

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 11/14/97 for the Period Ending 09/30/97

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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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 September 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 November 3, 1997:

Class C Common Stock 10,129,725 shares Class D Common Stock 26,621,725 shares

PETER KIEWIT SONS', INC.

Part I - Financial Information

Item 1. Financial Statements:

Consolidated Condensed Statements of Operations 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 6. Exhibits and Reports on Form 8-K

PETER KIEWIT SONS', INC.**Consolidated Condensed Statements of Operations**
(unaudited)

(dollars in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenue	\$ 896	\$ 809	\$ 2,180	\$ 2,186
Cost of Revenue	(785)	(670)	(1,877)	(1,842)
	-----	-----	-----	-----
	111	139	303	344
General and Administrative Expenses	(53)	(53)	(147)	(177)
	-----	-----	-----	-----
Operating Earnings	58	86	156	167
Other Income (Expense):				
Equity Losses, net	(12)	(2)	(17)	(3)
Investment Income, net	12	14	34	48
Interest Expense, net	(5)	(9)	(13)	(24)
Other, net	9	5	29	19
	-----	-----	-----	-----
	4	8	33	40
	-----	-----	-----	-----
Income from Continuing Operations Before Income Taxes and Minority Interest	62	94	189	207
Provision for Income Taxes	(23)	(36)	(73)	(79)
Minority Interest in Net Loss (Income) of Subsidiaries	1	-	2	(1)
	-----	-----	-----	-----
Income from Continuing Operations	40	58	118	127
Discontinued Operations:				
Income from Operations, net of income taxes of (\$8), (\$3), (\$15) and (\$6)	13	5	26	7
Extraordinary Item - Windfall tax, net of income tax benefit of \$34	(63)	-	(63)	-
	-----	-----	-----	-----
Income (Loss) from Discontinued Operations	(50)	5	(37)	7
	-----	-----	-----	-----
Net Earnings(Loss)	\$ (10)	\$ 63	\$ 81	\$ 134
	=====	=====	=====	=====
Earnings Attributable to Class B&C Stock	\$ 34	\$ 39	\$ 84	\$ 75
	=====	=====	=====	=====
Earnings (Loss) Attributable to Class D Stock:				
Continuing Operations	6	19	34	52
Discontinued Operations	(50)	5	(37)	7
	-----	-----	-----	-----
	\$ (44)	\$ 24	\$ (3)	\$ 59
	=====	=====	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.**Consolidated Condensed Statements of Operations**
(unaudited)

(dollars in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Primary Earnings per Share:				
Class B&C	\$ 3.38	\$ 3.64	\$ 8.76	\$ 7.18
	=====	=====	=====	=====
Class D				
Continuing Operations	\$.26	\$.76	\$ 1.40	\$ 2.19
Discontinued Operations:				
Income from Operations	.55	.22	1.08	.33
Extraordinary Item	(2.59)	-	(2.59)	-
	-----	-----	-----	-----
Discontinued Operations	(2.04)	.22	(1.51)	.33
	-----	-----	-----	-----
Net Income (Loss)	\$ (1.78)	\$.98	\$ (.11)	\$ 2.52
	=====	=====	=====	=====
Fully Diluted Earnings per Share:				
Class B&C	\$ 3.26	\$ 3.53	\$ 8.42	\$ 6.97
	=====	=====	=====	=====
Class D				
Continuing Operations	\$.26	\$.76	\$ 1.40	\$ 2.19
Discontinued Operations:				
Income from Operations	.55	.22	1.08	.33
Extraordinary Item	(2.59)	-	(2.59)	-
	-----	-----	-----	-----
Discontinued Operations	(2.04)	.22	(1.51)	.33
	-----	-----	-----	-----
Net Income (Loss)	\$ (1.78)	\$.98	\$ (.11)	\$ 2.52
	=====	=====	=====	=====

Cash Dividends Declared per Common Share:

Class B&C	\$ -	\$ -	\$.70	\$.60
	=====	=====	=====	=====
Class D	\$ -	\$ -	\$ -	\$ -
	=====	=====	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

(dollars in millions, except per share data)	September 30, 1997	December 28, 1996
	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 522	\$ 320
Marketable securities	373	426
Restricted securities	22	17
Receivables, less allowance of \$15 and \$20	463	357
Costs and earnings in excess of billings on uncompleted contracts	118	80
Investment in construction joint ventures	148	91
Deferred income taxes	46	59
Other	51	45
	-----	-----
Total Current Assets	1,743	1,395
Property, Plant and Equipment, less accumulated depreciation and amortization of \$665 and \$774	391	807
Investments	531	283
Investments in Discontinued Operations	597	608
Intangible Assets, net	55	368
Other Assets	43	72

-----	-----
\$ 3,360	\$ 3,533
=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

	September 30, 1997	December 28, 1996
(dollars in millions, except per share data)	(unaudited)	
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 268	\$ 235
Current portion of long-term debt:		
Telecommunications	-	55
Other	11	2
Accrued costs and billings in excess of revenue on uncompleted contracts	302	124
Accrued insurance costs	86	81
Other	83	140
	-----	-----
Total Current Liabilities	750	637
Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	151	125
Deferred Income Taxes	158	146
Retirement Benefits	40	48
Accrued Reclamation Costs	100	99
Other Liabilities	182	234
Minority Interest	11	218
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding	-	-
Common stock, \$.0625 par value, \$1.8 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:		
10,082,829 outstanding in 1997 and 10,743,173 in 1996	1	1
Class D, authorized 50,000,000 shares:		
25,386,725 outstanding in 1997 and 23,219,744 in 1996	1	1
Additional paid-in capital	317	235
Foreign currency adjustment	(8)	(7)
Net unrealized holding gain	18	23
Retained earnings	1,639	1,566
	-----	-----
Total Stockholders' Equity	1,968	1,819
	-----	-----
	\$ 3,360	\$ 3,533
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows (unaudited)

	Nine Months Ended September 30, 1997	1996
(dollars in millions)		
Cash flows from continuing operations:		
Net cash provided by continuing operations	\$ 341	\$ 226
Cash flows from investing activities:		

Proceeds from sales and maturities of marketable securities	212	312
Purchases of marketable securities	(193)	(283)
Change in restricted securities	4	2
Proceeds from sale of property, plant and equipment, and other investments	36	25
Capital expenditures	(110)	(138)
Acquisitions and investments, net	(53)	(41)
Other	-	3
	-----	-----
Net cash used in investing activities	(104)	(120)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	21	35
Payments on long-term debt, including current portion	(2)	(40)
Net change in short-term borrowings	-	(45)
Repurchases of common stock	(2)	(15)
Dividends paid	(25)	(25)
Issuance of common stock	83	28
	-----	-----
Net cash provided by (used in) financing activities	75	(62)
Cash flows from discontinued operations:		
Discontinued operations	-	3
Investments in discontinued operations	(34)	(55)
	-----	-----
Net cash used by discontinued operations	(34)	(52)
Cash and cash equivalents of C-TEC at beginning of year	(76)	-
	-----	-----
Net change in cash and cash equivalents	202	(8)
Cash and cash equivalents at beginning of period	320	457
	-----	-----
Cash and cash equivalents at end of period	\$ 522	\$ 449
	=====	=====
Noncash investing activities from discontinued operations:		
Conversion of CalEnergy Convertible Debentures to CalEnergy Common Stock	\$ -	\$ 66

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.

On July 1, 1997, the Company paid \$5 million to increase its ownership in ME Holding Inc. ("ME Holding") from 49% to 80%. The Company consolidated ME Holding in its 1997 financial statements and accounted for it using the equity method in 1996. The purchase price of \$5 million was in the form of a note payable to the minority shareholder and is payable on demand.

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

Receivables at September 30, 1997 and December 28, 1996 include approximately \$74 million and \$86 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year. Included in accounts receivable are \$44 million and \$53 million of securities which are being held by the owners of various construction projects in lieu of retainage.

The results of operations for the nine months ended September 30, 1997 are not necessarily indicative of the results to be expected for the full

year.

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

2. Discontinued Operations

On September 10, 1997, the Company and CalEnergy Company, Inc. ("CalEnergy") entered into an agreement whereby CalEnergy contracted to purchase the Company's energy investments for \$1,155 million, subject to adjustments. These energy investments include approximately 20 million shares of CalEnergy common stock (assuming the exercise of 1 million options held by the Company), the Company's 30% ownership interest in CE Electric UK, plc ("CE Electric") and the Company's investments, made jointly with CalEnergy, in international power projects in Indonesia and the Philippines. The transaction is subject to the satisfactory completion of certain provisions of the agreement and is expected to close in early 1998. These assets comprise the energy segment of the Company. Therefore, the Company has reflected these assets, the earnings and losses attributable to these assets, and the related cash flow items as discontinued operations on the consolidated condensed balance sheets and statements of operations and cash flows for all periods presented. The Company is no longer required to provide additional capital to these entities through the closing date.

In order to fund the purchase of these assets, CalEnergy sold, in October 1997, approximately 19.1 million shares of its common stock at a price of \$37.875 per share. This sale reduced the Company's ownership in CalEnergy to approximately 23% but increased its proportionate share of CalEnergy's equity. It is the Company policy to recognize gains or losses on the sale of stock by its investees. The Company expects to recognize an after-tax gain of approximately \$50 million from this transaction in the fourth quarter of 1997.

The agreement with CalEnergy includes a provision whereby CalEnergy and the Company are to share equally any proceeds from the offering above or below a specified amount. The offering was conducted at a price above that provided in the agreement and therefore, the Company expects to receive additional proceeds of up to \$20 million at the time of closing.

The Company expects to recognize an after-tax gain on the disposition of its energy assets in 1998 of approximately \$300 million. The after-tax proceeds from the transaction of approximately \$960 million will be used to fund the expansion plan of the information services business.

The following is summarized financial information for discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Income from Discontinued Operations	1997	1996	1997	1996
Operations				
Equity in:				
CalEnergy earnings, net	\$ 13	\$ 7	\$ 29	\$ 14
CE Electric earnings, net	2	-	11	-
Earnings in international energy projects	6	(1)	1	(6)
CalEnergy debenture interest	-	2	-	5
Income tax expense	(8)	(3)	(15)	(6)
	-----	-----	-----	-----
Income from operations	\$ 13	\$ 5	\$ 26	\$ 7
	=====	=====	=====	=====
Extraordinary Loss - Windfall Tax				
Company's share from CE Electric	\$ (58)	\$ -	\$ (58)	\$ -
Company's share from CalEnergy	(39)	-	(39)	-
Income tax benefit	34	-	34	-
	-----	-----	-----	-----
Extraordinary Loss	\$ (63)	\$ -	\$ (63)	\$ -
	=====	=====	=====	=====

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

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted on July 31, 1997. The total impact to the Company, directly through its investment in CE Electric and indirectly through its 30% interest in CalEnergy, was \$63 million.

The following summarizes the investments in discontinued operations:

	September 30, 1997 (unaudited)	December 28, 1996
Investment in CalEnergy	\$ 282	\$ 292
Investment in CE Electric	129	176
Investment in international energy projects	184	157
Deferred income tax asset (liability)	2	(17)
	-----	-----
Total	\$ 597 =====	\$ 608 =====

3. Earnings Per Share:

Primary and fully diluted earnings (loss) 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. In 1997, operations attributable to Class D Stock resulted in a loss. Therefore, the anti-dilutive effect of the Class D options was not included in the per share calculations. The number of shares used in computing earnings (loss) per share was as follows:

	Three Months Ended September 30, 1997		Nine Months Ended September 30, 1996	
Primary earnings per share:				
Class B&C	10,086,016	11,013,724	9,570,079	10,542,158
Class D	24,585,375	23,181,785	24,513,018	23,207,898
Fully diluted earnings per share:				
Class B&C	10,522,849	11,368,613	10,006,912	10,899,549
Class D	24,585,375	23,181,785	24,513,018	23,207,898

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 operations.

4. 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 information services businesses operated by PKS Information Services, Inc., coal mining properties owned by Kiewit Coal Properties Inc., communications companies owned by Commonwealth Telephone Enterprises, Inc., RCN Corporation, Inc. and Cable Michigan, Inc., California Private Transportation Company, L.P. ("CPTC"), the owner-operator of the SR91 toll road in California, and miscellaneous investments. KDG also owns interests in CalEnergy, CE Electric and several international energy projects in Indonesia and the Philippines. These energy assets will be sold to CalEnergy in 1998 pending the satisfactory completion of certain provisions of the agreement. 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 September 30, 1997		Nine Months Ended September 30, 1996	
Results of Operations:				
Revenue	\$ 824	\$ 651	\$ 1,968	\$ 1,729
Net earnings	34	39	84	75
Primary earnings per share	3.38	3.64	8.76	7.18
Fully diluted earnings per share	3.26	3.53	8.42	6.97
Financial Position:				
	September 30, 1997		December 28, 1996	

Working capital	\$	389	\$	367
Total assets		1,384		1,042
Long-term debt, less current portion		17		12
Stockholders' equity		593		562

Included within the results of operations are mine management fees paid by the Diversified Group of \$7 million and \$9 million for the three months ended September 30, 1997 and 1996 and \$23 million and \$24 million for the nine months ended September 30, 1997 and 1996.

(in millions, except per share data)

Diversified Group:		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		1997	1996	1997	1996
Results of Operations:					
Revenue	\$	80	\$ 165	\$ 241	\$ 482
Net income (loss):					
Continuing operations		6	19	34	52
Discontinued operations		(50)	5	(37)	7
		-----	-----	-----	-----
	\$	(44)	\$ 24	\$ (3)	\$ 59
		=====	=====	=====	=====
Primary and fully diluted earnings					
(Loss) per share:					
Continuing operations		.26	.76	1.40	2.19
Discontinued operations		(2.04)	.22	(1.51)	.33
		-----	-----	-----	-----
	\$	(1.78)	\$.98	\$ (.11)	\$ 2.52
		=====	=====	=====	=====
		September 30,		December 28,	
		1997		1996	
Financial Position:					
Working capital	\$	604	\$	391	
Total assets		2,013		2,511	
Long-term debt, less current portion		134		320	
Stockholders' equity		1,375		1,257	

Included within the results of operations are mine management fees paid to the Construction & Mining Group of \$7 million and \$9 million for the three months ended September 30, 1997 and 1996 and \$23 million and \$24 million for the nine months ended September 30, 1997 and 1996.

5. Acquisitions:

In December 1996, CE Electric which is 70% owned by CalEnergy and 30% owned 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 in November 1996. As of March 1997, CE Electric effectively owned 100% of Northern's ordinary shares.

As of September 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 and a revolving facility agreement obtained by CE Electric. KDG has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

The Company's investment in CE Electric and the earnings and losses associated with CE Electric are included in discontinued operations.

In April 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.

6. Investments:

KDG is able to defer the tax on \$40 million of 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. In June 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%.

KDG has also begun construction on a second data center for the information services business in Phoenix, Arizona. The cost of the building, approximately \$11 million, will be applied against the \$40 million gain. KDG may make additional real estate investments to defer the remaining balance.

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

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

The Company and CalEnergy had 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. In June 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.

The Company's investments in the international energy projects and the earnings and losses associated with these investments are included in discontinued operations.

7. C-TEC Restructuring:

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

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

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

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

The restructuring is expected to permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring has allowed C-TEC to raise capital on more efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million and in October 1997, RCN issued \$575 million of debt. These proceeds were used to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

As a result of the restructuring, KDG owns less than 50% of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method as of the beginning of 1997. C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 consolidated financial statements. The financial position of each entity at September 30, 1997 and December 28, 1996 (pro-forma) and KDG's proportionate share of the equity in each entity including allocated goodwill was as follows:

	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
	1997	1996	1997	1996	1997	1996
Financial Position:						
Current assets	\$ 81	\$ 51	\$ 18	\$ 10	\$ 247	\$ 143
Other assets	291	266	124	139	352	485
Total assets	372	317	142	149	599	628
Current liabilities	76	59	17	24	72	57
Other liabilities	262	189	163	190	138	175
Minority interest	-	-	15	15	15	5
Total liabilities	338	248	195	229	225	237

	-----	-----	-----	-----	-----	-----
Net assets (liabilities)	\$ 34	\$ 69	\$ (53)	\$ (80)	\$ 374	\$ 391
	=====	=====	=====	=====	=====	=====
KDG's Share:						
Equity in net assets	\$ 17	\$ 33	\$ (26)	\$ (38)	\$ 181	\$ 189
Goodwill	82	58	58	75	32	41
	-----	-----	-----	-----	-----	-----
	\$ 99	\$ 91	\$ 32	\$ 37	\$ 213	\$ 230
	=====	=====	=====	=====	=====	=====

The results of operations for each entity for the nine months ended September 30, 1997 and 1996, and KDG's proportionate share, including goodwill amortization were as follows:

	Commonwealth Telephone Enterprises		Cable Michigan		RCN Corporation	
	1997	1996	1997	1996	1997	1996
Results of Operations:						
Revenue	\$ 145	\$139	\$ 61	\$ 57	\$ 92	\$ 76
Net income (loss) available to common stockholders	18	17	(3)	(7)	(35)	(1)
KDG's Share:						
Net income (loss)	\$ 9	\$ 8	\$ (1)	\$ (3)	\$ (17)	\$ -
Goodwill amortization	(1)	(3)	(3)	(2)	-	(2)
	-----	-----	-----	-----	-----	-----
Equity in net income (loss)	\$ 8	\$ 5	\$ (4)	\$ (5)	\$ (17)	\$ (2)
	=====	=====	=====	=====	=====	=====

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 December 28, 1996 and for the three and nine months ended September 30, 1996. The financial statements for 1997 include C-TEC accounted for utilizing the equity method. They are presented here for comparative purposes only.

(dollars in millions)	September 30, 1997	December 28, 1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 522	\$ 244
Marketable securities	373	379
Restricted securities	22	17
Receivables, less allowance of \$15 and \$17	463	315
Costs and earnings in excess of billings on uncompleted contracts	118	80
Investment in construction joint ventures	148	91
Deferred income taxes	46	49
Other	51	32
	-----	-----
Total Current Assets	1,743	737
Property, Plant and Equipment, net		
Investments	391	339
Investments in Discontinued Operations	531	549
Intangible Assets, net	597	608
Other Assets	55	38
	43	47
	-----	-----
	\$ 3,360	\$ 2,788
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 268	\$ 197
Current portion of long-term debt	11	2
Accrued costs and billings in excess of revenue on uncompleted contracts	302	112
Accrued insurance costs	86	81
Other	83	78
	-----	-----
Total Current Liabilities	750	470
Long-Term Debt, less current portion		
Deferred Income Taxes	151	125
Retirement Benefits	158	45
Accrued Reclamation Costs	40	45
Other Liabilities	100	99
	182	181

Minority Interest	11	4
Total Stockholders' Equity	1,968	1,819
	-----	-----
	\$ 3,360	\$ 2,788
	=====	=====

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	1997	1996	1997	1996
Revenue	\$ 896	\$ 719	\$ 2,180	\$ 1,913
Cost of Revenue	(785)	(611)	(1,877)	(1,659)
	-----	-----	-----	-----
	111	108	303	254
General and Administrative Expenses	(53)	(32)	(147)	(113)
	-----	-----	-----	-----
Operating Earnings	58	76	156	141
Other Income (Expense):				
Equity Earnings (Loss), net	(12)	2	(17)	(4)
Investment Income, net	12	12	34	39
Interest Expense, net	(5)	(1)	(13)	(4)
Other, net	9	4	29	24
	-----	-----	-----	-----
	4	17	33	55
	-----	-----	-----	-----
Income from Continuing Operations Before Income Taxes and Minority Interest	62	93	189	196
Provision for Income Taxes	(23)	(36)	(73)	(72)
Minority Interest in Net Loss of Subsidiaries	1	1	2	3
	-----	-----	-----	-----
Income from Continuing Operations	40	58	118	127
Income (Loss) from Discontinued Operations	(50)	5	(37)	7
	-----	-----	-----	-----
Net Earnings (Loss)	\$ (10)	\$ 63	\$ 81	\$ 134
	=====	=====	=====	=====

	Nine Months Ended September 30,	
(dollars in millions)	1997	1996
Cash flows from continuing operations:		
Net cash provided by continuing operations	\$ 341	\$ 164
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	212	223
Purchases of marketable securities	(193)	(261)
Change in restricted securities	4	2
Proceeds from sale of property, plant and equipment, and other investments	36	25
Capital expenditures	(110)	(80)
Acquisitions and investments, net	(53)	(15)
Other	-	3
	-----	-----
Net cash used in investing activities	(104)	(103)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	21	16
Payments on long-term debt including current portion	(2)	(6)
Net change in short-term borrowings	-	(45)
Repurchases of common stock	(2)	(15)
Dividends paid	(25)	(24)
Issuance of common stock	83	27
	-----	-----
Net cash provided by (used in) financing activities	75	(47)
Cash flows used in discontinued operations	(34)	(52)
	-----	-----

Net change in cash and cash equivalents	278	(38)
Cash and cash equivalents at beginning of period	244	408
	-----	-----
Cash and cash equivalents at end of period	\$ 522	\$ 370
	=====	=====

8. Other Matters:

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

The separation of the Construction and Mining Group and the Diversified Group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid-year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

If the Transaction is approved by the Company's shareholders, the historical financial statements of the Company will be restated to reflect the historical basis financial information of KCG as discontinued operations. The separation of KCG from the Company will be accounted for at fair value and following the Transaction the Company will continue to account for KDG's results on a historical cost basis. After the Transaction, the construction and materials business will be operated by the management of KCG which will continue to account for KCG's results on a historical cost basis in its separate financial statements.

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

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

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

The 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

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

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

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

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

	1997	1996
Construction	\$ 824	\$ 651
Coal Mining	50	61
Telecommunications	-	90
Information Services	27	11
Other	3	3
Eliminations	(8)	(7)
	-----	-----
	\$ 896	\$ 809
	=====	=====

Construction. KCG's construction operations can be separated into two components; construction and materials. Construction and materials revenue for the three months ended September 1997 increased 27%, or \$173 million, from the same period in 1996. Construction revenues were up 26% compared to 1996. The consolidation of ME Holding in 1997 resulted in an additional \$77 million of revenue for KCG. In addition to ME Holding, several large sole contracts and joint ventures became fully mobilized and entered into their peak construction phase of work. Materials revenue was up 32% in 1997. Strong market conditions and the acquisition of additional plant facilities in Arizona were responsible for approximately 66% of the increase in sales. The remaining sales growth was due to increases in cement costs which were passed on to customers.

Contract backlog at September 30, 1997 was \$3.7 billion of which 8% is attributable to foreign operations located in Canada and Indonesia. Domestic projects are spread geographically throughout the U.S. Included in backlog is \$673 million for the "I-15" project awarded in late March. KCG is the sponsoring partner on the design-build joint venture reconstructing 16 miles of Interstate 15 through the Salt Lake City, Utah area. It is expected to be completed in December of 2001.

Margins on construction projects for the third quarter of 1997 declined from 11% to 9% for the same period in 1996. The recognition of income on design-build contracts tends to be recognized later in the construction cycle due to the complexities of these types of projects. The awarding of several of these types of contracts in 1997, including "I-15", resulted in lower margins to the Company. The completion of the design-build San Joaquin toll road project in late 1996 contributed to the higher returns in that year. Material margins, as a percentage of revenue, in 1997 were unchanged from 1996.

Coal Mining. Mining revenue declined 18% in the third 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 and third quarters of 1996. In 1997, the opposite scenario occurred. Commonwealth took delivery of more coal in the first quarter than was required but reduced its purchases in the second and third quarters. Overall, the Company's alternate source coal revenues declined \$6 million for the quarter ended September 30, 1997. Spot coal sales also declined in 1997. In the third quarter of 1996, a customer bought out its remaining 1996 obligations. The customer was not required to take delivery of the coal by paying 60% of the contracted price.

Costs as a percentage of revenue for the coal mining operations in the third quarter of 1997 were consistent with that of the prior year. The decline in revenue from the customer who bought out its obligations in 1996, and declines in higher margin alternate source coal sales, were offset by improved mining efficiencies at the Black Butte mine and a decline in costs as the 1996 costs include certain equipment write-offs.

Information Services. The Company'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 146% to \$27 million for the three months ended September 30, 1997 compared to the same period in 1996. The increase in revenue is attributable to signing several new outsourcing contracts in late 1996 and the increased focus of customers on Year 2000 compatibility, code restructuring and software re-engineering.

The operating costs of the information services business doubled to \$16 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs for the systems integration business increased significantly compared to the prior year. Operational efficiencies were recognized in 1997 through the increased utilization of existing computer hardware.

General and Administrative Expenses. In 1997, general and administrative expenses no longer include the expenses of C-TEC but do include those of ME Holding. Had C-TEC and ME Holding been accounted for using the equity method in both years, general and administrative expenses would have been \$48 million and \$32 million in 1997 and 1996, respectively. The additional costs associated with the expanding information services business, the professional fees incurred for the CalEnergy transaction and the proposed separation of the Construction and Diversified groups and higher compensation costs all contributed to the increase in administrative expenses.

Equity Losses, net. The telecommunications segment of the Company is now comprised of the three entities created in the C-TEC restructuring. The Company's voting rights in each of the three entities has fallen below 50% and each entity is now accounted for utilizing the equity method. Equity losses now exclude the earnings of ME Holding which is consolidated in 1997. Had these entities been accounted for under the equity method in both periods, equity losses would have been (\$9) million in 1997 and \$2 million in 1996. This decline is attributable to the losses incurred by RCN to develop the Boston, New York and Washington, D.C. markets.

Investment Income, net. Investment income in 1996, excluding C-TEC investment income of \$2 million, was consistent with that of 1997. The 1997 average portfolio balance and average interest rates for the period did not vary significantly from that of 1996.

Interest Expense, net. Interest expense increased \$4 million in 1997 excluding C-TEC's \$8 million of interest expense in 1996. CPTC incurred \$3 million of interest costs in the third quarter of 1996 of which \$1 million was capitalized due to the construction of the toll road. In 1997, CPTC also incurred \$3 million of interest costs all of which was charged against earnings. The interest on the debt incurred by KCG to purchase ME Holding and assumed in the Oak Mountain acquisition, and the debt incurred by KDG to purchase the real estate in Colorado also contributed to the increase in interest expense.

Other, net. Other income increased 80% in 1997. Additional gains on the sale and disposition of construction equipment was the primary factor contributing to the increase in other income.

Provision for Income Taxes. The effective income tax rates for the third quarter of 1997 and 1996 were 37% and 38%, respectively. These rates differ from the expected statutory rate of 35% primarily due to the state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. The losses associated with the SR91 toll road were partially offset by the income allocated to ME Holding's minority shareholders in the third quarter of 1997. In 1996, losses of (\$2) million of CPTC were offset by the income of the C-TEC companies.

Discontinued Operations. Equity earnings, net of tax, increased 160% in the third quarter of 1997. The Company's proportionate share of CalEnergy's earnings, net of tax, increased \$4 million in the third quarter of 1997 to \$8 million. The conversion of CalEnergy debentures to common stock and the exercise of options increased the Company's ownership interest in CalEnergy from 23% at July 1, 1996 to 30% at September 30, 1997. CalEnergy's earnings also increased primarily due to the completion and commencement of operations at the Salton Sea Unit IV geothermal facility, the purchase of three cogeneration facilities and the acquisition of Northern Electric all of which occurred in the last half of 1996 and the commencement of operations at the Mahanagdong geothermal facility in July, 1997. In addition to contributing to CalEnergy's earnings, the Company's proportionate share of Mahanagdong and Northern Electric, net of tax, also provided \$2 million and \$1 million of income. Partially offsetting these gains were losses attributable to the Casecan project. The Casecan 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.

Also contained in discontinued operations is the extraordinary loss of \$63 million, net of tax, from the Windfall tax imposed by the British government in 1997.

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

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

	1997	1996
Construction	\$ 1,968	\$ 1,729
Coal Mining	165	172
Telecommunications	-	273
Information Services	67	30
Other	9	7
Eliminations	(29)	(25)
	-----	-----
	\$ 2,180	\$ 2,186
	=====	=====

Construction. Construction and materials revenues for the nine months ended September 30, 1997 increased \$239 million or 14% compared to the same period in 1996. Construction revenues were up 13% compared to 1996. The inclusion of ME Holding in the consolidated results in 1997 contributed \$174 million to construction revenue. Material revenues also increased by 18% in 1997. Strong market conditions in Arizona and the acquisitions of additional facilities in Arizona and the Pacific Northwest were responsible for 60% of the sales growth in 1997. The remaining growth was due to higher cement costs in Arizona that were passed on to customers.

Margins on construction projects as a percentage of revenue for the first nine months of 1997 increased from 9% to 10% due to change order settlements, cost efficiencies, and early completion bonuses. Materials margins as a percentage of revenues decreased slightly from 10% to 9% due to the increased cost of concrete.

Coal Mining. Coal sales declined 4% during the first nine months of 1997. Alternate source coal sales decreased \$6 million primarily due to the reduced contractual obligations of customers. Contracted coal sales also declined slightly in 1997. Reduced coal sales to Detroit Edison

Company, which is temporarily behind in purchasing its 1997 contracted coal, is partially offset by additional sales to Mississippi Power.

Operating costs as a percentage of revenue were virtually unchanged from the same period in 1996. The declines in higher margin alternate source coal sales and proceeds from a customer who had bought out its obligations, were offset by improved mining efficiencies at the Black Butte mine and a decline in costs as the 1996 costs include certain equipment write-offs.

Information Services. Revenue for information services business increased 123% to \$67 million for the nine months ended September 30, 1997. The increase in revenue is attributable to signing several new outsourcing contracts in late 1996 and the increased focus of customers on Year 2000 compatibility, code restructuring and software re-engineering.

The operating costs of the information services business increased 86% to \$41 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs all increased significantly 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 in 1997 and 1996 would have been \$137 million and \$113 million had C-TEC and ME Holding been accounted for using the equity method in both years. Increases in the expenses associated with the information services business, compensation expenses and professional fees incurred for the proposed restructuring and the CalEnergy transaction led to the increase in general and administrative expenses.

Equity Losses, net. Losses attributable to equity investees increased to (\$14) in 1997 from (\$4) in 1996 assuming ME Holding and C-TEC were accounted for using the equity method in both years. The costs of RCN's continued expansion into Boston, New York City and Washington D.C. and the \$10 million of costs incurred in connection with the buyout of a marketing contract with minority shareholders are responsible for the increase in equity losses.

Investment Income, net. Investment income, excluding C-TEC's \$9 million of income in 1996, declined 13% in 1997. A reduction in the average portfolio balance for the period, due to significant investments in CE Electric and the international energy projects, and a decline in the gains recognized on sales of securities all contributed to the reduction in investment income.

Interest Expense, net. Interest expense decreased in 1997 to \$13 million from \$24 million in 1996. In 1996, interest expense includes \$20 million of expense attributable to C-TEC. In 1996, CPTC incurred \$8 million of interest costs of which \$6 million was capitalized prior to the commencement of operations on August 1, 1996. In 1997, CPTC incurred \$8 million of interest, all of which was charged against earnings. The interest incurred by KCG to purchase ME Holding and assumed in the Oak Mountain transaction, and the borrowing by KDG for the Colorado property account for the remaining increase in interest expense.

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 construction equipment of \$7 million, and increases in miscellaneous income, led to the increase in other income.

Provision for Income Taxes. The effective income tax rates of 39% in 1997 and 38% in 1996 differ from the expected statutory rate of 35% primarily due to state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. Minority interest in 1997 is now comprised of the earnings and losses attributable to the minority shareholders of CPTC and ME Holding. The income and (losses) that were allocated to CPTC's and ME Holding's minority shareholders were (\$3) and \$1 million in 1997.

Discontinued Operations. Equity earnings, net of tax, increased significantly in 1997. The Company's proportionate share of CalEnergy's earnings, net of tax, increased \$10 million in 1997 to \$19 million. An increase in the Company's share of CalEnergy's earnings and improvement in those earnings, primarily due to the commencement of operations at a geothermal facility, and the acquisitions of three congeneration facilities and Northern Electric, contributed to the increase. The Company's proportionate share of Northern Electric, which was acquired in December 1996, provided \$7 million of income after taxes.

Also contained in discontinued operations is the extraordinary loss of \$63 million, net of tax, from the Windfall tax imposed by the British government in 1997.

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

Excluding C-TEC, the Company's working capital increased \$256 million or 34% during the first nine months of 1997. The increase was mainly due to cash provided by operations, including \$146 million of tax and interest refunds, and financing activities. The increase was partially offset by cash used to fund investing activities and discontinued operations.

Investing activities include \$53 million of investments, and \$110 million of capital expenditures, including \$89 million for construction equipment and \$11 million for equipment of the information services business. The investments primarily include KDG's \$22 million for a real estate investment and KCG's \$15 million investment in Oak Mountain. These capital outlays were partially offset by \$19 million of net

proceeds from the sale of marketable securities and \$36 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$34 million and \$49 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.

Prior to the agreement with CalEnergy, the Company invested \$34 million in the Dieng, Patuha and Bali power projects in Indonesia during 1997.

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

The separation of the Construction and Mining Group and the Diversified Group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid-year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

The Company anticipates making significant investments in its construction and information services businesses. KDG has recently decided to substantially increase its emphasis on and resources to its information services business, with a view to becoming a facilities-based provider of a broad range of integrated information services to business. Pursuant to the plan, KDG intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

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

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

KDG anticipates that the capital expenditures required to implement this expansion plan will be substantial. KDG anticipates that these costs may be in excess of \$1 billion per year within approximately two years after the separation of KCG from the Company.

Subsequent to September 30, 1997, the Company sold \$67 million of Class D Stock to employees and declared a Class C Stock cash dividend of \$.80 per share payable in January 1998. Long-term liquidity uses include payment of income taxes and repurchasing the Company's stock. The Company's current financial condition, borrowing capacity and proceeds from the CalEnergy transaction should be sufficient for immediate operating and investing activities.

In late 1995, a KDG and CalEnergy venture, CE Casecnan Water and Energy Company, Inc., ("CE Casecnan") closed financing and commenced construction of a \$495 million irrigation and hydroelectric power project located on the Philippine island of Luzon. 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. On May 7, 1997, CE Casecnan announced that it had terminated the Hanbo Contract. In connection with the contract termination, CE Casecnan made a \$79 million draw request under the letter of credit issued by Korea First Bank ("KFB") to pay for certain transition costs and other damages under the Hanbo Contract. KFB failed to honor the draw request; the matter is being litigated. If KFB would not be required to honor its obligations under the letter of credit, such action may have a material adverse effect on the CE Casecnan project. KDG does not expect the outcome of the litigation to affect its financial position due to the transactions contemplated with CalEnergy.

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

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

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

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

The restructuring is expected to permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring has allowed C-TEC to raise capital on more efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million and in October 1997, RCN issued \$575 million of debt. These proceeds were used to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

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 third 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: November 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 September 30, 1997 and 1996

	Class C Stock			
	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Actual weighted shares outstanding for the period	10,086,016	11,013,724	9,570,079	10,542,158
Dilutive stock options using average market price	- -----	- -----	- -----	- -----
Total number of shares used to compute primary earnings per share.	10,086,016	11,013,724	9,570,079	10,542,158
Additional dilutive stock options using ending market price	-	-	-	-
Additional dilutive shares assuming conversion of convertible debentures	436,833 -----	354,889 -----	436,833 -----	357,391 -----
Total number of shares used to compute fully diluted earnings per share	10,522,849 =====	11,368,613 =====	10,006,912 =====	10,899,549 =====
Net income from continuing operations available to common shareholders	\$ 34,141	\$ 40,078	\$ 83,858	\$ 75,726
Add: Interest expense, net of tax effect associated with convertible debentures	126 -----	96 -----	393 -----	286 -----
Net income from continuing operations for fully diluted shares	\$ 34,267	\$ 40,174	\$ 84,251	\$ 76,012
Discontinued operations: Income (Loss) from discontinued operations, net of tax	-	-	-	-
Extraordinary Item - Windfall Tax	- -----	- -----	- -----	- -----
Total Discontinued Operations	\$ - -----	\$ - -----	\$ - -----	\$ - -----
Net Income	\$ 34,267 =====	\$ 40,174 =====	\$ 84,251 =====	\$ 76,012 =====
Primary earnings per share:				
Continuing Operations	3.38	3.64	8.76	7.18
Discontinued Operations:				
Discontinued operations	-	-	-	-
Extraordinary Item - Windfall tax	- -----	- -----	- -----	- -----
Total Discontinued Operations	\$ - -----	\$ - -----	\$ - -----	\$ - -----
Primary earnings per share:	\$ 3.38 =====	\$ 3.64 =====	\$ 8.76 =====	\$ 7.18 =====
Fully diluted earnings per share				
Continuing operations	3.26	3.53	8.42	6.97
Discontinued operations:				
Discontinued operations	-	-	-	-

Extraordinary Item - Windfall tax	-	-	-	-
	-----	-----	-----	-----
Total Discontinued Operations	-	-	-	-
	-----	-----	-----	-----
Fully diluted earnings per share	\$ 3.26	\$ 3.53	\$ 8.42	\$ 6.97
	=====	=====	=====	=====

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

	Class D Stock			
	Three Months Ended September 30, 1997	September 30, 1996	Nine Months Ended September 30, 1997	September 30, 1996
Actual weighted shares outstanding for the period	24,585,375	23,181,785	24,513,018	23,207,898
Dilutive stock options using average market price	-	-	-	-
	-----	-----	-----	-----
Total number of shares used to compute primary earnings per share.	24,585,375	23,181,785	24,513,018	23,207,898
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.	24,585,375	23,181,785	24,513,018	23,207,898
	=====	=====	=====	=====
Net income from continuing operations available to common shareholders	\$ 6,330	\$ 17,638	\$ 34,369	\$ 50,972
Add: Interest expense, net of tax effect associated with convertible debentures	-	-	-	-
	-----	-----	-----	-----
Net income from continuing operations for fully diluted shares	\$ 6,330	\$ 17,638	\$ 34,369	\$ 50,972
	=====	=====	=====	=====
Discontinued operations: Income (Loss) from discontinued operations, net of tax	13,478	5,119	26,406	7,589
Extraordinary Item - Windfall Tax	(63,594)	-	(63,594)	-
	-----	-----	-----	-----
Total Discontinued Operations	\$ (50,116)	\$ 5,119	\$ (37,188)	\$ 7,589
	-----	-----	-----	-----
Net Income	\$ (43,786)	\$ 22,757	\$ (2,819)	\$58,561
	=====	=====	=====	=====
Primary earnings per share:				
Continuing Operations	0.26	0.76	1.40	2.19
Discontinued Operations:				
Discontinue operations	0.55	0.22	1.08	0.33
Extraordinary Item - Windfall tax	(2.59)	-	(2.59)	-
	-----	-----	-----	-----

Total Discontinued Operations	\$ (2.04)	\$ 0.22	\$ (1.51)	\$ 0.33
	-----	-----	-----	-----
Primary earnings per share	\$ (1.78)	\$ 0.98	\$ (0.11)	\$ 2.52
	=====	=====	=====	=====
Fully diluted earnings per share				
Continuing operations	0.26	0.76	1.40	2.19
Discontinued operations:				
Discontinued operations	0.55	0.22	1.08	0.33
Extraordinary Item -				
Windfall tax	(2.59)	-	(2.59)	-
	-----	-----	-----	-----
Total Discontinued Operations	(2.04)	-	(1.51)	-
	-----	-----	-----	-----
Fully diluted earnings per share	\$ (1.78)	\$ 0.98	\$ (0.11)	\$ 2.52
	=====	=====	=====	=====

ARTICLE 5

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

MULTIPLIER: 1,000,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 27 1997
PERIOD END	SEP 30 1997
CASH	522
SECURITIES	395
RECEIVABLES	478
ALLOWANCES	15
INVENTORY	11
CURRENT ASSETS	1,743
PP&E	1,056
DEPRECIATION	665
TOTAL ASSETS	3,360
CURRENT LIABILITIES	750
BONDS	151
PREFERRED MANDATORY	2
PREFERRED	0
COMMON	0
OTHER SE	1,966
TOTAL LIABILITY AND EQUITY	3,360
SALES	2,106
TOTAL REVENUES	2,180
CGS	1,833
TOTAL COSTS	1,877
OTHER EXPENSES	147
LOSS PROVISION	0
INTEREST EXPENSE	13
INCOME PRETAX	189
INCOME TAX	36
INCOME CONTINUING	118
DISCONTINUED	(37)
EXTRAORDINARY	0
CHANGES	0
NET INCOME	81
EPS PRIMARY	\$8.76 ¹
EPS DILUTED	\$8.42 ²

¹ \$876 represents Class C Stock earnings per share. Class D earnings per share: Continuing Operations - \$1.40, Discontinued Operations - (\$1.51), Total - (\$1.11).

² \$8.42 represents Class C Stock earnings per share. Class D Stock earnings per share: Continuing Operations - \$1.40, Discontinued Operations - (\$1.51), Total - (\$1.11).

Exhibit 99.A**KIEWIT CONSTRUCTION & MINING GROUP**

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

Financial Statements:

Condensed Statements of Earnings for the three months ended September 30, 1997 and 1996 and the nine months ended September 30, 1997 and 1996

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

Condensed Statements of Cash Flows for the nine months ended September 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 September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenue	\$ 824	\$ 651	\$ 1,968	\$ 1,729
Cost of Revenue	(751)	(579)	(1,781)	(1,573)
	-----	-----	-----	-----
	73	72	187	156
General and Administrative Expenses	(34)	(26)	(103)	(85)
	-----	-----	-----	-----
Operating Earnings	39	46	84	71
Other Income (Expense):				
Investment Income, net	3	5	10	12
Interest Expense, net	(2)	-	(3)	(2)
Other, net	15	12	50	41
	-----	-----	-----	-----
	16	17	57	51
	-----	-----	-----	-----
Earnings Before Income Taxes and Minority Interest	55	63	141	122
Provision for Income Taxes	(21)	(24)	(56)	(47)
Minority Interest	-	-	(1)	-
	-----	-----	-----	-----
Net Earnings	\$ 34	\$ 39	\$ 84	\$ 75
	=====	=====	=====	=====
Primary Earnings per Share	\$ 3.38	\$ 3.64	\$ 8.76	\$ 7.18
	=====	=====	=====	=====
Fully Diluted Earnings per Share	\$ 3.26	\$ 3.53	\$ 8.42	\$ 6.97
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP**Condensed Balance Sheets**

	September 30, 1997	December 28, 1996
(dollars in millions)	(unaudited)	

Assets

Current Assets:

Cash and cash equivalents	\$ 249	\$ 173
Marketable securities	34	54
Receivables, less allowance of \$15 and \$17	429	289
Costs and earnings in excess of billings on uncompleted contracts	118	80
Investment in construction joint ventures	148	91
Recoverable income taxes	25	6
Deferred income taxes	64	64
Other	15	13
	-----	-----
Total Current Assets	1,082	770

Property, Plant and Equipment, less accumulated depreciation and amortization of \$435 and \$429

Investments	59	94
Other Assets	33	13
	-----	-----
	\$ 1,384	\$ 1,042
	=====	=====

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable, including retainage of \$35 and \$33	\$ 250	\$ 164
Current portion of long-term debt	10	-
Accrued construction costs and billings in excess of revenue on uncompleted contracts	299	112
Accrued insurance costs	86	81
Other	48	46
	-----	-----
Total Current Liabilities	693	403

Long-Term Debt, less current portion

Other Liabilities	71	65
Minority Interest	10	-

Stockholders' Equity

(\$403 million aggregate redemption value):
10,082,829 outstanding shares in 1997 and
11,006,641 in 1996

Common equity	606	568
Net unrealized holding loss	(5)	(1)
Foreign currency adjustment	(8)	(5)
	-----	-----
Total Stockholders' Equity	593	562

	-----	-----
	\$ 1,384	\$ 1,042
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

	Nine Months Ended September 30,	
(dollars in millions)	1997	1996
Cash flows from operations:		
Net cash provided by operations	\$ 170	\$ 117
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	51	174
Purchases of marketable securities	(24)	(165)
Proceeds from sales of property, plant and equipment	34	21
Acquisitions and investments, net	(16)	(3)
Capital expenditures	(89)	(60)
Other	-	3
	-----	-----
Net cash used in investing activities	(44)	(30)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	3	-

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	(2)	(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 increase in cash and cash equivalents	76	32
Cash and cash equivalents at beginning of period	173	94
	-----	-----
Cash and cash equivalents at end of period	\$ 249	\$ 126
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

1. Basis of Presentation:

The condensed balance sheet of Kiewit Construction & Mining Group (the "Group") at December 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.

On July 1, 1997, the Group paid \$5 million to increase its ownership in ME Holding Inc. ("ME Holding") from 49% to 80%. The Group consolidated ME Holding in its 1997 financial statements and accounted for it using the equity method in 1996. The purchase price of \$5 million was in the form of a note payable to the minority shareholder and is payable on demand.

Receivables at September 30, 1997 and December 28, 1996 include approximately \$74 million and \$86 million of retainage on uncompleted projects, the majority of which is expected to be collected within one year. Included in accounts receivable are \$44 million and \$53 million of securities which are being held by owners of various construction projects in lieu of retainage.

The results of operations for the nine months ended September 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 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1997	1996	1997	1996
Primary	10,086,016	11,013,724	9,570,079	10,542,158
Fully Diluted	10,522,849	11,368,613	10,006,912	10,899,549

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)

	September 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 Nine Months Ended September 30, September 30, 1997 1996 1997 1996

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

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

Mine management income from the Diversified Group was \$7 million and \$9 million for the three months ended September 30, 1997 and 1996 and \$23 million and \$24 million for the nine months ended September 30, 1997 and 1996.

In April 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:

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

The separation of the Construction and Mining Group and the Diversified Group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid-year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations - Third Quarter 1997 vs. Third Quarter 1996

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

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

	1997	1996
Construction	\$ 741	\$ 588
Materials	83	63
	-----	-----
	\$ 824	\$ 651
	=====	=====

Construction and Materials. Construction and materials revenue for the three months ended September 1997 increased 27%, or \$173 million, from the same period in 1996. Construction revenues were up 26% compared to 1996. The consolidation of ME Holdings in 1997 resulted in an additional \$77 million of revenue for the Group. In addition to ME Holding, several large sole contracts and joint ventures became fully mobilized and entered into their peak construction phase of work. Materials revenue was up 32% in 1997. Strong market conditions and the acquisition of additional facilities in Arizona were responsible for approximately 66% of the increase in sales. The remaining sales growth was due to increases in cement costs which were passed on to customers.

Contract backlog at September 30, 1997 was \$3.7 billion of which 8% is attributable to foreign operations located in Canada and Indonesia. Domestic projects are spread geographically throughout the U.S. Included in backlog is \$673 million for the "I-15" project awarded in late March. The Group is the sponsoring partner on the design-build joint venture reconstructing 16 miles of Interstate 15 through the Salt Lake City, Utah area. It is expected to be completed in December of 2001.

Margins on construction projects for the third quarter of 1997 declined to 9% from 11% for the same period in 1996. The recognition of income on design-build contracts tends to be recognized later in the construction cycle due to the complexities of these types of projects. The awarding of several of these types of contracts in 1997, including "I-15", resulted in lower margins to the Group. The completion of the design-build San Joaquin toll road project in late 1996 contributed to the higher returns in that year. Material margins, as a percentage of revenue, in 1997 were unchanged from 1996.

General and Administrative Expenses. The consolidation of ME Holding in 1997 accounted for 62% of the increase in general and administrative expenses. Excluding these costs, general and administrative expenses increased 12% in the period. Increases in compensation, travel and insurance expenses are responsible for the increase.

Investment Income, net. Investment income declined \$2 million in 1997. This decline is due to the consolidation of ME Holding in the 1997 financial statements. Equity earnings derived from the Group's investment in ME Holding in 1996 was \$2 million.

Interest Expense, net. The \$2 million of interest expense in 1997 is attributable to the debt assumed in the Oak Mountain acquisition and debt incurred to purchase ME Holding.

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 increased 25% in 1997 compared to 1996. Increases in gains on the disposal of equipment and other miscellaneous income were partially offset by a decline in mine management fee income.

Provision for Income Taxes. The effective income tax rates of 38% in 1997 and 1996 are higher than the expected statutory rate of 35% primarily due to state income taxes.

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

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

	1997	1996
Construction	\$ 1,756	\$ 1,549
Materials	212	180
	-----	-----
	\$ 1,968	\$ 1,729
	=====	=====

Construction and Materials. Construction and materials revenues for the nine months ended September 30, 1997 increased \$239 million or 14%

compared to the same period in 1996. Construction revenues were up 13% compared to 1996. The inclusion of ME Holding in the consolidated results in 1997 contributed \$174 million to construction revenue. Material revenues also increased by 18% in 1997. Strong market conditions in Arizona and the acquisitions of additional facilities in the Arizona and Pacific-Northwest were responsible for 60% of the sales growth in 1997. The remaining growth was due to higher cement costs in the Arizona market that were passed on to customers.

Margins on construction projects as a percentage of revenue for the first nine months of 1997 increased from 9% to 10% due to change order settlements, cost efficiencies, and early completion bonuses. Materials margins as a percentage of revenues decreased slightly from 10% to 9% due to the increased cost of concrete.

General and Administrative Expenses. General and administrative expenses increased 21% in 1997. This increase is primarily attributable to \$10 million of overhead expenses included as a result of consolidating ME Holding. Also contributing to the increase were higher professional fees, compensation expenses and insurance costs.

Interest Expense, net. The increase in interest expense in 1997 is attributable to the debt incurred to purchase ME Holding and assumed in the Oak Mountain acquisition. In 1996, the Group incurred short term debt to fund the conversion of Class C Stock to Class D Stock. These borrowings were repaid in the second quarter of 1996.

Other, net. An increase in the gains on the sale and disposal of construction equipment to \$23 million from \$16 million, was primarily responsible for the increase in other income. Mine management fee and miscellaneous other income were relatively unchanged from the same period in 1996.

Provision for Income Taxes. The effective income tax rate of 40% in 1997 and 39% in 1996 differ from the expected statutory rate of 35% primarily due to state income taxes.

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

The Group's working capital increased \$22 million or 6% during the first nine months of 1997. The increase was primarily due to \$165 million of cash generated by operating activities, the issuance of common stock totaling \$34 million, net proceeds from the sale of marketable securities of \$27 million, proceeds from the sale of property, plant and equipment and other assets of \$34 million and \$3 million of debt borrowings. Partially offsetting these sources were capital expenditures of \$89 million, investments and acquisitions, including \$15 million for Oak Mountain, the exchange of Class B&C stock for Class D Stock and the repurchase of Class C Stock totaling \$74 million, and dividend payments of \$13 million.

The Group typically anticipates investing between \$40 and \$75 million annually in its construction business, including opportunities to acquire additional businesses. Through September 30, 1997, the Group had invested \$89 million in new equipment. This amount is higher than normal primarily due to \$25 million of equipment purchases for a highway project located in a part of the country where existing equipment was not available. Other long term liquidity uses include the payment of income taxes, repurchases and conversions of common stock and the payment of dividends, including an \$.80 per share dividend declared on October 22, 1997 and payable in January 1998. The Group's current financial condition and borrowing capacity together with anticipated cash flows from operations should be sufficient for immediate cash requirements and future investing activities.

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

The separation of the Construction and Mining Group and the Diversified Group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid-year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

Exhibit 99.B

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 Operations for the three months ended September 30, 1997 and 1996 and the nine months ended September 30, 1997 and 1996 Condensed Balance Sheets as of September 30, 1997 and December 28, 1996
Condensed Statements of Cash Flows for the nine months ended September 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 Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except per share data)	1997	1996	1997	1996
Revenue	\$ 80	\$ 165	\$ 241	\$ 482
Cost of Revenue	(42)	(98)	(126)	(295)
	-----	-----	-----	-----
	38	67	115	187
General and Administrative Expenses	(26)	(36)	(67)	(116)
	-----	-----	-----	-----
Operating Earnings	12	31	48	71
Other Income (Expense):				
Equity Losses, net	(12)	(4)	(18)	(6)
Investment Income, net	9	11	25	39
Interest Expense, net	(3)	(9)	(10)	(22)
Other, net	1	2	3	3
	-----	-----	-----	-----
	(5)	-	-	14
	-----	-----	-----	-----
Earnings from Continuing Operations				
Before Income Taxes and Minority Interest	7	31	48	85
Provision for Income Taxes	(2)	(12)	(17)	(32)
Minority Interest in Net Loss (Income) of Subsidiaries	1	-	3	(1)
	-----	-----	-----	-----
Income from Continuing Operations	6	19	34	52
Discontinued Operations:				
Income from Operations, net of income taxes of (\$8), (\$3), (\$15) and (\$6)	13	5	26	7
Extraordinary Item - Windfall tax, net of income tax benefit of \$34	(63)	-	(63)	-
	-----	-----	-----	-----
Income (Loss) from Discontinued Operations	(50)	5	(37)	7
	-----	-----	-----	-----
Net Earnings (Loss)	\$ (44)	\$ 24	\$ (3)	\$ 59
	=====	=====	=====	=====
Primary and Fully Diluted Earnings (Loss) Per Share				
Continuing Operations	\$.26	\$.76	\$ 1.40	\$ 2.19
Discontinued Operations:				
Income from operations	.55	.22	1.08	.33
Extraordinary Item	(2.59)	-	(2.59)	-
	-----	-----	-----	-----

Discontinued Operations	(2.04)	.22	(1.51)	.33
	-----	-----	-----	-----
Net Income (Loss)	\$ (1.78)	\$.98	\$ (.11)	\$ 2.52
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

	September 30, 1997	December 28, 1996
	(unaudited)	
(dollars in millions)		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 273	\$ 147
Marketable securities	339	372
Restricted securities	22	17
Receivables, less allowance of \$- and \$3	45	76
Other	19	33
	-----	-----
Total Current Assets	698	645
Property, Plant and Equipment, less accumulated depreciation and amortization of \$230 and \$345	181	642
Investments	472	189
Investments in Discontinued Operations	597	608
Intangible Assets, net	21	353
Other Assets	44	74
	-----	-----
	\$ 2,013	\$ 2,511
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 29	\$ 79
Current portion of long-term debt:		
Telecommunications	-	55
Other	1	2
Accrued costs and billings in excess of revenue on uncompleted contracts	3	12
Accrued reclamation and other mining costs	17	19
Other	44	87
	-----	-----
Total Current Liabilities	94	254
Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	134	113
Deferred Income Taxes	156	148
Retirement Benefits	40	48
Accrued Reclamation Costs	99	98
Other Liabilities	114	168
Minority Interest	1	218
Stockholders' Equity		
(\$1,377 million aggregate redemption value):		
25,386,725 outstanding shares in 1997 and		
23,219,744 in 1996		
Common equity	1,351	1,235
Foreign currency adjustment	-	(2)
Net unrealized holding gain	24	24
	-----	-----
Total Stockholders' Equity	1,375	1,257
	-----	-----
	\$ 2,013	\$ 2,511
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Cash Flows (unaudited)

Nine Months Ended

(dollars in millions)	September 30, 1997	1996
Cash flows from continuing operations:		
Net cash provided by continuing operations	\$ 167	\$ 122
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	160	138
Purchases of marketable securities	(168)	(118)
Change in restricted securities	4	2
Capital expenditures	(20)	(78)
Acquisitions and investments, net	(32)	(54)
Proceeds from sale of assets and other	1	7
	-----	-----
Net cash used in investing activities	(55)	(103)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	17	35
Payments on long-term debt, including current portion	(2)	(38)
Exchange of Class B&C Stock for Class D Stock, net	72	19
Repurchases of common stock	-	(11)
Dividends paid	(12)	(13)
Issuance of common stock	49	1
	-----	-----
Net cash provided by (used in) financing activities	124	(7)
Cash flows from discontinued operations:		
Discontinued operations	-	3
Investments in discontinued operations	(34)	(55)
	-----	-----
Net cash used in discontinued operations	(34)	(52)
Cash and cash equivalents of C-TEC at beginning of year	(76)	-
	-----	-----
Net change in cash and cash equivalents	126	(40)
Cash and cash equivalents at beginning of period	147	363
	-----	-----
Cash and cash equivalents at end of period	\$ 273	\$ 323
	=====	=====
Noncash investing activities from discontinued operations:		
Conversion of CalEnergy Convertible Debentures to CalEnergy Common Stock	\$ -	\$ 66

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 ("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.

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

The results of operations for the nine months ended September 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. Discontinued Operations

On September 10, 1997, the Group and CalEnergy Company, Inc. ("CalEnergy") entered into an agreement whereby CalEnergy contracted to purchase the Group's energy investments for \$1,155 million, subject to adjustments. These energy investments include approximately 20 million shares of CalEnergy common stock (assuming the exercise of 1 million options held by the Group), the Group's 30% ownership interest in CE Electric UK, plc ("CE Electric") and the Group's investments, made jointly with CalEnergy, in international power projects in Indonesia and the Philippines. The transaction is subject to the satisfactory completion of certain provisions of the agreement and is expected to close in early 1998. These assets comprise the energy segment of the Group. Therefore, the Group has reflected these assets, the earnings and losses attributable to these assets, and the related cash flow items as discontinued operations on the condensed balance sheets and statements of operations and cash flows for all periods presented. The Group is no longer required to provide additional capital to these entities through the closing date.

In order to fund the purchase of these assets, CalEnergy sold, in October 1997, approximately 19.1 million shares of its common stock at a price of \$37.875 per share. This sale reduced the Group's ownership in CalEnergy to approximately 23% but increased its proportionate share of CalEnergy's equity. It is the Group's policy to recognize gains or losses on the sale of stock by its investees. The Group expects to recognize an after-tax gain of approximately \$50 million from this transaction in the fourth quarter of 1997.

The agreement with CalEnergy includes a provision whereby CalEnergy and the Group are to share equally any proceeds from the offering above or below a specified amount. The offering was conducted at a price above that provided in the agreement and therefore, the Group expects to receive additional proceeds of up to \$20 million at the time of closing.

The Group expects to recognize an after-tax gain on the disposition of its energy assets in 1998 of approximately \$300 million. The after-tax proceeds from the transaction of approximately \$960 million will be used to fund the expansion plan of the information services business.

The following is summarized financial information for discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Income from Discontinued Operations	1997	1996	1997	1996
Operations				
Equity in:				
CalEnergy earnings, net	\$ 13	\$ 7	\$ 29	\$ 14
CE Electric earnings, net	2	-	11	-
International energy project earnings, net	6	(1)	1	(6)
CalEnergy debenture interest	-	2	-	5
Income tax expense	(8)	(3)	(15)	(6)
	-----	-----	-----	-----
Income from operations	\$ 13	\$ 5	\$ 26	\$ 7
	=====	=====	=====	=====
Extraordinary Loss - Windfall Tax				
Group's share from CE Electric	\$ (58)	\$ -	\$ (58)	\$ -
Group's share from CalEnergy	(39)	-	(39)	-
Income tax benefit	34	-	34	-
	-----	-----	-----	-----
Extraordinary loss	\$ (63)	\$ -	\$ (63)	\$ -
	=====	=====	=====	=====

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

On July 2, 1997, the Labour Party in the United Kingdom announced the details of its proposed "Windfall Tax" to be levied against privatized British utilities. This one-time tax is 23% of the difference between the value of Northern at the time of privatization and the utility's current value based on profits over a period of up to four years. CE Electric recorded an extraordinary charge of approximately \$194 million when the tax was enacted on July 31, 1997. The total impact to the Group, directly through its investment in CE Electric and indirectly through its 30% interest in CalEnergy, was \$63 million.

The following summarizes the investments in discontinued operations:

	September 30, 1997 (unaudited)	December 28, 1996
Investment in CalEnergy	\$ 282	\$ 292
Investment in CE Electric	129	176
Investment in international energy projects	184	157
Deferred income tax asset (liability)	2	(17)
	-----	-----
Total	\$ 597	\$ 608
	=====	=====

3. 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. In 1997, the operations of the Group resulted in a loss. Therefore, the anti-dilutive effect of the Class D options was not included in the per share calculations. The number of shares used in computing both primary and fully diluted earnings per share were 24,585,375 and 23,181,785 for the three months ended September 30, 1997 and 1996 and 24,513,018 and 23,207,898 for the nine 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 operations.

4. Summarized Financial Information:

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

(dollars in millions)	September 30, 1997	December 28, 1996
Cash and marketable securities	\$ 14	\$ 5
Property, plant and equipment, net	10	5
Other assets	9	1
	-----	-----
Total Assets	\$ 33	\$ 11
	=====	=====
Accounts payable	\$ 14	\$ 17
Long-term debt, including current portion	1	1
	-----	-----
Total Liabilities	\$ 15	\$ 18
	=====	=====
	Three Months Ended September 30,	Nine Months Ended September 30,

1997 1996 1997 1996

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

Corporate general and administrative costs have been allocated to the Group. These allocations were \$1 million for the three months ended September 30, 1997 and 1996 and \$4 million for the nine months ended September 30, 1997 and 1996.

Mine management fees paid to the Construction & Mining Group were \$7 million and \$9 million for the three months ended September 30, 1997 and 1996 and \$23 million and \$24 million for the nine months ended September 30, 1997 and 1996.

5. Acquisitions:

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

As of September 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 a term loan and a revolving facility agreement obtained by CE Electric. The Group has not guaranteed, and is not otherwise subject to recourse for, amounts borrowed under these facilities.

The Group's investment in CE Electric and the earnings and losses associated with CE Electric are included in discontinued operations.

6. Investments:

The Group is able to defer the tax on \$40 million of 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. In June 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%.

The Group has also begun construction of a second data center for the information services business in Phoenix, Arizona. The cost of the building, approximately \$11 million, will be applied against the \$40 million gain. The Group may make additional real estate investments to defer the remaining balance.

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

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

The Group and CalEnergy had 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. In June 1997, the Group and CalEnergy closed a \$400 million revolving credit facility to finance the development and construction of the remaining Indonesian projects. The credit facility is collateralized by the Indonesian assets and is nonrecourse to the Group.

The Group's investments in the international energy projects and the earnings and losses associated with these investments are included in discontinued operations.

7. C-TEC Restructuring:

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

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

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

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

The restructuring is expected to permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring has allowed C-TEC to raise capital on more efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million and in October 1997, RCN issued \$575 million of debt. These proceeds were used to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

As a result of the restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each entity, and therefore accounts for each entity using the equity method as of the beginning of 1997. C-TEC's financial position, results of operations and cash flows are consolidated in the 1996 consolidated financial statements. The financial position of each entity as of September 30, 1997 and December 28, 1996 (pro-forma) and the Group's proportionate share of the equity in each entity including allocated goodwill was as follows:

	Enterprises		Michigan		Corporation	
	1997	1996	1997	1996	1997	1996
Financial Position:						
Current assets	\$ 81	\$ 51	\$ 18	\$ 10	\$ 247	\$ 143
Other assets	291	266	124	139	352	485
	-----	-----	-----	-----	-----	-----
Total assets	372	317	142	149	599	628
Current liabilities	76	59	17	24	72	57
Other liabilities	262	189	163	190	138	175
Minority interest	-	-	15	15	15	5
	-----	-----	-----	-----	-----	-----
Total liabilities	338	248	195	229	225	237
	-----	-----	-----	-----	-----	-----
Net assets (liabilities)	\$ 34	\$ 69	\$ (53)	\$ (80)	\$ 374	\$ 391
	=====	=====	=====	=====	=====	=====
Group's share:						
Equity in net assets	\$ 17	\$ 33	\$ (26)	\$ (38)	\$ 181	\$ 189
Goodwill	82	58	58	75	32	41
	-----	-----	-----	-----	-----	-----
	\$ 99	\$ 91	\$ 32	\$ 37	\$ 213	\$ 230
	=====	=====	=====	=====	=====	=====

The results of operations for each entity for the nine months ended September 30, 1997 and 1996, and the Group's proportionate share, including goodwill amortization were as follows:

Results of operations:						
Revenue	\$ 145	\$ 139	\$ 61	\$ 57	\$ 92	\$ 76
Net income (loss) available to common stockholders	18	17	(3)	(7)	(35)	(1)
Group's share:						
Net income (loss)	\$ 9	\$ 8	\$ (1)	\$ (3)	\$ (17)	\$ -
Goodwill amortization	(1)	(3)	(3)	(2)	-	(2)
	-----	-----	-----	-----	-----	-----
Equity in net income (loss)	\$ 8	\$ 5	\$ (4)	\$ (5)	\$ (17)	\$ (2)
	=====	=====	=====	=====	=====	=====

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 December 28, 1996 and for the three and nine months ended September 30, 1996. The 1997 financial statements include C-TEC accounted for utilizing the equity method and are presented here for comparative purposes only:

(dollars in millions)	September 30, December 28,	
	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$ 273	\$ 71
Marketable securities	339	325
Restricted securities	22	17
Receivables	45	34
Other	19	19
	-----	-----
Total Current Assets	698	466
Net Property, Plant and Equipment	181	174
Investments	472	458
Investments in Discontinued Operations	597	608
Intangible Assets, net	21	23
Other Assets	44	49
	-----	-----
	\$ 2,013	\$ 1,778
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 29	\$ 41
Current portion of long-term debt	1	2
Accrued reclamation and other mining costs	17	19
Other	47	34
	-----	-----

Total Current Liabilities	94	96
Long-term Debt, less current portion	134	113
Deferred Income Taxes	156	47
Retirement Benefits	40	45
Accrued Reclamation costs	99	98
Other Liabilities	114	118
Minority Interest	1	4
Stockholders' Equity	1,375	1,257
	-----	-----
	\$ 2,013	\$ 1,778
	=====	=====

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	1997	1996	1997	1996
Revenue	\$ 80	\$ 75	\$ 241	\$ 209
Cost of Revenue	(42)	(39)	(126)	(112)
	-----	-----	-----	-----
	38	36	115	97
General and Administrative Expenses	(26)	(15)	(67)	(52)
	-----	-----	-----	-----
Operating Earnings	12	21	48	45
Other Income (Expense):				
Equity earnings, net	(12)	-	(18)	(7)
Investment income, net	9	9	25	30
Interest expense, net	(3)	(1)	(10)	(2)
Other, net	1	1	3	8
	-----	-----	-----	-----
	(5)	9	-	29
	-----	-----	-----	-----
Earnings from Continuing Operations Before Income Taxes and Minority Interest	7	30	48	74
Provision for Income Taxes	(2)	(12)	(17)	(25)
Minority Interest in Net Loss of Subsidiaries	1	1	3	3
	-----	-----	-----	-----
Income from Continuing Operations	6	19	34	52
Income (Loss) from Discontinued Operations	(50)	5	(37)	7
	-----	-----	-----	-----
Net Earnings (Loss)	\$ (44)	\$ 24	\$ (3)	\$ 59
	=====	=====	=====	=====

	Nine Months Ended September 30,	
(dollars in millions)	1997	1996
Cash flows from continuing operations:		
Net cash provided by continuing operations	\$ 167	\$ 47
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities and investments	160	5
Purchases of marketable securities	(168)	(52)
Change in restricted securities	4	2
Capital expenditures	(20)	(20)
Acquisitions and investment, net	(32)	(12)
Other	1	4
	-----	-----
Net cash used in investing activities	(55)	(73)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	17	16
Payments on long-term debt, including current portion	(2)	(4)
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	49	-
	-----	-----

Net cash provided by financing activities	124	8
Cash flows used in discontinued operations	(34)	(52)
	-----	-----
Net change in cash and cash equivalents	202	(70)
Cash and cash equivalents at beginning of period	71	314
	-----	-----
Cash and cash equivalents at end of period	\$ 273	\$ 244
	=====	=====

8. Other Matters:

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

The separation of the Construction and Mining Group and the Diversified Group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid-year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

The Group has recently decided to substantially increase its emphasis on and resources to its information services business, with a view to becoming a facilities-based provider of a broad range of integrated information services to business. Pursuant to the plan, the Group intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

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

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

The Group 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 Group's financial position, future results of operations or future cash flows.

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

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

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

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

Coal Mining	\$	50	\$	61
Telecommunications		-		90
Information Services		27		11
Other		3		3
		-----		-----
	\$	80	\$	165
		=====		=====

Coal Mining. Mining revenue declined 18% in the third 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 and third quarters of 1996. In 1997, the opposite scenario occurred. Commonwealth took delivery of more coal in the first quarter than was required but reduced its purchases in the second and third quarters. Overall, the Group's alternate source coal revenues declined \$6 million for the quarter ended September 30, 1997. Spot coal sales also declined in 1997. In the third quarter of 1996, a customer bought out its remaining 1996 obligations. The customer was not required to take delivery of the coal by paying 60% of the contracted price of the coal.

Costs as a percentage of revenue for the coal mining operations in the third quarter of 1997 were consistent with that of the prior year. The decline in revenue from the customer who bought out its obligation in 1996, which had no corresponding costs, and declines in high margin alternate source coal sales were offset by improved mining efficiencies at the Black Butte mine and a decline in costs as the 1996 costs include certain equipment write-offs.

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 146% to \$27 million for the three months ended September 30, 1997 compared to the same period in 1996. The increase in revenue is attributable to signing several new outsourcing contracts in late 1996 and the increased focus of customers on Year 2000 compatibility, code restructuring and software re-engineering.

The operating costs of the information services business doubled to \$16 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs for the systems integration business all increased significantly compared to the prior year. Operational efficiencies were recognized in 1997 through increased utilization of existing computer hardware.

General and Administrative Expenses. General and administrative expenses decreased 28% in the third quarter of 1997 compared to the same period in 1996. The primary reason for the reduction is the exclusion of \$21 million of C-TEC's expenses in 1997. C-TEC is no longer consolidated due to a reduction in the Group's controlling interest. This was partially offset by increases in the additional overhead of the expanding information services business and professional services required for the sale of assets to CalEnergy and the separation of the Diversified and Construction groups.

Equity Losses, net. The telecommunications segment of the Group is now comprised of the three entities created in the C-TEC restructuring. As a result of the restructuring, the Group owns less than 50% of the outstanding shares and voting rights of each entity and accounts for them utilizing the equity method. Equity losses increased by \$8 million in comparing the third quarter of 1997 to 1996. Contributing to this increase was the inclusion of (\$9) million of equity losses for the three companies that previously comprised C-TEC. The losses of RCN continue to grow due to the continued expansion of its Boston, New York, and Washington D.C. markets.

Investment Income, net. Excluding the \$2 million attributable to C-TEC in 1996, investment income remained the same for the third quarter. The average portfolio balance and the average yield were relatively consistent between the quarters.

Interest Expense, net. Interest expense increased \$2 million in 1997, excluding C-TEC's \$8 million of interest expense in 1996. CPTC incurred \$3 million of interest costs in the third quarter of 1996 of which \$1 million was capitalized due to the construction of the toll road. In 1997, CPTC also incurred \$3 million of interest expense all of which was charged against earnings. The interest on the debt incurred by KDG to purchase the real estate in Colorado also contributed to the increase in interest expense.

Other, net. With the exclusion of \$1 million of expense for C-TEC in 1996, other income decreased 67% for the third quarter of 1997. In 1996, other income included a gain from the liquidation of a captive insurance company which insured against black lung disease.

Provision for Income Taxes. The effective income tax rates in 1997 of 37% and in 1996 of 38% differ from the expected statutory rate of 35% primarily due to state income taxes.

Minority Interest in Net Loss (Income) of Subsidiaries. The losses associated with the SR91 toll road comprise minority interest in 1997. In 1996, losses of (\$2) million at CPTC are offset by the income of the C-TEC companies.

Discontinued Operations. Equity earnings, net of tax, increased 160% in the third quarter of 1997. The Group's proportionate share of CalEnergy's earnings, net of tax, increased \$4 million in the third quarter of 1997 to \$8 million. The conversion of CalEnergy debentures to

common stock and the exercise of options increased the Group's ownership interest in CalEnergy from 23% at July 1, 1996 to 30% at September 30, 1997. CalEnergy's earnings also increased primarily due to the completion and commencement of operations at the Salton Sea Unit IV geothermal facility, the purchase of three cogeneration facilities and the acquisition of Northern Electric all of which occurred in the last half of 1996 and the commencement of operations at the Mahanagdong geothermal facility in July of 1997. In addition to contributing to CalEnergy's earnings, the Group's proportionate share of Mahanagdong and Northern Electric, net of tax, also provided \$2 million and \$1 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.

Also contained in discontinued operations is the extraordinary loss of \$63 million, net of tax, from the Windfall tax imposed by the British government in 1997.

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

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

	1997	1996
Coal Mining	\$ 165	\$ 172
Telecommunications	-	273
Information Services	67	30
Other	9	7
	-----	-----
	\$ 241	\$ 482
	=====	=====

Coal Mining. Coal sales declined 4% during the first nine months of 1997. Alternate source coal sales decreased \$6 million primarily due to the reduced contractual obligations of customers. Contracted coal sales also declined slightly in 1997. Reduced coal sales to Detroit Edison Company, which is temporarily behind in purchasing its 1997 contracted coal, were partially offset by additional sales to Mississippi Power.

Operating costs as a percentage of revenue were virtually unchanged from the same period in 1996. A decline in higher margin alternate source coal sales and proceeds from a customer who had bought out its obligations in 1996, were offset by improved mining efficiencies at the Black Butte mine and a decline in costs as the 1996 costs include certain equipment write-offs.

Information Services. Revenue for information services business increased 123% to \$67 million for the nine months ended September 30, 1997. The increase in revenue is attributable to signing several new outsourcing contracts in late 1996 and the increased focus of customers on Year 2000 compatibility, code restructuring and software re-engineering.

The operating costs of the information services business increased 86% to \$41 million in 1997 primarily due to its continued growth. Hardware, communications and personnel costs for the systems integration business all increased significantly compared to the prior year. Operational efficiencies were recognized in 1997 through increased utilization of existing computer hardware.

General and Administrative Expenses. General and administrative expenses in 1997 and 1996 would have been \$67 million and \$52 million had C-TEC been accounted for using the equity method in both years. Increases in the expenses associated with the information services business, compensation expenses and professional fees incurred for the proposed restructuring and CalEnergy transaction led to the increase in general and administrative expenses.

Equity Losses, net. Losses attributable to equity investees increased to (\$18) in 1997 from (\$7) in 1996 assuming C-TEC was accounted for using the equity method in both periods. The costs of RCN's continued expansion into Boston, New York City and Washington D.C. and \$10 million of costs incurred in connection with the buyout of a marketing contract with minority shareholders are responsible for the increase in equity losses.

Investment Income, net. Excluding C-TEC's \$9 million in 1996, investment income decreased 17% in 1997. A reduction in the average portfolio balance due to significant investments in CE Electric and international energy projects, and a decline in gains recognized on the sales of securities, all contributed to the reduction in investment income.

Interest Expense, net. Without the effect of C-TEC's \$20 million in 1996, interest expense increased \$8 million. Primarily contributing to the increase was CPTC's SR91 toll road. Through September 1996 and 1997, CPTC incurred \$8 million and \$8 million of interest on its long-term debt. In 1996, \$6 million of the interest was capitalized due to the construction of the toll road. In August 1996, the road was opened, therefore, interest incurred after opening 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. Without C-TEC's \$5 million of expenses recognized in 1996, other income decreased 62%. In 1996, gains were realized from the sale of certain nonoperating assets. Also in 1996, other income included a gain from the liquidation of a captive insurance company which insured against black lung disease.

Provision for Income Taxes. The effective income tax rate in 1996 of 38% differs from the expected statutory rate of 35% primarily due to the state income taxes. The effective rate in 1997 is approximately 35%.

Minority Interest in Net Loss (Income) of Subsidiaries. Minority interest in 1997 is now comprised of the earnings attributable to the minority shareholders of CPTC. The losses that were allocated to CPTC's minority shareholders were (\$3) and (\$1) million in 1997 and 1996. In 1996, C-TEC's minority shareholders earned \$2 million.

Discontinued Operations. Equity earnings, net of tax, increased significantly in 1997. The Group's proportionate share of CalEnergy's earnings, net of tax, increased \$10 million in 1997 to \$19 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 a geothermal facility, and the acquisitions of three cogeneration facilities and Northern Electric, contributed to the increase. The Group's proportionate share of Northern Electric, which was acquired in December 1996, provided \$7 million of income after taxes.

Also contained in discontinued operations is the extraordinary loss of \$63 million, net of tax, from the Windfall tax imposed by the British government in 1997.

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

Excluding C-TEC, the Group's working capital increased \$234 million or 63% during 1997. An increase in cash flows from operations, primarily due to \$146 million of federal tax and interest refunds, and financing activities. The increase was partially offset by cash used to fund investing activities and discontinued operations.

Investing activities primarily consist of \$22 million of real estate investments, \$20 million of capital expenditures, including \$11 million for equipment of the information services business, and the net purchase of marketable securities of \$8 million.

Financing sources include \$72 million from the exchange of Class B&C Stock for Class D Stock, \$49 million from the issuance of common stock and \$17 million long-term debt borrowings, primarily to purchase the Aurora property. These sources were partially offset by \$12 million for the payment of dividends.

Prior to the agreement with CalEnergy, the Group invested \$34 million in the Dieng, Patuha and Bali power projects in Indonesia during 1997.

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

The separation of the Construction and Mining Group and the Diversified group would be contingent upon a number of conditions, including the favorable ratification by a majority of both Class C and Class D shareholders and the receipt by the Company of an Internal Revenue Service ruling or other assurance acceptable to the Board that the separation would be tax-free to U.S. shareholders. As a result, the restructuring will probably not occur until mid- year 1998. The Diversified Group probably will not seek to list its stock for public trading on a national securities exchange until it raises capital through a public equity offering or desires to have a listed equity security available for acquisitions. The Board will retain the right, even if the stockholders ratify the proposal and favorable tax treatment is satisfied, to abandon, defer or modify the Transaction if it believes that it would be in the best interests of all stockholders.

The Group has recently decided to substantially increase its emphasis on and resources to its information services business, with a view to becoming a facilities-based provider of a broad range of integrated information services to business. Pursuant to the plan, the Group intends to expand substantially its current information services business, through the expansion of its existing business and the creation, through a combination of construction, leasing and purchase of facilities and other assets, of a substantial facilities-based internet communications network.

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

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

The Group anticipates that the capital expenditures required to implement this expansion plan will be substantial. The Group anticipates that these costs may be in excess of \$1 billion per year within approximately two years after the separation of the Construction and Diversified businesses.

Long-term liquidity uses of the Group include payment of income taxes and repurchasing the Group's stock. The Group's current financial condition, borrowing capacity and proceeds from the CalEnergy transaction should be sufficient for immediate operating and investing activities. Subsequent to September 30, 1997, the Group sold \$67 million of Class D Stock to employees.

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

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

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

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

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

RCN Corporation, Inc., which 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, New York City and Washington, D.C.

The restructuring is expected to permit investors and the financial markets to better understand and evaluate C-TEC's various businesses. In addition, the restructuring has allowed C-TEC to raise capital on more efficient terms. In July 1997, C-TEC closed four separate credit facilities with a syndicate of banks aggregating \$410 million and in October 1997, RCN issued \$575 million of debt. These proceeds were used to refinance the cable group's existing Senior Secured Notes and to fund RCN's continued development.

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