |
| | \$ 2,715 | \$ 2,528 |
| | ===== | ===== |

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Cash Flows (unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|-------|
| (dollars in millions) | 1997 | 1996 |
| Cash flows from operations: | | |
| Net cash provided by operations | \$ 139 | \$ 77 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of marketable securities and investments | 142 | 127 |
| Purchases of marketable securities | (102) | (99) |
| Decrease in restricted securities | 2 | 2 |
| Capital expenditures | (70) | (44) |
| Acquisitions and investments, net | (70) | (96) |
| Proceeds from sale of assets and other | - | 6 |
| | ----- | ----- |
| Net cash used in investing activities | (98) | (104) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt borrowings | 16 | 11 |
| Payments on long-term debt, including current portion | (8) | (15) |

| | | |
|---|--------|--------|
| Issuance of common stock | 5 | - |
| Repurchases of common stock | - | (11) |
| Exchange of Class B&C Stock for Class D Stock, net | 72 | 19 |
| Payments of dividends | (12) | (13) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 73 | (9) |
| | ----- | ----- |
| Net change in cash and cash equivalents | 114 | (36) |
| Cash and cash equivalents at beginning of period | 147 | 363 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 261 | \$ 327 |
| | ===== | ===== |

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

1. Basis of Presentation:

The condensed balance sheet of Kiewit Diversified Group (the "Group") at December 28, 1996 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 28, 1996.

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

The results of operations for the six months ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year.

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

2. Earnings Per Share:

Primary and fully diluted earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period after giving effect to stock options considered to be dilutive common stock equivalents. The number of shares used in computing both primary and fully diluted earnings per share were 24,579,927 and 23,205,830 for the three months ended June 30, 1997 and 1996 and 24,544,153 and 23,221,026 for the six months ending on the same dates.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share". The statement establishes standards for computing and presenting earnings per share and requires the restatement of prior period earnings per share data presented. This statement is effective for financial statements issued for periods ending after December 15, 1997 and earlier application is not permitted. Basic and diluted earnings per share, as defined in SFAS No. 128, are not expected to vary significantly from the primary and fully diluted earnings per share shown on the statements of earnings.

3. Summarized Financial Information:

The Group's 50% portion of PKS' corporate assets and liabilities and related transactions, which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group, and specifically attributable items are as follows:

| | | |
|------------------------------------|------------------|----------------------|
| (dollars in millions) | | |
| | June 30, 1997 | December 28, 1996 |
| Cash and marketable securities | \$ 4 | \$ 5 |
| Property, plant and equipment, net | 5 | 5 |
| Other assets | 2 | 1 |
| | ----- | ----- |

| | | |
|---|--------------------|------------------|
| Total Assets | \$ 11 | \$ 11 |
| | ===== | ===== |
| Accounts payable | \$ 6 | \$ 17 |
| Long-term debt, including current portion | 1 | 1 |
| | ----- | ----- |
| Total Liabilities | \$ 7 | \$ 18 |
| | ===== | ===== |
| | Three Months Ended | Six Months Ended |
| | June 30, | June 30, |

1997 1996 1997 1996

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

Corporate general and administrative costs have been allocated to the Group. These allocations were \$2 million for the three months ended June 30, 1997 and 1996 and \$3 million for the six months ended June 30, 1997 and 1996.

Mine management fees paid to the Construction & Mining Group were \$7 million and \$8 million for the three months ended June 30, 1997 and 1996 and \$16 million and \$15 million for the six months ended June 30, 1997 and 1996.

4. Acquisitions:

In 1996, C-TEC purchased 80% of Freedom New York, L.L.C. ("Freedom"). Freedom provides subscription television services using microwave frequencies in New York City and selected areas of New Jersey. In March 1997, C-TEC paid \$40 million (including \$10 million of non-capitalized costs) in connection with a series of transactions which resulted in C-TEC having a 100% ownership interest in the assets of Freedom. The acquisition was accounted for as a purchase. The purchase price (net of non-capitalizable costs) exceeded the fair value of net assets acquired by \$25 million, which is recognized as goodwill and is being amortized over approximately 6 years.

In December 1996, CE Electric which is 70% owned directly by CalEnergy and 30% owned by the Group, acquired majority ownership of the outstanding ordinary share capital of Northern Electric plc. ("Northern") pursuant to a tender offer (the "Tender Offer") commenced in the United Kingdom by CE Electric in November 1996. As of March 18, 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

As of June 30, 1997, CalEnergy and the Group had contributed to CE Electric approximately \$410 million and \$176 million, respectively, of the approximately \$1.3 billion required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The remaining funds necessary to consummate the Tender Offer were provided by term loan (\$921 million) and revolving facility agreement obtained by CE Electric. The Group has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax will be 23% of the difference between the value at the time of privatization and the utility's current value based on profits over a period of up to four years. At the time of acquisition, CE Electric accounted for the potential tax as a purchase accounting contingent liability. However, the Securities and Exchange Commission has subsequently permitted an acquiring company, in a similar situation, to account for the tax as a one-time charge. CE Electric will take a charge of approximately \$200 million when the tax is enacted. The total impact to the Group, directly through its investment in CE Electric and indirectly through its investment in CalEnergy is expected to approximate \$85 million.

5. Investments:

The Group is able to defer \$40 million of taxable gain with respect to the 1995 Whitney Benefits litigation settlement by investing in real estate. In February 1997, the Group purchased an office building in Aurora, Colorado for \$22 million. The Group may make additional real estate investments to defer the remaining balance. On June 30, 1997, the Group closed a \$16 million financing agreement with Metropolitan Life Insurance Company. The 15 year note is collateralized by the Aurora property and carries an interest rate of 8.38%.

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

The Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. ("HECC"), (together, "Contractors"), both of which are South Korean corporations. Hanbo Corporation and HECC are under common ownership. The Contractor's obligations under the construction contract ("Hanbo Contract") are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractors' obligations are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of \$118 million. During the first quarter of 1997 Hanbo Corporation, HECC and Hanbo Steel each filed to seek bankruptcy protection in South Korea and KFB's credit rating was downgraded because of the substantial loans it made to Hanbo Steel.

On May 7, 1997, Casecnan announced that it had terminated the Hanbo Contract and had entered into a new engineer, procure and construct contract to complete the construction of the project (the "Replacement Contract"). The work under the Replacement Contract will be conducted by a consortium of contractors and subcontractors including Siemens A.G., Sulzer Hydro Ltd., Black & Veatch and Colenco Power Engineering Ltd., and will be headed by Cooperativa Muratori Cementista CMC di Ravenna and Impresa Pizzarotti & C. Spa. The Hanbo Contract was terminated because of events of default under the contract including the fact that the Contractors had filed for court receivership protection in South Korea. In connection with the contract termination, Casecnan made a draw request of \$79 million under the letter of credit issued by KFB to pay certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request and Casecnan filed a suit in New York State Court. KFB funded, pursuant to a court order, the \$79 million into an interest bearing account at an independent financial institution in the United States. This matter is still unresolved, however, if KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the Casecnan project. Based on information available, the Group does not currently believe its investment is impaired.

The Group and CalEnergy have agreed to jointly develop and construct geothermal power facilities at the Dieng and Patuha sites in Indonesia. Dieng Unit 1 is being constructed and is expected to be placed in commercial operation later this year. An additional five units are expected to be constructed on a modular basis as geothermal resources are developed. On June 12, 1997 the Group and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to the Group.

6. C-TEC Restructuring:

In February 1997, C-TEC announced a plan to separate its operations along business lines into three separate, publicly traded companies:

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

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

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

The restructuring should permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring will allow C-TEC to raise capital on the most efficient terms. In July 1997, C-TEC closed four committed credit facilities with a syndicate of banks aggregating \$410 million. C-TEC intends to use these credit facilities to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

On June 18, 1997 C-TEC received approval by the Internal Revenue Service to conduct the tax-free spin-off of Cable Michigan and RCN Corporation. While it is anticipated that the proposed restructuring will occur by the fourth quarter, the spin-offs are subject to receipt of other regulatory approvals and other conditions. If the reorganization and spin-offs occur, the Group will own less than 50% of the outstanding shares and voting rights of each entity, and will therefore account for each entity using the equity method for all of 1997.

On May 12, 1997, C-TEC announced that it had proposed to acquire the 38% of the common stock of Mercom Inc. ("Mercom") not currently owned by it in exchange for 8.75% of the common stock of C-TEC Michigan. The proposed exchange ratio is based on the assumption that C-TEC Michigan will have \$125 million of debt outstanding at the time of the transaction.

The proposal is subject to certain conditions, including the consummation of C-TEC's restructuring and the receipt of all required regulatory approvals. On June 23, 1997, C-TEC announced that due to the earlier than anticipated IRS approval of its own restructuring, it was suspending discussions with Mercom until after its restructuring was complete. C-TEC reserves the right to withdraw its proposal at any time prior to the execution of a definitive agreement. There can be no assurance as to the terms of any transaction or that any transaction will take place.

The following financial information of the Group is presented as if C-TEC had been accounted for utilizing the equity method in the condensed financial statements as of June 30, 1997 and December 28, 1996 and for the three and six months ended June 30, 1997 and 1996.

| (dollars in millions) | June 30, 1997 | December 28, 1996 |
|---------------------------|------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 203 | \$ 71 |
| Marketable securities | 331 | 325 |
| Restricted securities | 24 | 25 |
| Receivables | 46 | 34 |
| Other | 15 | 4 |
| | ----- | ----- |
| Total Current Assets | 619 | 459 |

| | | |
|-----------------------------------|----------|----------|
| Net Property, Plant and Equipment | 176 | 174 |
| Investments | 1,124 | 1,075 |
| Intangible Assets, net | 21 | 23 |
| Other Assets | 46 | 49 |
| | ----- | ----- |
| | \$ 1,986 | \$ 1,780 |
| | ===== | ===== |

Liabilities and Stockholders' Equity

Current Liabilities:

| | | |
|--|-------|-------|
| Accounts payable | \$ 30 | \$ 41 |
| Current portion of long-term debt | 1 | 2 |
| Accrued reclamation and other mining costs | 14 | 19 |
| Other | 44 | 19 |
| | ----- | ----- |

| | | |
|---------------------------|----|----|
| Total Current Liabilities | 89 | 81 |
|---------------------------|----|----|

| | | |
|--------------------------------------|-----|-----|
| Long-term Debt, less current portion | 133 | 113 |
| Deferred Income Taxes | 136 | 64 |
| Retirement Benefits | 45 | 45 |
| Accrued Reclamation costs | 101 | 98 |
| Other Liabilities | 113 | 118 |
| Minority Interest | 2 | 4 |

| | | |
|----------------------|----------|----------|
| Stockholders' Equity | 1,367 | 1,257 |
| | ----- | ----- |
| | \$ 1,986 | \$ 1,780 |
| | ===== | ===== |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------|------------------------------|--------|
| (dollars in millions) | 1997 | 1996 | 1997 | 1996 |
| Revenue | \$ 81 | \$ 69 | \$ 161 | \$ 134 |
| Cost of Revenue | (42) | (38) | (84) | (73) |
| | ----- | ----- | ----- | ----- |
| | 39 | 31 | 77 | 61 |
| General and Administrative Expenses | (23) | (21) | (41) | (38) |
| | ----- | ----- | ----- | ----- |
| Operating Earnings | 16 | 10 | 36 | 23 |
| Other Income (Expense): | | | | |
| Equity earnings, net | 8 | (3) | 9 | (4) |
| Investment income, net | 8 | 12 | 16 | 24 |
| Interest expense, net | (4) | (1) | (7) | (1) |
| Other, net | 1 | 6 | 2 | 7 |
| | ----- | ----- | ----- | ----- |
| | 13 | 14 | 20 | 26 |
| | ----- | ----- | ----- | ----- |
| Earnings Before Income Taxes and Minority Interest | 29 | 24 | 56 | 49 |
| Provision for Income Taxes | (9) | (9) | (17) | (16) |
| Minority Interest in Net Loss of Subsidiaries | 1 | 2 | 2 | 2 |
| | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 21 | \$ 17 | \$ 41 | \$ 35 |
| | ===== | ===== | ===== | ===== |

| | Six Months Ended June 30, | |
|-----------------------|------------------------------|------|
| (dollars in millions) | 1997 | 1996 |

| | | |
|---------------------------------|--------|-------|
| Cash flows from operations: | | |
| Net cash provided by operations | \$ 107 | \$ 32 |

Cash flows from investing activities:

| | | |
|--|-------|-------|
| Proceeds from sales and maturities of marketable securities and investments | 98 | 9 |
| Purchases of marketable securities | (102) | (47) |
| Change in restricted securities | 3 | 2 |
| Capital expenditures | (12) | (17) |
| Acquisitions and investment, net | (42) | (100) |
| Other | 1 | 5 |

| | | |
|---|--------|--------|
| Net cash used in investing activities | (54) | (148) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt borrowings | 16 | 11 |
| Payments on long-term debt, including current portion | (2) | (3) |
| Repurchases of common stock | - | (11) |
| Exchange of Class B&C Stock for Class D Stock | 72 | 19 |
| Payment of dividends | (12) | (12) |
| Issuance of common stock | 5 | - |
| Net cash provided by financing activities | 79 | 4 |
| Net change in cash and cash equivalents | 132 | (112) |
| Cash and cash equivalents at beginning of period | 71 | 314 |
| Cash and cash equivalents at end of period | \$ 203 | \$ 202 |

7. Other Matters:

On June 19, 1997, James Q. Crowe was appointed President and CEO of Kiewit Diversified Group Inc. Mr. Crowe assumed the position previously held by Richard R. Jaros, who will continue to serve on the PKS Board of Directors. Mr. Crowe was the Chairman and CEO of MFS Communications Company until December 31, 1996, when the company was purchased by Worldcom, Inc. MFS was a subsidiary of the Group until September 1995, when it was spun-off and became an independent, publicly owned corporation.

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

KIEWIT DIVERSIFIED GROUP

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

Results of Operations - Second Quarter 1997 vs. Second Quarter 1996

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

| | 1997 | 1996 |
|----------------------|--------|--------|
| Coal Mining | \$ 54 | \$ 58 |
| Telecommunications | 98 | 93 |
| Information Services | 24 | 9 |
| Other | 3 | 2 |
| | ----- | ----- |
| | \$ 179 | \$ 162 |
| | ===== | ===== |

Mining. Mining revenue declined 7% in the second quarter of 1997 compared to the same period in 1996. Commonwealth Edison Company ("Commonwealth") has the flexibility under the amended contract to accelerate or defer delivery of alternate source coal provided it accepts delivery of the aggregate minimum commitment at the end of each year. In early 1996, alternate source coal shipments fell below minimum levels. These shortfalls were partially made up in the second quarter of 1996. In 1997, the opposite scenario occurred. Commonwealth took delivery of more coal in the first quarter than the second quarter. Partially offsetting the decline in alternate source coal sales were additional spot sales to utilities in the northwestern United States.

Cost as a percentage of revenue for the coal mining operations in the second quarter of 1997 was consistent with that of the prior year. A spot market customer bought out a portion of its contract by making a payment equivalent to 60% of the price of coal. These proceeds, with no corresponding costs, offset the decline in higher margin alternate coal sales.

Telecommunications. The telecommunications segment is comprised of C-TEC's telephone, cable and RCN groups. Due to the receipt of the IRS approval to spin-off Cable Michigan and RCN, C-TEC has reclassified these businesses as discontinued operations and has recognized, in the second quarter, their estimated losses through the projected spin-off date. The Group's equity ownership in all three businesses will remain at approximately 48% at the spin-off date. Therefore, the Group will continue to reflect the operations of Cable Michigan and RCN as continuing operations and has not accrued the estimated losses of these businesses through the spin-off date.

Telecommunications revenue for the Group increased \$5 million or 5% for the three months ended June 30, 1997 compared to the same period

in 1996. The telephone group's revenue was essentially unchanged in 1997. Higher local network service revenue, and interstate and intrastate access revenue were primarily offset by a decline in construction revenue from the communications services business. The communications services business is continually subject to fluctuations due to its nonrecurring revenue streams, market conditions and the effect of competition on margins. As of June 30, 1997, the business had minimal backlog and does not anticipate a significant change in the foreseeable future. Sales for the cable group increased \$5 million or 12% in 1997. The increase is attributable to higher basic service revenue resulting from additional subscribers during the period and the effects of a rate increase implemented during the first quarter of 1997. RCN's revenue increased to \$3 million in the second quarter of 1997. An increase of subscribers in the New York and Boston markets is responsible for the increase.

Telecommunications cost of sales increased 11% in the second quarter of 1997. Expenses for the telephone group remained level with those of the same period in 1996 as increases in advertising, information systems services expenses and the costs associated with the development of a competitive local telephone effort were substantially offset by lower materials costs associated with the video conferencing sales and lower construction costs of the communications services business resulting from the decline in sales. The cable group's costs increased 10% in 1997. The increase is primarily attributable to higher basic programming costs, resulting from higher programming rates, additional channels and additional subscribers. The costs associated with the development of new business in New York and Boston, primarily personnel, advertising and programming, resulted in a \$7 million increase in RCN's costs.

Information Services. The Group's information services business provides computer operations outsourcing and systems integration services to firms that desire to focus resources on their core business. Systems integration services include converting mainframe based systems to client/server architecture, Year 2000 compliance, code restructuring and software re-engineering. Revenue attributable to computer outsourcing and systems integration increased 167% to \$24 million for the three months ended June 30, 1997 compared to the same period in 1996. The increase in revenue is attributable to signing of several major new outsourcing contracts in late 1996 and the increased focus of existing and new customers on Year 2000 compatibility.

The operating costs of the information services business doubled to \$14 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs all experienced significant increases compared to the prior year. Operational efficiencies were recognized in 1997 through the increased utilization of existing computer hardware.

General and Administrative Expenses. General and administrative expenses increased 24% in the second quarter of 1997 compared to the same period in 1996. The expenses of Freedom and the professional fees incurred by C-TEC for its restructuring were the primary factors for the increase.

Also contributing to the increase was the additional overhead incurred by the growing information services business.

Equity Earnings, net. Equity earnings increased significantly in 1997. The Group's proportionate share of CalEnergy's earnings increased \$5 million in the second quarter of 1997 to \$9 million. The conversion of CalEnergy debentures to common stock and the exercising of options increased the Group's ownership interest in CalEnergy from 23% at June 30, 1996 to 30% at June 30, 1997. CalEnergy's earnings also increased primarily due to the completion and commencement of operations at the Salton Sea Unit IV and two Philippine geothermal facilities, the purchase of three cogeneration facilities and the acquisition of Northern Electric, all of which occurred in the last half of 1996. In addition to contributing to CalEnergy's earnings, the Group's proportionate share of Northern Electric also provided \$6 million of income. Partially offsetting these gains were losses attributable to the Casecnan project. The Casecnan loss during construction results from the variance in borrowing and investing interest rates on the funds generated by the project's debt offering in 1995.

Investment Income, net. The decline in investment income is attributable to a reduction of interest income, due to a smaller average portfolio balance and the conversion of CalEnergy debentures into common stock in September 1996, and a decline in gains on the disposal of marketable and equity securities.

Interest Expense, net. Interest expense increased from \$7 million in 1996 to \$11 million in 1997. Interest of \$2 million was capitalized by CPTC in 1996 due to the construction of the SR91 toll road. Due to commencement of operations, interest of \$3 million in 1997 was charged against earnings.

Other, net. The slight decline in other income in 1997 is due to fewer gains on the disposal of property, plant and equipment and other assets.

Provision for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. C-TEC's losses, primarily due to the development of the RCN business and restructuring expenses, and the losses associated with the SR91 toll road, resulted in the increased losses attributable to minority shareholders.

Results of Operations - Six Months 1997 vs. Six Months 1996

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

| | 1997 | 1996 |
|-------------|--------|--------|
| Coal Mining | \$ 115 | \$ 111 |

| | | |
|----------------------|--------|--------|
| Telecommunications | 194 | 183 |
| Information Services | 40 | 19 |
| Other | 6 | 4 |
| | ----- | ----- |
| | \$ 355 | \$ 317 |
| | ===== | ===== |

Mining. Coal sales increased 4% during the first half of 1997. Additional spot coal sales, partially due to a decline in hydroelectric power generated in the northwestern United States, and additional contract sales to Mississippi Power were primarily responsible for the increase in revenue.

Operating costs as a percentage of revenue were virtually unchanged from the same period in 1996. The increase in lower margin contract and spot sales was substantially offset by the proceeds from the partial buy-out of a spot sales contract.

Telecommunications. The Group's telecommunications revenue increased 6% to \$194 million for the six months ended June 30, 1997 compared to the same period in 1996. Sales for the telephone group were consistent with that of the prior year. A decline in revenue from the communications services business was substantially offset by increases in higher local network service revenue, interstate and intrastate access revenue, and internet access revenue. Sales for the cable group increased 9% to \$79 million for the period. The increase is primarily attributable to higher basic service revenue resulting from additional subscribers and the effects of a rate increase implemented during the first quarter of 1997. RCN's revenue increased \$5 million to \$6 million for the first half of 1997. This increase is due to the additional subscribers obtained in the New York and Boston markets.

The cost of revenue for the Group's telecommunications segment increased 12% in 1997. The costs associated with the development of a competitive local telephone effort in 1997 and the positive effect of a one-time postemployment benefit adjustment in 1996 were primarily responsible for the 5% increase in the telephone group's cost of revenue. Partially offsetting these items was a decline in costs for the communications services business resulting from a decrease in sales. The cable group's costs increased 9% for the six months ended June 30, 1997. The increase is primarily due to higher basic programming costs. The development of the New York and Boston markets resulted in an \$11 million increase in costs for RCN during the period. The most significant increases occurred in personnel related costs, origination and programming costs and advertising expenses.

Information Services. Revenue for information services business increased 110% to \$40 million for the six months ended June 30, 1997. The increase in revenue is attributable to signing of several major new outsourcing contracts in late 1996 and the increased focus of customers on Year 2000 compatibility.

The operating costs of the information services business increased 79% to \$25 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs all experienced significant increases compared to the prior year. Operational efficiencies were recognized in 1997 through the increased utilization of existing computer hardware.

General and Administrative Expenses. General and administrative expenses increased 30% in 1997. The expenses of Freedom, acquired by C-TEC in 1996, and certain non-capitalized costs of \$10 million incurred in connection with the March 1997 transactions with Freedom's minority shareholders, and the professional fees incurred for C-TEC's restructuring were primarily responsible for the higher costs. Also contributing were the additional costs associated with the growing information services business.

Equity Earnings, net. Equity earnings increased significantly in 1997. The Group's proportionate share of CalEnergy's earnings increased \$10 million in 1997 to \$16 million. An increase in the Group's share of CalEnergy's earnings and improvement in those earnings, primarily due to the commencement of operations at additional geothermal facilities, and the acquisitions of three cogeneration facilities and Northern Electric, contributed to the increase. The Group's proportionate share of Northern Electric provided \$9 million of income. Partially offsetting these gains were losses attributable to the Cascanan project.

Investment Income, net. Investment income declined 32% in 1997. The conversion of CalEnergy convertible debentures into common stock, a reduction in the average portfolio balance due to significant investments in CE Electric and the RCN businesses, and a decline in gains recognized on the sales of securities, all contributed to the reduction in investment income.

Interest Expense, net. Interest expense increased in 1997 to \$19 million from \$13 million in 1996. Through June 1996 and 1997, CPTC incurred \$4 million and \$5 million of interest on its long-term debt. In 1996 the interest was capitalized due to the construction of the SR91 toll road. In 1997 the interest was charged against earnings.

Other, net. Other income is primarily comprised of gains and losses on the sale and disposition of property, plant and equipment and other assets. Increased income from the sale of operating assets, and the absence of one-time charges for C-TEC's write-off of regulatory assets led to the increase in other income.

Provision for Income Taxes. The effective income tax rate for 1996 differs from the expected statutory of 35% primarily due to the state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. C-TEC's losses, primarily due to the development of the RCN business, certain non-

capitalized costs incurred in connection with the March 1997 transactions with Freedom's minority shareholders and restructuring expenses, and the losses associated with the SR91 toll road, resulted in the increased losses attributable to minority shareholders.

Financial Condition - June 30, 1997 vs. December 28, 1996

Excluding C-TEC described in a separate paragraph below, the Group's working capital increased \$152 million or 40% during 1997. An increase in cash flows from operations, primarily due to \$93 million of federal tax and interest refunds, and financing activities, was partially offset by investing activities.

Investing activities primarily consist of \$16 million of real estate investments, \$19 million of international energy projects, \$12 million of capital expenditures, including \$8 million for the information services business, and the net purchase of marketable securities of \$4 million.

Financing sources include \$72 million from the exchange of Class B&C Stock for Class D Stock, \$5 million from the issuance of common stock and \$16 million long-term debt borrowings. These sources were partially offset by \$12 million for the payment of dividends.

C-TEC's working capital decreased slightly in 1997. The series of transactions with Freedom's minority shareholders for \$40 million, \$61 million of capital expenditures to expand the RCN, cable and telephone networks, and \$7 million to repay long-term debt and preferred dividends were partially funded by the sale of marketable securities of \$43 million.

The Group anticipates making significant investments in its telecommunications and energy businesses - including its joint venture agreement with CE covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchasing the Group's stock. The Group's current financial condition and borrowing capacity should be sufficient for immediate operating and investing activities.

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

The Casecnan project was being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. ("HECC"), (together, "Contractors"), both of which are South Korean corporations. Hanbo Corporation and HECC are under common ownership. The Contractor's obligations under the construction contract ("Hanbo Contract") are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractors' obligations are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of \$118 million. During the first quarter of 1997 Hanbo Corporation, HECC and Hanbo Steel each filed to seek bankruptcy protection in South Korea and KFB's credit rating was downgraded because of the substantial loans it made to Hanbo Steel.

On May 7, 1997, Casecnan announced that it had terminated the Hanbo Contract and had entered into a new engineer, procure and construct contract to complete the construction of the project (the "Replacement Contract"). The work under the Replacement Contract will be conducted by a consortium of contractors and subcontractors including Siemens A.G., Sulzer Hydro Ltd., Black & Veatch and Colenco Power Engineering Ltd., and will be headed by Cooperativa Muratori Cementista CMC di Ravenna and Impresa Pizzarotti & C. Spa. The Hanbo Contract was terminated because of events of default under the contract including the fact that the Contractors had filed for court receivership protection in South Korea. In connection with the contract termination, Casecnan made a draw request of \$79 million under the letter of credit issued by KFB to pay certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request and Casecnan filed a suit in New York State Court. KFB funded, pursuant to a court order, the \$79 million into an interest bearing account of an independent financial institution in the United States. This matter is still unresolved, however, if KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the Casecnan project. However, based on information available, the Group does not currently believe its investment is impaired.

In February 1997, C-TEC announced a plan to separate its operations along business lines into three separate, publicly traded companies:

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

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

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

The restructuring should permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring will allow C-TEC to raise capital on the most efficient terms. In July 1997, C-TEC closed four committed credit facilities with a syndicate of banks aggregating \$410 million. C-TEC intends to use these credit facilities to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

On June 18, 1997 C-TEC received approval by the Internal Revenue Service to conduct the tax-free spin-off of Cable Michigan and RCN Corporation. While it is anticipated that the proposed restructuring will occur by the fourth quarter, the spin-offs are subject to receipt of other regulatory approvals and other conditions. If the reorganization and spin-offs occur, the Group will own less than 50% of the outstanding shares and voting rights of each entity, and will therefore account for each entity using the equity method for all of 1997.

On May 12, 1997, C-TEC announced that it had proposed to acquire the 38% of the common stock of Mercom not currently owned by it in exchange for 8.75% of the common stock of C-TEC Michigan. The proposed exchange ratio is based on the assumption that C-TEC Michigan will have \$125 million of debt outstanding at the time of the transaction.

The proposal is subject to certain conditions, including the consummation of C-TEC's restructuring and the receipt of all required regulatory approvals. On June 23, 1997, C-TEC announced that due to the earlier than anticipated IRS approval of its own restructuring, it was suspending discussions with Mercom until after its restructuring was complete. C-TEC reserves the right to withdraw its proposal at any time prior to the execution of a definitive agreement. There can be no assurance as to the terms of any transaction or that any transaction will take place.

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