194

ORIGINAL

(L3)
Level 3
Communications

Terrence J. Ferguson
Senior Vice President
General Counsel
TEL: (402) 536-3624
FAX: (402) 536-3645
terry.ferguson@L3.com

July 23, 1998

980933-TI

DEPOSIT D817 DATE JUL 24 1998

VIA OVERNIGHT DELIVERY

Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak, Blvd.
Tallahassee, Florida 32399-0870

Re: Application of Level 3 Communications, LLC for Authority to Provide Interexchange Telecommunications Service in Florida

Dear Ms. Bayó:

Enclosed for filing on behalf of Level 3 Communications, LLC ("Level 3") please find an original and six (6) copies of Level 3's application for authority to provide interexchange telecommunications service in Florida. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the extra copy and return it to the undersigned in the enclosed self-addressed, stamped envelope. Should you have any questions concerning this filing, please do not hesitate to contact me.

Very truly yours,

Terrence J. Ferguson /ker

Terrence J. Ferguson

Level 3 Communications, LLC

Check received with filing ... deposit ... check

Enclosures

cc: Abby Jensen (w/ encl.)

07832-98
July 24

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Level 3 Communications, LLC	)	
Request for Authority to Provide Interexchange Telecommunications Service within the State of Florida	)	Docket No. ______ ________

APPLICATION FORM
for
AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE WITHIN THE STATE OF FLORIDA

07832-98
July 24

1. Select what type of business your company will be conducting (check all that apply):

(X) **Facilities Based Carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

(X) **Reseller** - company has or plans to have one or more switches, but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

( ) **Switchless Rebiller** - company has no switch or transmission facilities, but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount, but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers the resold service by enrolling unaffiliated customers.

( ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers

2. This is an application for (check one):

(X) **Original Authority** (New company).

( ) **Approval of Transfer** (To another certificated company).

( ) **Approval of Assignment of Existing Certificate** (To a noncertificated company).

( ) **Approval for Transfer of Control** (To another certificated company).

3. Name of corporation, partnership, cooperative, joint venture, or sole proprietorship:

Level 3 Communications, LLC

4. Name under which the applicant will do business (fictitious name, etc.):

Not applicable.

5. National address (including street name and number, post office box, city, state, and zip code):

Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027
(303) 926-3000 (Tel.)
(303) 926-3400 (Fax)

6. Florida address (including street name and number, post office box, city, state, and zip code):

Level 3 currently does not have a Florida address.

7. Structure of organization; check which applies.

( )	Individual	(X)	Corporation
( )	Foreign Corporation	( )	Foreign Partnership
( )	General Partnership	( )	Limited Partnership

( ) Other. **Level 3 is a Delaware limited liability company. Please refer to Section 9 for further information.**

8. If applicant is an individual or partnership, please give name, title, and address of sole proprietor or partners.

Not applicable.

(a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(b) Indicate if the individual or any of the partners have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(2) officer, director, partner, or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

9. If incorporated, please give:

(a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

As a limited liability company, Applicant is not "incorporated." However, Applicant is qualified to do business in the State of Florida as a foreign limited liability company. A copy of Level 3's certificate of authority to transact business in the State of Florida is appended hereto as Exhibit 1. (Document Number M97000000824).

Corporation charter number: Not applicable.

(b) Name and address of the company's Florida registered agent.

CT Corporation Systems
1200 South Pine Island Road
Plantation, FL 33324

(c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number: **Not applicable.**

(d) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

None.

(2) officer, director, partner, or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not

Please see Exhibit 2.

10. Who will serve as liaison with the Commission in regard to (please give name, title, address, and telephone number):

(a) The Application:

Terrence J. Ferguson
Senior Vice President and General Counsel
Level 3 Communications, LLC
3555 Farnam Street
Omaha, Nebraska 68131
(402) 536-3624 (Tel.)
(402) 536-3645 (Fax)

(b) Official Point of Contact for the ongoing operations of the company:

Terrence J. Ferguson
Senior Vice President and General Counsel
Level 3 Communications, LLC
3555 Farnam Street
Omaha, Nebraska 68131
(402) 536-3624 (Tel.)
(402) 536-3645 (Fax)

(c) Tariff:

Abby Jensen
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027
(303) 926-3000 (Tel.)
(303) 926-3400 (Fax)

(d) Complaints/Inquiries from customers:
Ken Williams –Vice President Customer Service
Level 3 Communications, LLC
1450 Infinite Drive
Louisville, CO 80027
(303) 926-3000 (Tel.)
(303) 926-3400 (Fax)

11. List the states in which the applicant:

(a) Has operated as an interexchange carrier.

Level 3 Communications, LLC has not yet begun operations in any state as an interexchange carrier.

(b) Has applications pending to be certificated as an interexchange carrier.

None.

(c) Is certificated to operate as an interexchange carrier.

Level 3 is certificated to operate as an interexchange carrier in California, District of Columbia, Georgia, Illinois, Maryland, New York, Pennsylvania, Virginia and Washington. Level 3 is also authorized to provide interexchange service (pursuant to registration or de-regulation policies) in Colorado, Massachusetts, Michigan, New Jersey, and Texas.

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

Applicant has not been denied authority to operate as an interexchange carrier.

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None.

(f) Has been involved in civil court proceedings with an interexchange carrier, local exchange company, or other telecommunications entity and the circumstances involved.
None.

12. What services will the applicant offer to other certificated telephone companies

(X)	Facilities	( )	Operators
( )	Billing and Collection	( )	Sales
( )	Maintenance		
( )	Other ______________________.		

13. Do you have a marketing program?
Yes. However, as a start-up company, Level 3 has not fully developed its marketing program.

14. Will your marketing program:

(X) Pay commissions?
( ) Offer sales franchises?
( ) Offer multi-level sales incentives?
(X) Offer other sales incentives?

15. Explain any of the offers checked in question 14 (to whom, what amount, type of franchise, etc.).

Level 3 will be paying commissions to account managers and to their direct managers based upon a percentage of revenue generated.

16. Who will receive the bills for your services (check all that apply)?

(X)	Residential Customers	(X)	Business Customers
( )	PATS Providers	( )	PATS Station End-Users
( )	Hotels and Motels	( )	Hotel and Motel Guests
( )	Universities	( )	Univ. Dormitory Residents
( )	Other, ______________.		

17. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and, if not, who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?
Yes, Level 3's name will appear on the bills sent to customers.

(b) Name and address of the firm who will bill for your services.
Level 3 will either bill customers directly for its services or will have the charges included in the customer's local telephone bill pursuant to billing and collection agreements with the underlying local exchange carrier.

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida.

A Financial capability.

Regarding the showing of financial capability, the following applies: The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet

2. income statement

3. statement of retained earnings.

Further, **a written explanation**, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

> **NOTE**: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

See Exhibit 3.

B. Managerial capability.

See Exhibit 4.

C. Technical capability.

See Exhibit 4.

19 Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

Level 3's proposed interexchange tariff is appended hereto as Exhibit 5.

20. The applicant will provide the following interexchange carrier services (check all that apply):

Applicant is seeking authority to provide all forms of direct dialeo interexchange services on a resale basis or through its own facilities (when those are deployed).

( ) MTS with distance sensitive per minute rates

( ) Method of access is FGA
( ) Method of access is FGB
( ) Method of access is FGD
( ) Method of access is 800

(X) MTS with route specific rates per minute

( ) Method of access is FGA
( ) Method of access is FGB
(X) Method of access is FGD
(X) Method of access is 800

( ) MTS with statewide flat rates per minute (*i.e.*, not distance sensitive)

( ) Method of access is FGA
( ) Method of access is FGB
(X) Method of access is FGD
(X) Method of access is 800

( ) MTS for pay telephone service providers

( ) Block-of-time calling plan (Reach Out Florida, Ring America, etc.)

(X) 800 Service (Toll free)

(X) WATS-type Service (bulk or volume discount)
(X) Method of access is via dedicated facilities
(X) Method of access is via switched facilities

(X) Private Line Services (Channel Services)

(*i.e.*, 1.544 mbs., DS-3, etc.)

(X) **Travel Service**
( ) Method of access is 950
(X) Method of access is 800

( ) **900 Service**

(X) **Operator Services**
(X) Available to presubscribed customers
( ) Available to non-presubscribed customers (*i.e.*, to patrons of hotels, students in universities, patients in hospitals)
( ) Available to inmates

Services included are:

(X) Station assistance
(X) Person-to-Person assistance
(X) Directory assistance
(X) Operator verify and interrupt
(X) Conference calling

21. What does the end-user dial for each of the interexchange carrier services that were checked in services included (above)?
The end-user will dial either "1" or an 800 number to access these services.

22. ( ) Other: **Not Applicable**

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee oi $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** A non-refundable application fee of $250.00 must be submitted with the application.

5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange telephone service.

6. **ACCURACY OF APPLICATION:** By my signature below, I, the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is a true and correct statement. **Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775-083."**

UTILITY OFFICIAL:

Terrence J. Ferguson
Senior Vice President and
General Counsel
Level 3 Communications, LLC

Date

(402) 536-3624
Telephone Number

**** APPENDIX A ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant, please check one):

(X) **The applicant will not collect deposits nor will it collect payments for service more than one month in advance.**

( ) **The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)**

UTILITY OFFICIAL:

Terrence J. Ferguson
Senior Vice President and
General Counsel
Level 3 Communications, LLC

July 21, 1998
Date

(402) 536-3624
Telephone Number

** APPENDIX B **

INTRASTATE NETWORK

Initially, Level 3 plans to resell the interexchange services of other certificated interexchange carriers. Eventually, Level 3 ,may construct its own interexchange facilities. At this time, Level 3 does not have a detailed plan of where and exactly which kind of facilities it will construct. Level 3 plans to install switches in several Florida Cities, and will lease and/or construct fiber to IXC POPs and to a number of ILEC Central Offices and Tandems. Level 3 also plans to lease fiber between cities in a route diverse ring architecture.

1. **POP:** Addresses where located, and indicate if owned or leased.

   1) **See Above** 2)

   3) 4)

2. **SWITCHES:** Addresses where located, by type of switch, and indicate if owned or leased.

   1) **See Above** 2)

   3) 4)

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP	TYPE	OWNERSHIP
1) **See Above**		
2)		

** APPENDIX B **

INTRASTATE NETWORK (continued)

4. **ORIGINATING SERVICE:** Please provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate (Appendix D).

   Level 3 seeks authority to originate interexchange telecommunications service throughout the State of Florida.

5. **TRAFFIC RESTRICTIONS:** Please explain how the applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471(4)(a) (copy enclosed).

   Level 3 initially proposes to provide interexchange service on a resale basis. The certificated carriers from which Level 3 will purchase services for resale will be responsible for complying with Commission Rule 25-24.471(4)(a). When Level 3 deploys its own facilities-based interexchange service, it will do so in a manner that recognizes that "the local exchange company shall be the sole carrier for O+ local, O- local and O- intraLATA toll calls dialed by end users." Level 3 will "not change or augment the dialing pattern of end users for such calls." Level 3 will only provide intraLATA toll services to end users who dial Level 3's access code (either, 800, or 10XXX).

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (X) previously provided intrastate telecommunications in Florida. If the answer is <u>has</u>, fully describe the following:

   a) What services have been provided and when did these services begin?

   b) If the services are not currently offered, when were they discontinued?

UTILITY OFFICIAL:

Terrence J. Ferguson
Senior Vice President and
General Counsel
Level 3 Communications, LLC

Date

(402) 536-3624
Telephone Number

** APPENDIX C **

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

Extended Service Area with	These Exchanges
PENSACOLA:	Cantonment, Gulf Breeze Pace, Milton Holley-Navarre.
PANAMA CITY:	Lynn Haven, Panama City Beach, Youngstown-Fountain and Tyndall AFB.
TALLAHASSEE:	Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.
JACKSONVILLE:	Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg, Orange Park, Ponte Vedra and Julington.
GAINESVILLE:	Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo
OCALA:	Belleview, Citra, Dunnellon, Forest Lady Lake (B21), McIntosh, Oklawaha, Orange Springs, Salt Springs and Silver Springs Shores.
DAYTONA BEACH	New Smyrna Beach

** APPENDIX C **

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES (continued)

TAMPA:	Central None	
	East	Plant City
	North	Zephyrhills
	South	Palmetto
	West	Clearwater
CLEARWATER:	St. Petersburg, Tampa-West and Tarpon Springs.	
ST. PETERSBURG:	Clearwater.	
LAKELAND:	Bartow, Mulberry, Plant City, Polk City and Winter Haven.	
ORLANDO	Apopka, East Orange, Lake Buena Vista, Oviedo, Windermere, Winter Garden, Winter Park, Montverde, Reedy Creek and Oviedo-Winter Springs.	
WINTER PARK	Aopoka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs Reedy Creek, Geneva and Montverde	
TITUSVILLE	Cocoa and Cocoa Beach	
COCOA:	Cocoa Beach, Eau Gallie, Melbourne and Titusville.	
MELBOURNE:	Cocoa, Cocoa Beach, Eau Gallie and Sebastian	
SARASOTA:	Bradenton, Myakka and Venice.	

**** APPENDIX C ****

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES (continued)

FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres and Sanibel-Captiva Islands
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boynton Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach and Ft. Lauderdale
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood and Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami and Perrine.
MIAMI:	Homestead, North Dade and Perrine.

Level 3 seeks authority to originate interexchange telecommunications services throughout the State of Florida at the rates identified in its proposed tariff attached hereto as Exhibit 5.

UTILITY OFFICIAL:

Terrence J. Ferguson
Senior Vice President and
General Counsel
Level 3 Communications, LLC

Date

(402) 536-3624
Telephone Number

EXHIBIT 1

Certificate of Authority to Transact Business

FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

December 8, 1997

CT CORPORATION SYSTEM

TALLAHASSEE, FL

Qualification documents for LEVEL 3 COMMUNICATIONS, LLC were filed on December 8, 1997, and assigned document number M97000000824. Please refer to this number whenever corresponding with this office.

Your limited liability company is now qualified and authorized to transact business in Florida as of the file date.

A limited liability company annual report will be due this office between January 1 and May 1 of the year following the calendar yearof the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the limited liability company address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Registration and Qualification Section.

Cathy A Mitchell
Corporate Specialist
Division of Corporations

Letter Number: 197A00057801

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 608.503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN LIMITED LIABILITY COMPANY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

FILED
97 DEC -8 PM 2:05
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

1. Level 3 Communications, LLC
(Name of foreign limited liability company must end with the words "limited company" or their abbreviation "L.C." if not so contained in the name at present.)

2. Delaware
(Jurisdiction under the law of which foreign limited liability company is organized)

3. Applied for
(FEI number, if applicable)

4. December 1, 1997
(Date of Organization)

5. Perpetual
(Duration: Year limited liability company will cease to exist or "perpetual")

6. December 1, 1997
(Date first transacted business in Florida. (See sections 608.501, 608.502, and 817.155, F.S.)

7. 3555 Farnam Street
Omaha, Nebraska 68131
(Street address of principal office)

8. List name, title, and business address of each managing member[MGRM] or manager[MGR] who will manage the foreign limited liability company in Florida: (attach additional page if necessary)

NAME & ADDRESS:	TITLE:	NAME & ADDRESS:	TITLE:
James Q. Crowe 3555 Farnam Street Omaha, NE 68131	MGR	Terrence J. Ferguson 3555 Farnam Street Omaha, NE 68131	MGR
R. Douglas Bradbury 3555 Farnam Street Omaha, NE 68131	MGR		

AFFIDAVIT OF MEMBERSHIP AND CONTRIBUTIONS OF FOREIGN LIMITED LIABILITY COMPANY

The undersigned member or authorized representative of a member of Level 3 Communications, LLC deposes and says:

1) the above named limited liability company has one member.

2) the total amount of cash contributed by the member(s) is $1,000.00

3) if any, the agreed value of property other than cash contributed by member(s) is $ None . A description of the property is attached and made a part hereof.

4) the total amount of cash or property anticipated to be contributed by member(s) is $ 1,000.00 . This total includes amounts from 2 and 3 above.

Signature of a member or authorized representative of a member.

(In accordance with section 608.408(3), Florida Statutes, the execution of this affidavit constitutes an affirmation under the penalties of perjury that the facts stated herein are true.)

FILED
97 DEC -8 PM 2:02
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

CERTIFICATE OF DESIGNATION OF REGISTERED AGENT/REGISTERED OFFICE

PURSUANT TO THE PROVISIONS OF SECTION 608.415 or 608.507, FLORIDA STATUTES, THE UNDERSIGNED LIMITED LIABILITY COMPANY SUBMITS THE FOLLOWING STATEMENT IN DESIGNATING THE REGISTERED OFFICE/REGISTERED AGENT, IN THE STATE OF FLORIDA.

1. The name of the limited liability company is:

Level 3 Communications, LLC

2. The name and address of the registered agent and office is:

CT Corporation System
(Name)

1200 South Pine Island Road
(P.O. Box or Mail Drop Box NOT ACCEPTABLE)

Plantation, Florida 33324
(City/State/Zip)

FILED
97 DEC -8 PM 2:02
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

Having been named as registered agent and to accept service of process for the above stated limited liability company at the place designated in this certificate, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relating to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

Anne E. Diamond
(Signature)
Anne E. Diamond, Asst. Secy.

December 3, 1997
(Date)

Filing Fee: $ 35 for Designation of Registered Agent

EXHIBIT 2

Officer Affiliations with Florida Certificated Telephone Companies

Listed next to the individuals officers and/or managers of Level 3 Communications, LLC below are any companies certified to provide telecommunications services in Florida of which they have been an officer, director or one of the ten largest stockholders.

James Q. Crowe	Metropolitan Fiber Systems of Florida, Inc. (officer and director from November 1988 to November 1992 - became an officer of its parent)
	MFS Intelenet of Florida, Inc. (officer and director from February 1994 to June 1994 - became an officer of its parent)
	WorldCom, Inc. (Chairman of the Board from January 1997 to June 1997 - left to start Level 3)
	Inacom Communications, Inc. (presently a director)
Doug Bradbury	American Pioneer Telephone, Inc. (officer and shareholder from 1985 to 1988 - left to join MFS)
	Metropolitan Fiber Systems of Florida, Inc. (officer and director from November 1988 to November 1992 - became an officer of its parent)
	MFS Intelenet of Florida, Inc. (officer and director from February 1994 to June 1994 - became an officer of its parent)
	WorldCom, Inc. (director from January 1997 to February 1997 - left to join Level 3)
Terry Ferguson	Metropolitan Fiber Systems of Florida, Inc. (officer and director from June 1989 to February 1997 - left to join Level 3)
	MFS Intelenet of Florida, Inc. (officer and director from February 1994 to February 1997 - left to join Level 3)

EXHIBIT 3

Financial Qualifications

Level 3 is financially qualified to provide telecommunications services in Florida. In particular, Applicant has access to the financing and capital necessary to conduct its telecommunications operations as specified in this Application. Level 3 is wholly-owned by its sole member, PKS Information Services, Inc., which is the wholly-owned subsidiary of Level 3 Communications, Inc. As a start-up company, Level 3 will rely on the financial resources of Level 3 Communications, Inc. to provide initial capital investment and to fund operating losses during the start-up phase of operations. Level 3 Communications, Inc. has financed Level 3's initial operations and will continue to provide financial support to Level 3 so long as Level 3 requires additional capital and resources to complete its networks and construct facilities. In support of Level 3's application, attached hereto as Exhibit 4 are copies of Level 3 Communications, Inc.'s 1997 Annual Report, which includes its financial statements on SEC 10-K/A for the most recent three years.[1] This exhibit is offered to demonstrate Applicant's financial ability to provide the proposed service.

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[1] Level 3 Communications, Inc. (formerly known as Kiewit Diversified Group Inc.), previously was a subsidiary of Peter Kiewit Sons', Inc. Level 3 Communications, Inc. subsequently merged into Peter Kiewit Sons', Inc., and the surviving entity changed its name to Level 3 Communications, Inc. The SEC forms included in Level 3's 1997 Annual Report reflect this name change and were filed with the SEC as amendments to the original forms filed under the name of Peter Kiewit Sons', Inc.

LEVEL 3 COMMUNICATIONS

1997 ANNUAL REPORT

TABLE OF CONTENTS

"The best way to predict the future is to help shape it."

1997 FINANCIAL PERFORMANCE

1997 was a significant year for the company. Late in the year, a new business plan was established to focus on the provision of communications services using the framework o Kiewit Diversified Group Inc. (KDG) as the foundation. The company was renamed Le Communications, Inc. The letter to stockholders, which begins on the facing page, add that plan and the potential for Level 3 Communications going forward.

For 1997, the company's revenues decreased to $332 million during the 12 month period from $652 million in 1996. The accounting for the reorganization of the C TEC Companies, completed on September 30, 1997, significantly affected this number. *(For detail, see pages K-7.)* Earnings for 1997 were $93 million, or $0.66 per share, compared with $113 million, or $0.90 per share, for the same period a year earlier. The decline wa attributable to, among other things: decreases in revenues from KDG's coal mining acti a sharp increase in general and administrative expenses within the expanding informatio services business; increased losses related to equity investments in various developing telecommunications concerns, and an upswing in interest expense. Notably, at the end o year, the company's working capital had increased 106 percent over 1996 to $762 millio a result of cash generated by operations and significant financing activities.

Prior to establishing its new business plan, KDG's assets consisted of investments in a v of companies, comprising the non construction holdings of Peter Kiewit Sons', Inc. Am those non construction businesses was a 24% interest in CalEnergy Company, Inc., wh January 2, 1990, was sold to CalEnergy. *(For more information, see page K-11.)*

LEVEL 3 COMMUNICATIONS [1]
SELECTED FINANCIAL DATA

(dollars in millions, except per share amounts)	Fiscal Year Ended 1997
Results of Operations	
Revenue	$ 332
Earnings from continuing operations	83
Net earnings	248
Per Common Share	
Earnings from continuing operations	
Basic	.66
Diluted	.66
Net earnings	
Basic	.74
Diluted	.74
Dividends	
Book value	11.65
Financial Position	
Total assets	2,137
Current portion of long term debt	3
Long-term debt, less current portion	13
Stockholders' equity	1,578

[1] *On January 19, 1998, Kiewit Diversified Group Inc. (KDG), a subsidiary of Peter changed its name to Level 3 Communications, Inc. This table is drawn from the enclos the Securities and Exchange Commission by Peter Kiewit Sons', Inc. for the fiscal year 1997 and reflects the results of KDG.*

TO OUR STOCKHOLDERS

Today, in the communications industry, one of the great opportunities in American business is unfolding. A fundamental technological shift is occurring that we believe is as important as the shift from telegraph to telephone, from mainframe to personal computer, or from vacuum tubes to transistors and integrated circuits. This fundamental shift in technology is already changing the industry and creating a huge opportunity for new entrants and entrepreneurial companies with sufficient capital, vision and management strength to move aggressively.

The Opportunity

That fundamental technological change that is redefining the industry at its roots is the move from the 100-year old circuit switching technology — that is still the predominant technology in the traditional telephone company networks — to the newer Internet Protocol (IP) based packet switching technologies. The advantage of these new IP technologies is the power of simple economics. IP networks cost less. The cost of moving information through an IP network is much lower than through a traditional circuit switched network, because IP technology makes much more efficient use of the transmission "pipe" or network.

"We're witnessing a fundamental technological shift — as important as the shift from the telegraph to the telephone or from the mainframe to the PC. IP enjoys an enormous cost advantage over the 100-year-old circuit switched networks."

James Q. Crowe
Level 3 President and CEO

The circuit switching technology used in a traditional telephone network inefficiently opens and maintains a dedicated line whenever a call is made, regardless of the density of the information being transmitted. The result is wasted capacity or "quiet spots" as the end-to-end connection remains in place even during those moments when no actual information is being transmitted.

Conversely, the newer IP packet technology breaks the information down into pieces, places them into electronic "envelopes" or packets with electronic "addresses," and then fills the pipe with these packets of information. The packets not only fill the pipe, but are also directed along the way by special computers or routers that read the address information and direct each packet along the fastest route to its destination, where all of the pieces of information are reassembled, ready for receipt by fax, computer or listener. All of this takes place in a fraction of a second. *(For a more detailed comparison of Circuit Switching and Packet Switching, see page 10.)*

To understand the difference between circuit switching and packet switching, another helpful comparison might be to visualize an interstate highway between two cities. Traditional telephone technology would dedicate or commit an entire lane of the highway to one car for the duration of its trip. The newer IP technology would fill all of the lanes with traffic, with lines of cars in each lane. IP simply makes much more efficient use of the "highway" or transmission path.

Whether packet switching will dominate over the older circuit switched telephone network [illegible] and is being debated. No one, however, can deny that packet switching technology is improving faster than circuit switching technology. According to Peter Sevcik, an analyst with Northeast Consulting Services, circuit switching technologies are doubling their performance/cost ratio every 80 months, while packet switching technologies double this ratio every 20 months — meaning packet switching technologies are improving much faster than circuit switching technologies. That huge improvement difference, says Sevcik, "guarantees the triumph of packet switching."

Market Largely Untapped

Although there are constraints, primarily with information that is timing sensitive — such as high-quality voice and real-time video, the majority of information transmitted by corporations today — including faxes, data, audio and video files — is eminently suitable for packet switch transmission.

However, if you add up all of the markets currently addressed by the Internet providers — data services, Internet access or IP telephony and IP virtual private networks — you'll find that the total represents about $41 billion, less than 10 percent of the available global market today. The really significant market is for high quality, secure switched telephony and fax, which is not currently addressed by existing IP networks, and that amounts to well over $540 billion. This is the market Level 3 plans to address.

Rapid Data Growth Overtakes Voice

"IP is the most serious technical challenge to the ubiquitous phone technology, now well into its second century."

- Wall Street Journal
January 20, 1998

The traditional telephone networks still use the same fundamental technology that was developed at the turn of the century, primarily to handle voice traffic. Today, voice is a diminishing percentage of communications traffic as we are witnessing much sharper growth in data and fax transmission. In fact, we believe that eventually voice may be offered without usage based charges as part of basic communications access, in much the same way as e-mail is part of basic Internet access.

Moreover, there is not only a fundamental shift in technology, but as a recent article in the WALL STREET JOURNAL noted, the industry is also seeing a "fundamental shift in investments" as demand for high speed data transmission and access to the Internet increase. "Carriers such as AT&T and the Bells must upgrade their networks to handle booming Internet traffic along with traditional voice phone calls," noted the article, which continued:

> *"The telecommunications industry doesn't have a lot of time. Internet traffic is growing 1,000% a year and data traffic over the public network is doubling annually. Voice calling, by contrast, is expanding at a single-digit rate. 'Data will account for more than 95% of the traffic on the public network by the year 2005, and this will force public carriers to adopt a new architecture for handling voice, data and video transmission,' said Christopher Stix, an analyst at Cowen & Co."*[1]

Because the new technology makes much more efficient use of the transmission pipe by filling it and moving massive amounts of information faster, IP technology is better able to address the growing demand for capacity. As software companies continue to develop more sophisticated software applications, the need for bandwidth and more efficient networks will only increase.

Economics Drive Change To New Technology

The single, overriding force that will move the industry to the new IP technology is simple economics. The efficiencies made possible by the underlying IP technology are so significant, that the cost implications are enormous and irrefutable.

[1] WALL STREET JOURNAL, April [illegible], 1998

For example: Today, our analysis of network costs shows that if you want to move the amount of information on a CD ROM — approximately the contents of an eight volume encyclopedia set — from New York to Los Angeles, it will cost a carrier approximately $2[illegible] over a traditional phone network. Over an IP network, it will cost a carrier approximately $2. With that kind of lower network cost structure, Level 3 believes it will be in an excellent position to offer customers significant savings over its IP network.

Moreover, we believe the marked difference in costs is likely to widen even further as IP technologies continue to improve faster than the alternatives, because most entrepreneurial effort and capital is being focused on IP technologies. As a result, IP networks are improving much faster than the older, legacy telephone networks. In our opinion, newer IP networks are going to displace the traditional telephone network technology over time, because IP is simply cheaper and improving more quickly. Traditional networks certainly will not disappear anytime soon, but we believe the real stockholder value will be created by those who embrace and capitalize on the fundamental change that is occurring.

"Level 3 seems to be a player to watch. 'It has an opportunity to be quite disruptive in the industry,' says Mark Bruneau of the consulting firm Renaissance Worldwide. 'It's a dream team with a dream network and a killer business plan...' "

USA Today
April 1, 1998

That is the power of the newer technology. However, no one has yet built a national communications network using the new IP technology end-to-end. There's a real opportunity, for the the first time, to build a whole network optimized to Internet Protocol aimed at business. No one today has such a network.

That is the opportunity.

Level 3 Well Positioned

We believe Level 3 is exceptionally well positioned to capitalize on this historic opportunity. At this point in time, we have sufficient capital and experience to build a new network using the new technology while, at the same time, not being saddled with a massive investment in the old technology. While other carriers will have to develop their own strategies for managing their legacy networks in the face of the changing technology, Level 3 has an extraordinary opportunity to begin with a "blank canvas" — to build its network from the ground up using the new technology.

We have the capital to do it — approximately four billion dollars in cash to substantially pre-fund the building of our initial U.S. and European networks. We have a seasoned management team that has as much experience as any in the industry in building advanced fiber network infrastructure in large cities, across the U.S. and internationally. And, we have the regulatory experience that many of our team members developed in helping to open the local telephone market to competition.

Level 3's Plan To Capitalize On The Opportunity

We have laid out our strategic plan and we are already moving forward. We have announced that we will build the first national IP network — the first communications network to use the new technology end-to-end, combining local and long distance service. We plan to build local networks in more than 50 cities across the United States, which we plan to interconnect with a 15,000 mile long distance network. Initial construction of the network in the largest 15 cities is expected to be completed in the first and second quarter of 1999 with phased completion of the remaining U.S. infrastructure occurring by 2001. At the end of the first quarter of 1998, we had secured more than half of the necessary intercity rights of way, had filed applications for collocation for 56 central offices in these cities, had begun construction in 52 of these central offices and had initiated interconnection negotiations with each of the Bell Companies.

Additionally, we plan to expand internationally to another 17 cities and interconnect 13 key financial centers with a 3,000 mile pan European network. *(See map on page 14.)*

We have a number of key advantages over the traditional carriers that are beginning to deploy the new technology and who are, in fact, layering IP networks on top of the existing networks, not creating new networks from the ground up.

"Level 3's success could lead to applications that help companies make many of their vital legacy apps available to employees and business partners at costs dramatically lower than today's."

- Information Week
January 19, 1998

We don't have dated, legacy networks and infrastructure with outmoded cost structures and the large work force necessary to maintain them. We can pursue our objectives without the baggage that so many other companies in telecommunications are saddled with. We are free to tailor every aspect of our company and its objectives precisely to the demands of this new industry, serving our investors by concentrating on the development and application of network assets whose eventual value, we believe, will far outstrip the investments necessary to create them.

Additionally, we have come up with a design that anticipates and embraces the idea that the rapid pace of technological advances will continue. We are designing and building our intercity fiber optic network using at least six to eight conduits. This gives us five to seven times as many open or spare conduits as anyone else in the industry. In fact, most telephone companies have no spares at all. This continuously upgradeable network will be capable of evolving as technology changes and customer demand increases. *(See page 16.)*

Our plan is ambitious, but building such a network is not new to us. What is new is the opportunity. The new technology. The opportunity to be the first to build our entire network from the ground up with the new technology and with a management team that has the experience and track record to do it.

We Are Moving Quickly

We have taken a number of important steps to implement our strategic plan. Among 1998 first and second quarter highlights:

- **Sale of CalEnergy:** On January 2, Kiewit Diversified closed the sale of its energy assets to CalEnergy Company for $1.16 billion. The after tax proceeds of this transaction will be used to fund, in part, the Level 3 business plan.

- **National Leased Network:** On March 23, the company entered into an agreement with Frontier Corporation under which we will lease capacity for a period of up to five years on that company's 13,000 mile IP-capable fiber optic network that is currently being deployed. The agreement will allow Level 3 to begin providing services to business customers in as many as 15 cities, while we build our own network onto which we will migrate existing customers over time.

- **Separation of Companies:** On March 31, the planned separation of the Construction Group of Peter Kiewit Sons', Inc. was completed.

- **Common Stock Listed on Nasdaq:** On April 1, Level 3's common stock began trading on The Nasdaq National Market under the symbol LVLT.

- **Rights-of-Way Agreement:** On April 2, Level 3 announced an agreement with Union Pacific Railroad, granting Level 3 access to rights-of-way along 7,800 miles of Union Pacific's routes west of the Mississippi.

- **Acquisition of Data Base Technologies:** On April 14, Level 3's subsidiary, PKS Systems Integration (PKS-SI), announced the acquisition of Database Technologies. The database expertise of Database Technologies, combined with PKS-SI's international resources and systems integration capability, creates an organization that is particularly well qualified to serve corporations' rapidly expanding database and informational systems needs. Level 3 systems integration skills, together with our planned IP networks, will allow the company to offer a full range of services to businesses seeking to move applications from older, legacy data networks to more efficient IP-based networks.

- **XCOM Merger:** On April 23, Level 3 acquired XCOM Technologies, a Cambridge, Massachusetts based local exchange carrier and communications software developer. In addition to software that will be useful in the company's development of its IP-based network, XCOM's local exchange business operating in Boston, and in development in several other cities running from Boston to Washington, D.C., gives Level 3 an important foothold in the Northeast Corridor market.

- **Capital Raising:** On April 28, Level 3 raised approximately $2 billion in additional capital through the successful completion of a debt offering.

With these events behind us, we are on track to begin construction of our network during the third quarter of 1998 and to launch service by the end of this calendar year.

"Level 3 and other rivals have the Bell companies 'running like the devil to reinvent themselves,' says telecom analyst Jeffery Kagan. Question is, can they keep up with Crowe?"

Business Week
April 6, 1998

Addressing The Needs of Larger Businesses

Our primary focus is on the business market. Many businesses today have enormous investments in legacy software written over the last 25 years — software applications that are mission critical applications. Many chief information officers want to move these applications over to Internet platforms. But, the complexity is enormous. That's where Level 3's subsidiary, PKS Information Services (PKSIS), comes into play.

PKSIS offers a range of services including computer outsourcing, systems integration and year 2000 solutions. But, critical and central to Level 3's business, PKSIS offers a unique approach to WEB enabling of legacy software. In effect, PKSIS helps corporations upgrade their older software so that — using their existing computer systems — they can use the new Internet technologies.

With this lower risk, lower cost approach, PKSIS provides a front end for our communications operations because, as PKSIS's customers move their applications to Internet platforms, they will need a network service provider. Because their systems are WEB enabled, the corporations can take full advantage of the cost benefits offered by Level 3's IP network.

Innovative Compensation Program Aligns Management and Stockholder Interests

Level 3 believes its future success is in large part based on attracting, hiring and retaining the highest quality employees. This must be accomplished despite a recognized scarcity of technology workers. Clearly, our ability to attract and retain the best and the brightest people will depend on our ability to apply innovative recruiting and compensation programs. We believe the best entrepreneurs are attracted and retained by companies that provide the opportunity to become owners. We believe employee owners outperform employees. Employee-owners see things differently and see opportunities others miss. They do what it takes to make the business grow, and they are not satisfied with working at an "average" company. For those reasons we have designed our compensation and reward programs to give every level of employee an opportunity to become an owner.

"The OSO program calls upon the management of our company to put their money where their mouth is."

James Q. Crowe
[illegible] President and CEO

Investors who are looking to purchase a growth company's stock are interested in earning a superior return on their investment. We are looking for executives with a similar perspective — individuals who want to have a stake in their company and in outperforming the market.

That's why, on the same day Level 3's common stock began trading on Nasdaq, the company announced the first award of options under its new Outperform Stock Option (OSO) program. The strike price for the initial options award was based on the price of Level 3's stock at the end of the first day of trading.

Under the plan, stockholders receive a market return on their investment before executives receive any return on their options. Level 3's OSO program directly aligns management's and stockholders' interests by basing stock option value on the company's ability to outperform the market in general as measured by the Standard & Poor's (S&P) 500 index.

Normally, a stock option gives the holder the right to purchase a share of stock at a fixed price over a specified period of time. Under the Level 3 OSO plan, the exercise price is indexed to the performance of S&P 500. If Level 3's stock price does not outperform the S&P 500 index, the options have no value. The OSO program calls on the management of our company to "put their money where their mouth is." We think this unique program provides a new way to look at compensation and helps align the interests of management with the stockholders of the company.

In Conclusion

Our Chairman, Walter Scott, Jr., has built his businesses on a core philosophy: "Protect the downside, and the upside will take care of itself." Level 3 is taking the same prudent approach of protecting its downside by investing approximately 80 percent of every dollar into its network infrastructure — an asset that we believe will only increase in value over time.

We also employ a success-based capital spending strategy in which we defer as much of our spending as possible until we get a firm order from a customer. This pushes spending into the future when we will be able to match it to our revenue flow. We install empty electronics racks in facilities as we build our network, but don't fill the racks with expensive electronics until we have customers ready for service on our network.

This allows us to benefit from "silicon economics," because the equipment that we defer purchasing keeps improving in performance over time and keeps decreasing in price. As a result, we will be able to upgrade the network by purchasing the best equipment at the lowest possible price.

We will also be installing multiple conduits in our network to make it easier to upgrade to new technology or expand existing capacity to meet increasing demand. In effect, our network will be designed to evolve and change as technology evolves and customers' needs change.

From Level 3's perspective, the faster the pace of technological change, the better off we are.

These are prudent steps we are taking to insure our downside is protected. Our upside is limited only by our ability to execute our strategic plan and the degree to which we are able to penetrate the $500 billion telecommunications market.

The fundamental technological shift that is reshaping the communications industry today is creating a remarkable and historic opportunity. We have developed a business plan aimed squarely at capitalizing on that opportunity. We believe we have the right plan, the right team of executives and the capital to build a groundbreaking communications company. The opportunity is clear. We are as well positioned as anyone in the industry for it.

The challenge for us is to execute our plan well. To manage our growth well. To deploy our capital wisely. To create value for you as our stockholders. To build a company we can all be proud of. We are fully committed to doing just that and truly appreciate your support and trust.

James Crowe

James Q. Crowe
President and Chief Executive Officer

A Fundamental Technological Shift Is Changing The Communications Industry

Industry Moving From 100-Year Old Circuit Switching Technology To Newer IP (Internet Protocol) Technology

A SHIFT AS IMPORTANT AS FROM TELEGRAPH TO TELEPHONE OR FROM MAINFRAME TO PC

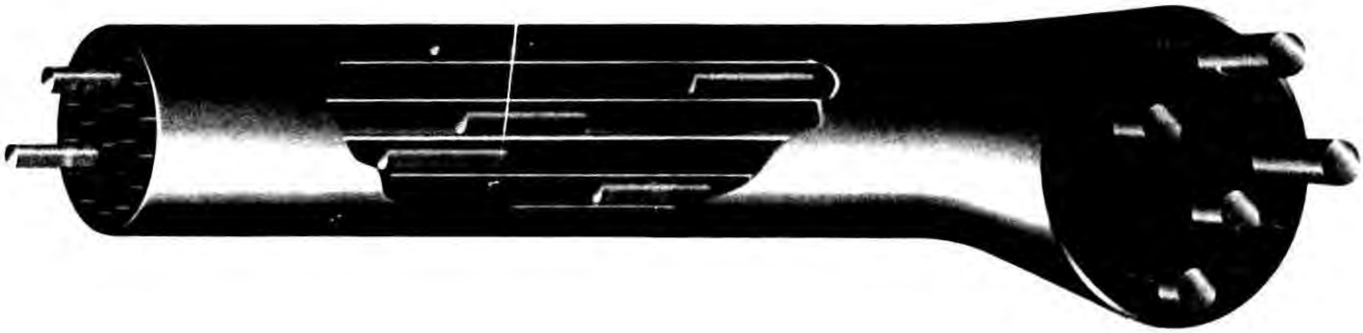
Level 3 shaped its strategy to build an IP-based network from the ground up because of a fundamental shift that is occurring in the communications industry — a shift as important as that from the telegraph to the telephone or from the mainframe to the personal computer. It is a shift that Level 3 and a growing number of industry experts believe will change communications.

That change is a move from the traditional "circuit switched" networks that were designed primarily for voice communications — and which have served customers well for close to a century — to "packet switched" networks using IP. The new technology makes it possible to move information at a much lower cost, because IP makes more efficient use of network capacity.

"In the long run, if the world keeps buying complex computer end stations, and if they are used for voice traffic, then the circuit switched world, as we know it today, is doomed."

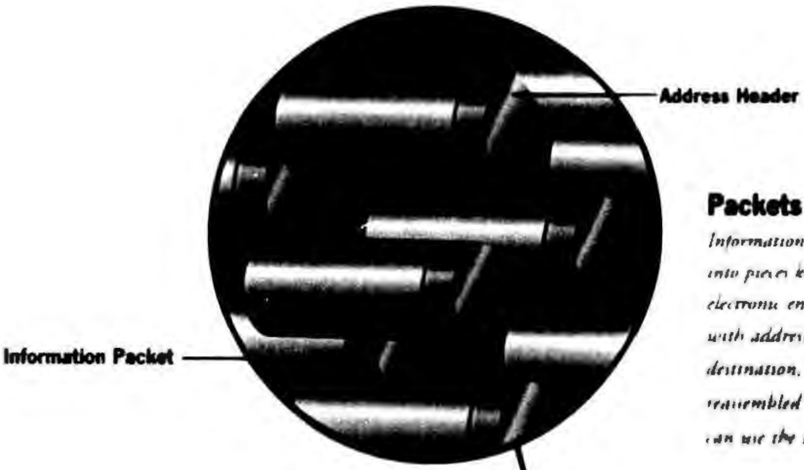
Business Communications Review
September 1997

Traditional Telephone Network Uses Circuit Switching



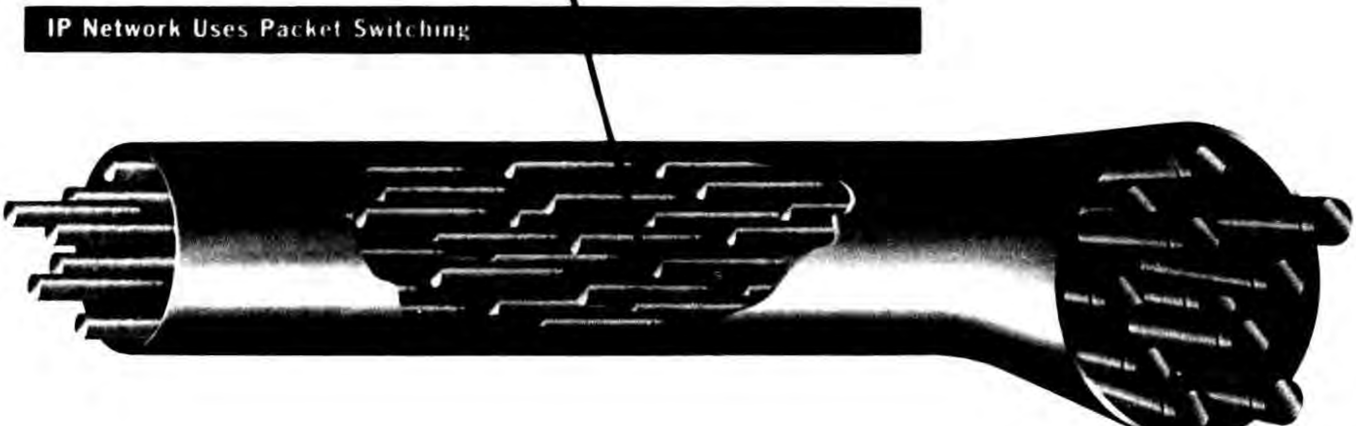
CIRCUIT SWITCHING TECHNOLOGY

The basic design of the telephone network hasn't changed for 100 years. The phone system is a circuit switched network. This technology dedicates a fixed amount of capacity (a "circuit") for the entire duration of the transmission. So, a telephone call ties up an entire circuit — or portion of the network — for the duration of the call.



Packets of Information

Information that moves over the network is broken into pieces known as bits, which are then placed into electronic envelopes or "packets." Each packet is coded with address information for delivery to the proper destination, sent through the network and then reassembled into its original form so the recipient can use the information upon delivery.



PACKET SWITCHING TECHNOLOGY

In a packet switched network, there is no single, unbroken connection between sender and receiver. When information is sent, it is put into small packets that are mixed with other transmissions, sent over many different routes at the same time, and then reassembled at the receiving end. Because IP packet switching makes it possible to fill the pipe or network, it can move massive amounts of information more efficiently and at much lower cost than traditional circuit switched networks.

Simple Economics Are Driving The Technological Change To Internet Protocol

IP Technology Is Much Less Expensive And Improving Much Faster Than Traditional Phone Network Technology

Over time, IP networks are going to displace the traditional telephone network because they are simply cheaper and because IP technology is improving more quickly. IP based networks are less expensive today for non timing sensitive information — such as data or fax, which together represent nearly 75 percent of today's business communications.

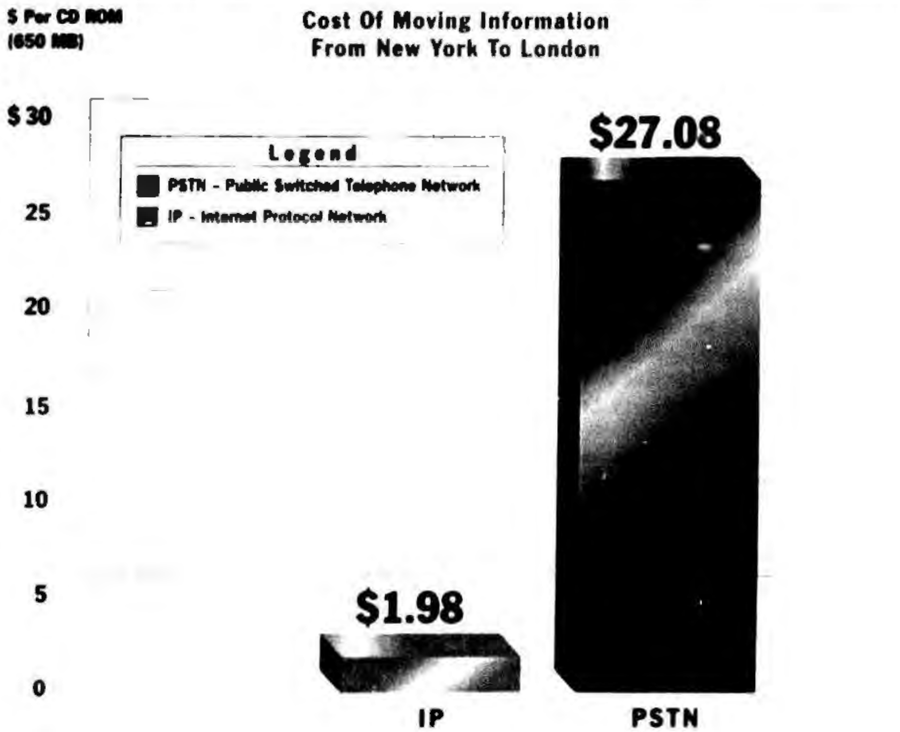
For example, for a provider with both local and long distance facilities to move a 650 megabit CD ROM worth of information from New York to Los Angeles (the equivalent of the contents of eight encyclopedia volumes) over the traditional public switched telephone network (PSTN) would cost the provider approximately $27.00.

However, to move the same amount of information over an IP network would only cost the provider about $2.00. This is the fundamental cost difference or advantage that IP enjoys today. That difference should grow over time because IP technology is advancing so much more rapidly than traditional telephone technology.

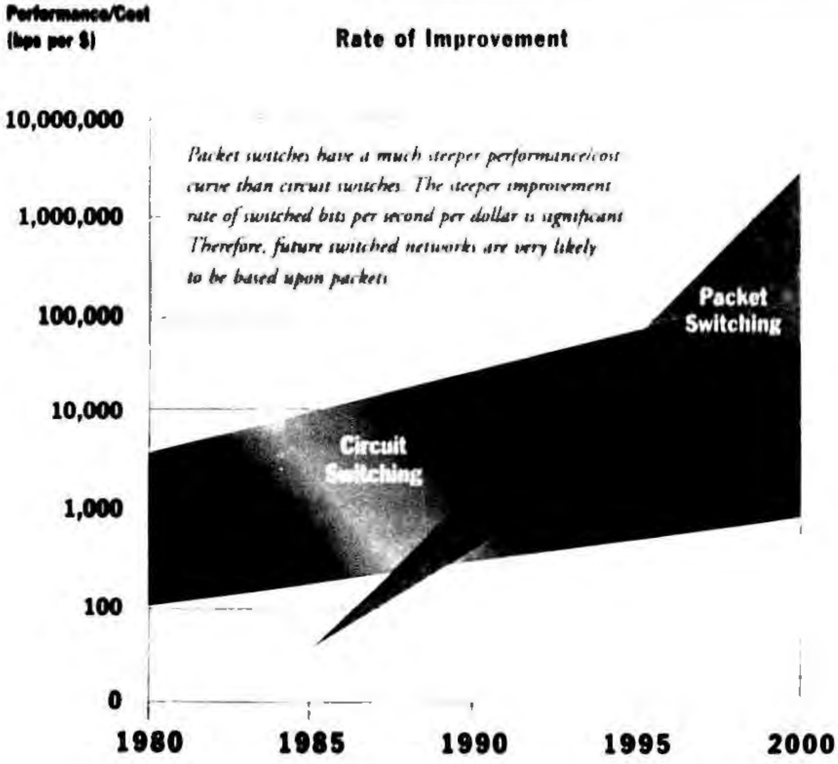
"Level 3's approach — running all traffic over a single network is easier, cheaper, and quicker to manage and upgrade."

Information Week
January 19, 1998

Packet Switching Costs less



Packet Switching Improving Faster



SOURCE: Peter Sevcik, Analyst, Northeast Consulting Resources, Inc.

> **"The Internet is doubling in traffic every five to 10 months, depending on whose statistics you believe. Only packet switched technologies, which double in performance/cost every 10 months, have a chance of keeping up... This steep rate of improvement is significant...and it guarantees the triumph of packet switching."**
>
> Peter Sevcik, Analyst
> Business Communications Review
> *September 1997*

PACKET SWITCHING TECHNOLOGIES IMPROVING FASTER THAN CIRCUIT SWITCHING

An easy way to understand the rate of improvement of packet switching technologies versus circuit switching technologies is to measure the time required to double the performance/cost ratio(switched bits/second/dollar). In computer chips, the equivalent ratio doubles every 18 months. This is known as Moore's Law, after Gordon Moore, one of the founders of Intel.

Circuit switching technologies double their performance/cost ratio every 40 to 80 months depending upon the specific nature of the switch. That's impressive until you consider that packet switching technologies double their performance/cost ratio every 10 to 20 months. Again, the range is dependent upon the specific nature and application of packet switches.

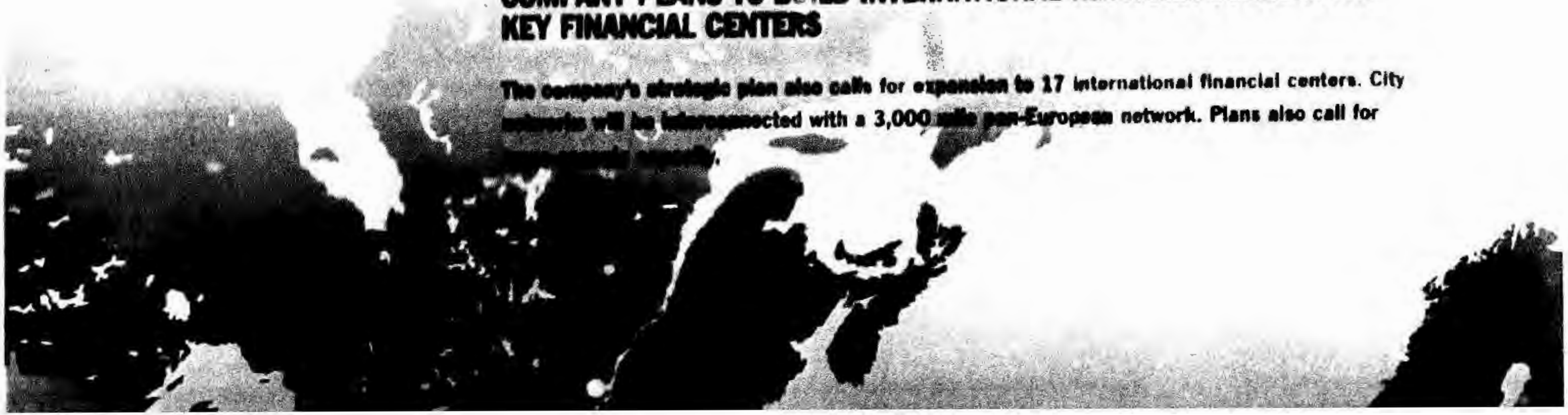
These staggering differences in rate of improvement are depicted in the graph above. The steeper the slope, the more rapid the rate of improvement in the technologies performance/cost ratio. And, a steeper improvement rate is more important to the long term success of a switching technology than its initial performance cost relative to its competing technologies.

Level 3 Is Building The First National Communications Network Using Internet Technology End-to-End

Level 3 Is Building The First National Communications Network Using Internet Technology End-to-End

COMPANY PLANS TO BUILD INTERNATIONAL NETWORK CONNECTING KEY FINANCIAL CENTERS

The company's strategic plan also calls for expansion to 17 international financial centers. City networks will be interconnected with a 3,000 mile pan-European network. Plans also call for [illegible] network.



COMPANY PLANS TO BUILD INTERNATIONAL NETWORK CONNECTING KEY FINANCIAL CENTERS

The company's strategic plan also calls for expansion to 17 international financial centers. City networks will be interconnected with a 3,000-mile pan-European network. Plans also call for

Level 3's Multi-Conduit Network Is Designed To Be Continuously Upgradeable

Network Can Evolve As Technology Changes And Customer Demand For Capacity Increases

Level 3 recognizes that the "newest" technologies today will be replaced by even newer ones tomorrow. Because Level 3 is a user of these technologies, it wants to ensure that it is able to change and adapt as the technology changes and adapts. For this reason, Level 3 is designing a network that is continuously upgradeable. The physical infrastructure of the network will include installation of six to eight conduits, only one of which will initially have fiber running through it, while the rest will be empty. This is five to seven times as many "spare" conduits as most traditional telephone companies, which typically have a single fiber optic cable "direct buried" or in a conduit.

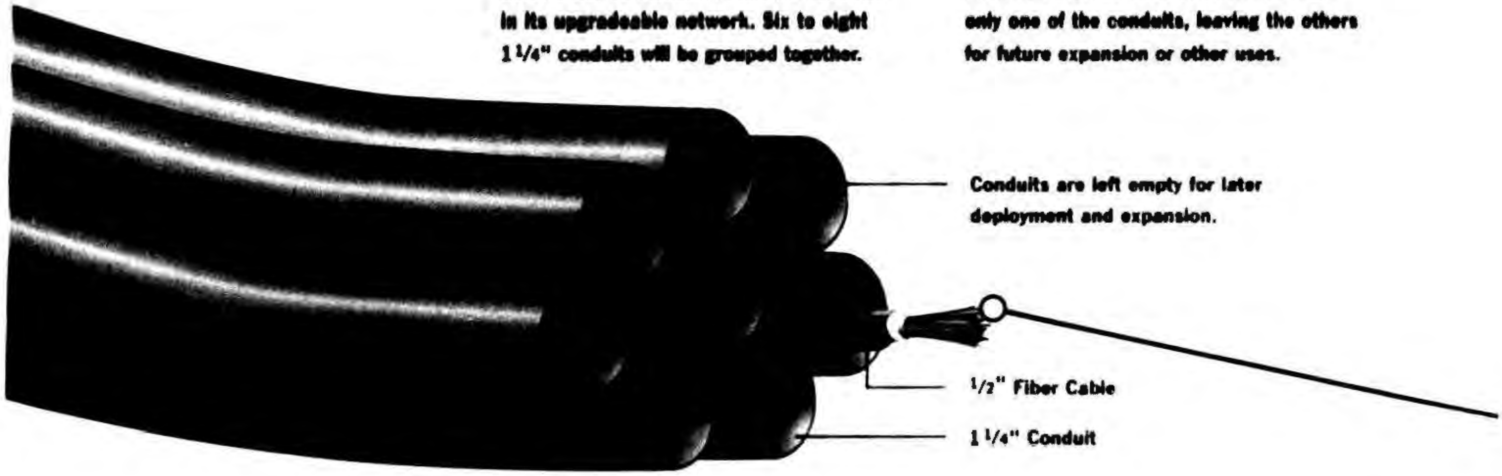
Technology is adapting and changing rapidly fiber is now in its third generation this decade. This same fast-paced evolution will continue to occur, and by laying a multi-conduit network, Level 3 will be able to adapt to these new changes to give customers quality connections at lower costs without removing old fiber or disrupting service.

Level 3 is taking this same, upgradeable approach to the design of its network electronics and to its software automation systems.

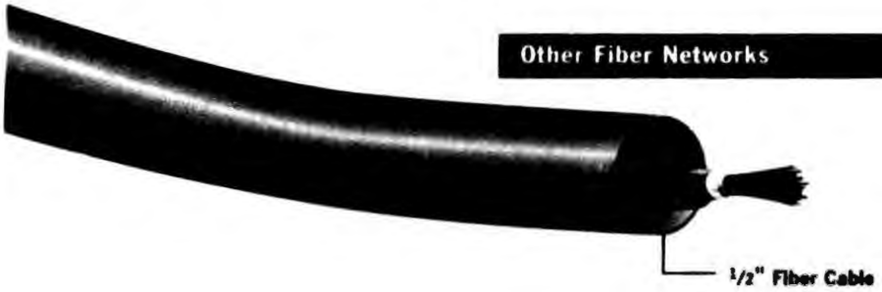
Level 3's Upgradeable Fiber Network

Level 3 will be installing multiple conduits in its upgradeable network. Six to eight 1 1/4" conduits will be grouped together.

Fiber will then be initially drawn through only one of the conduits, leaving the others for future expansion or other uses.



Other Fiber Networks



Most telephone companies have no spare conduits, or they have a single spare, thereby making it difficult to expand as customer demand and technology changes, without the company having to lay new conduit.

FIBER TECHNOLOGY CONTINUES TO IMPROVE, INCREASING CAPACITY

When Charles Kao and George Hockham first theorized the use of glass fiber as a telecommunications conduit in 1966, they asserted that "enormous" amounts of information — as many as 600 simultaneous phone calls — could be transmitted and received at a distance of more than one-quarter of a mile. Fantastic at the time, their estimates eventually proved too conservative by more than two orders of magnitude.

By 1985, systems capable of transporting more than 8,000 simultaneous telephone calls between regenerator stations spaced 25 miles apart (a "span") were generally available in the marketplace. By 1987, a technique called Wavelength Division Multiplexing (WDM) allowed multiple systems operating at different wavelengths to share the same glass fiber "span," and doubled capacity on some established routes.

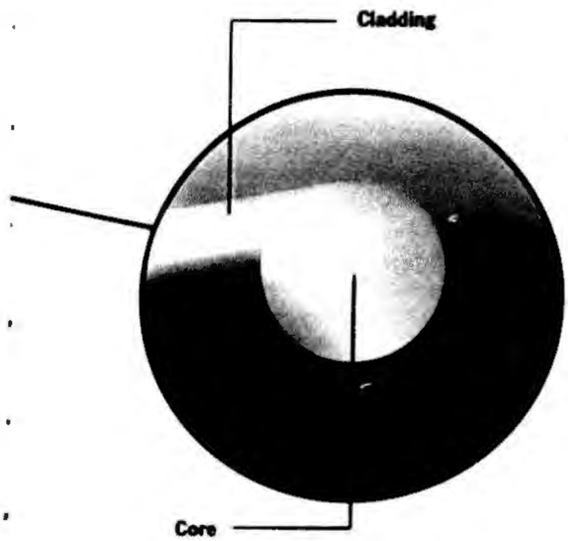
By 1995, Dense Wavelength Division Multiplexing (DWDM), teamed with new higher speed electronic terminals pushed the capacity limit to slightly beyond 160,000 simultaneous telephone calls on longer "spans" of about 30 miles.

And now, active fiber amplifier technology, improved fiber and further advances in DWDM techniques will be combined by Level 3 in a network in which one strand of fiber — about the diameter of a human hair — can carry the equivalent of more than 4 million simultaneous telephone calls along spans of up to 370 miles. This is more than 6,000 times the capacity and nearly 1,500 times the span distance theorized by Kao and Hockham.

The fiber Level 3 will deploy is a new product that enjoys a 10 percent advantage in capacity and/or span distance over similarly priced alternatives.

"Industry observers say it is only a matter of time before Internet Protocol-based networks rival, if not supplant, traditional circuit switched networks for carrying voice traffic."

Interactive Week
March 10, 1998



THE FIBER OPTIC STRAND

The basic design of a single optical fiber has changed little since the late 1970s. A fiber strand is about .0024 inches in diameter, about the width of a human hair. Of that, a central core about 1/2000 of an inch in size is where the light wave actually travels. The remainder of the fiber is protective cladding.

Level 3 To Offer Full Range Of Services — Including High-Quality Voice — Over Its IP Network

Level 3 Will Offer Public Network Quality Voice Services Using IP

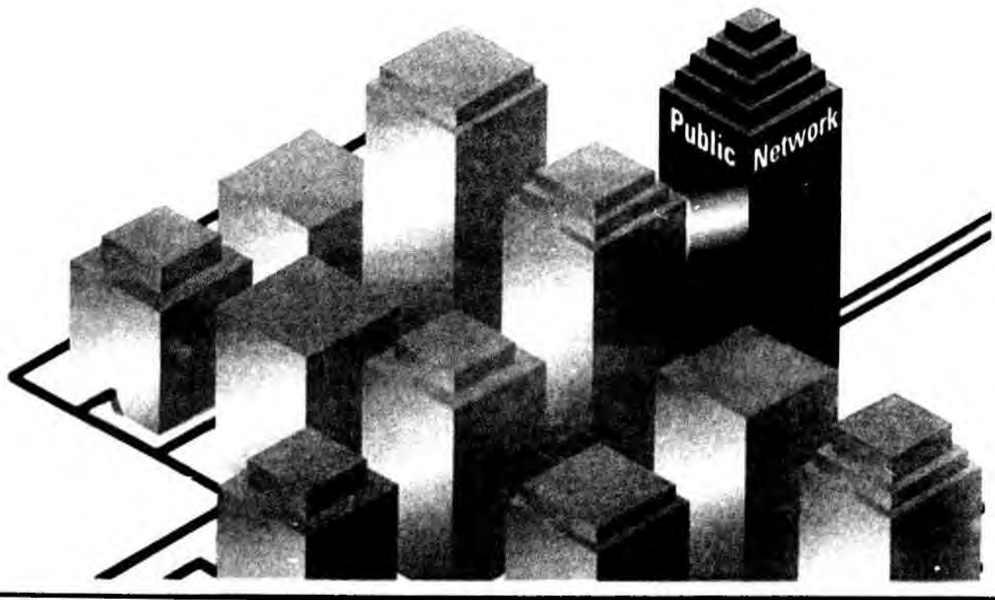
COMPANY WILL CONNECT DIRECTLY WITH THE PUBLIC SWITCHED TELEPHONE NETWORK, ENABLING SEAMLESS, UBIQUITOUS SERVICE

Today, "Voice over IP" providers operate in a very similar manner to the way long distance carriers operated in the early days of long distance competition, prior to Equal Access Implementation. Before a customer can place a call over a packet-based network, the IP provider must purchase local lines from an incumbent local carrier and then their customers must dial up to 36 digits to access the network to place a call. Level 3 has introduced an industry initiative promoting IP Equal Access, that once achieved, will allow seamless integration between the public switched telephone network (PSTN) and IP based networks, allowing IP-based carriers to provide customers with standard 10 digit dialing, using their existing telephone equipment, over a lower cost packet based network.

"The pricing differential will be so astronomic that the established carriers will have to react. These guys [Level 3] are really going to have an impact." Frank Dzrubeck, president, Communications Network Architects, Inc.

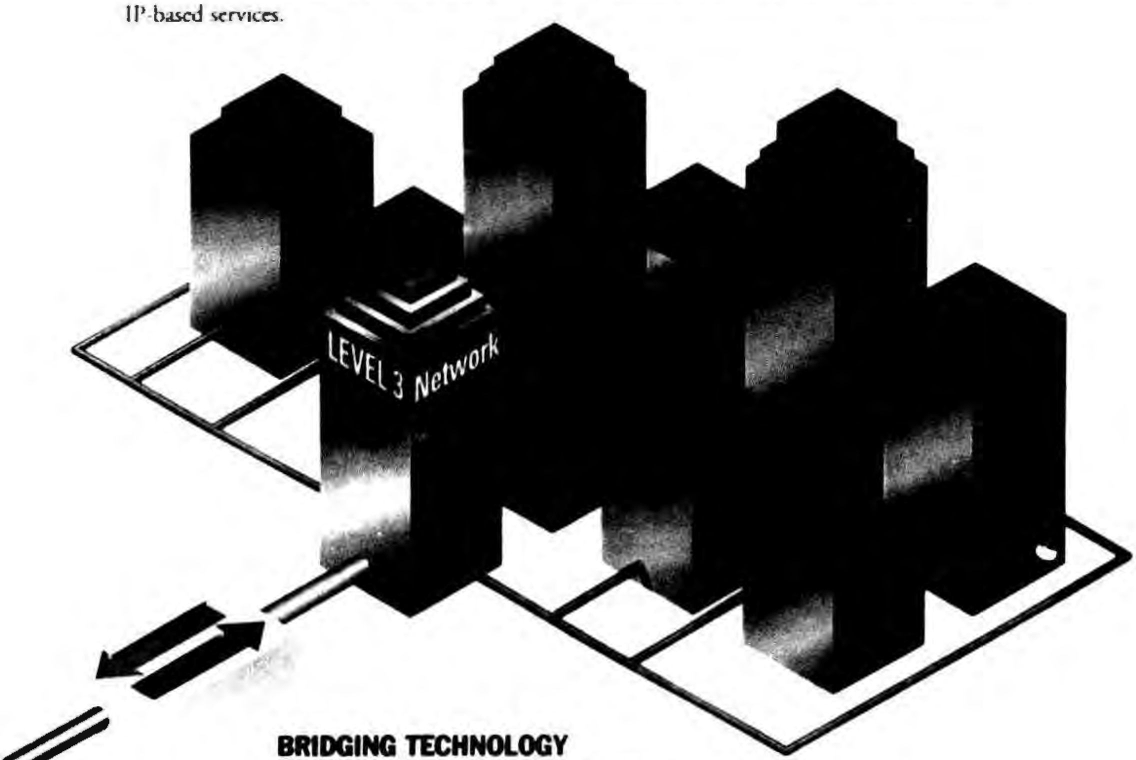
Network World
January 26, 1998

Just as Equal Access Implementation opened the long distance market to competition 15 years ago, IP Equal Access will facilitate the deployment of lower-cost, packet-based networks to provide all types of communications services, and eliminate the need for businesses to maintain multiple communication networks. IP Equal Access will also facilitate the development of new applications and services such as multimedia networking, electronic commerce, virtual private networking, remote collaboration, applications outsourcing, unified messaging, video streaming, web-enabled telephony, high-fidelity audio networking and more yet to be thought of services. The rapid innovation characteristic of IP based networks will ensure the rapid development of new and value added services delivered by these networks.



In addition to the initiative, Level 3 was instrumental in the formation of a Technical Advisory Council, consisting of a number of leading communications equipment manufacturers and service providers. The goal of this group is to establish open device control standards for the equipment deployed on IP networks. Such protocols will form the foundation for the company's integrated voice and data communications network and are a key technical development milestone on the path toward IP Equal Access.

IP Equal Access will help unlock the vast potential of IP networking. Customers will be able to enjoy the benefits of low cost and the robust capabilities of IP networks using their existing telephone equipment and without changing dialing patterns or adding additional devices. Equal access among IP network providers will ensure the availability of low-cost, high-quality IP-based communication services, and will drive the continued development of new, innovative IP-based services.



BRIDGING TECHNOLOGY

XCOM, acquired by Level 3 in April 1998, has developed a series of components necessary to interconnect an IP-based network with the traditional telephone network without the use of switches and using instead server-based, data communications equipment.

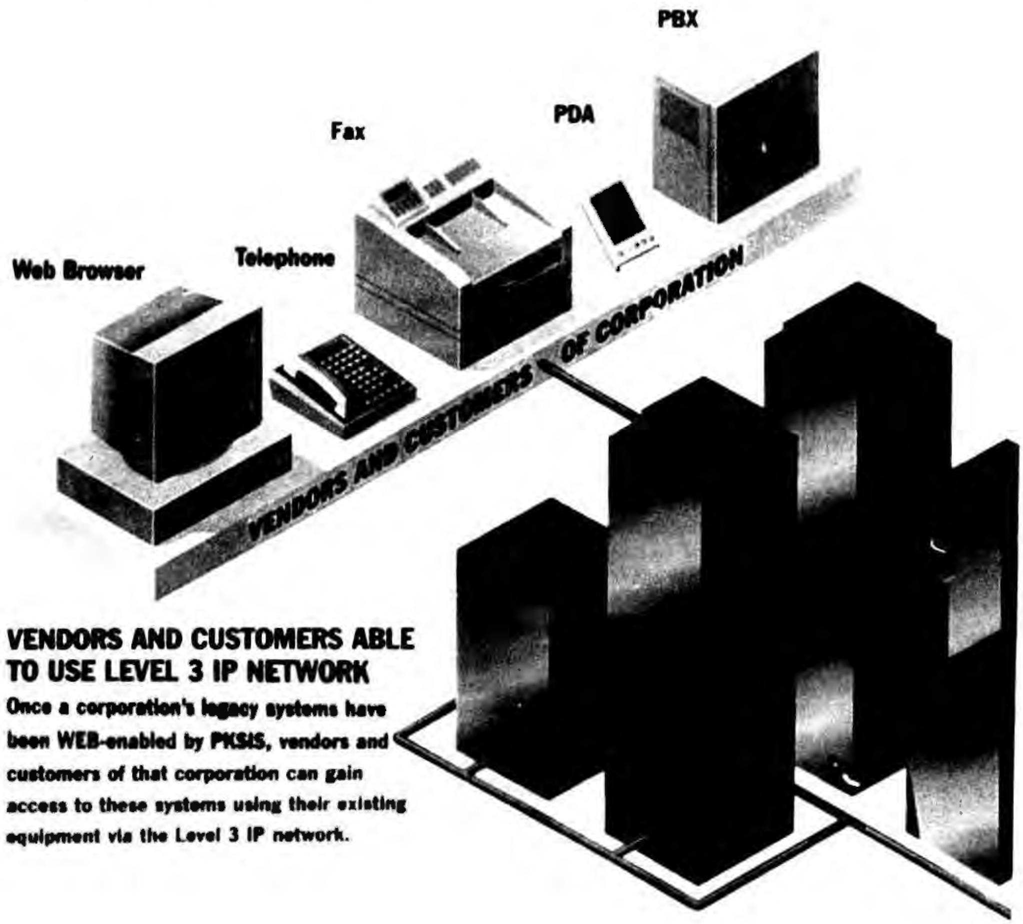
Using Their Existing Computer Systems, Customers Can Access Level 3's Network

A Level 3 Subsidiary, PKS Information Services, Specializes In Helping Companies Gain The Cost Benefits Of Internet Technology

Today, many companies run their critical business applications, such as customer order entry, purchasing, billing and payroll on a wide variety of older, legacy computer hardware and software platforms, some of which can be decades old. These legacy platforms were usually designed as stand-alone, closed systems, with little ability to communicate with each other. However, one of the key benefits of an IP network is that it gives a customer the ability to link together virtually any type of computer hardware and software platform with high-quality communications.

"Seventy percent of the world's business information resides on legacy systems — software on outdated computing environments — built at a cost of $1 to $5 trillion."

— Raul Pupo
President, CEO
PKS Information Services, Inc.

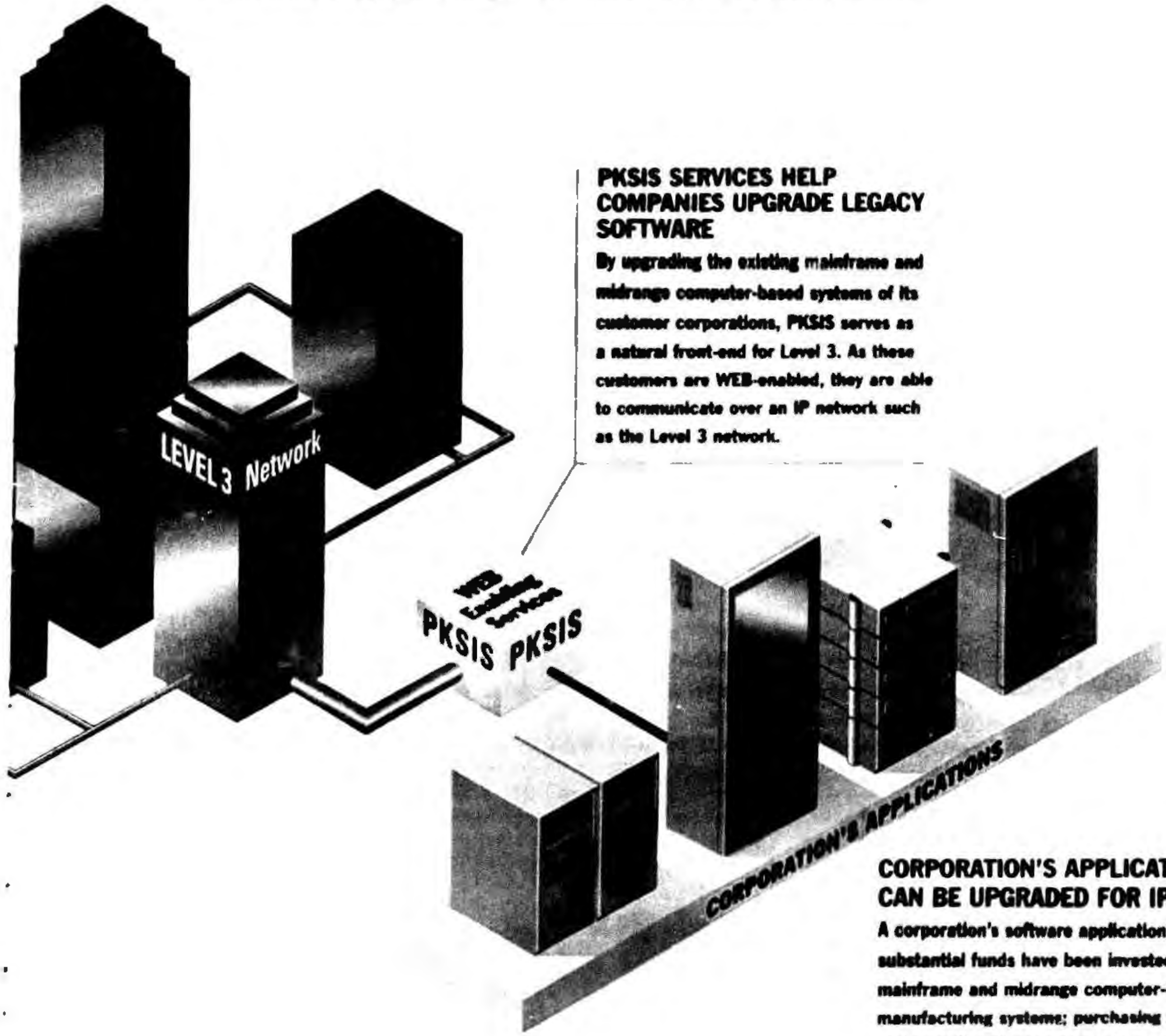


VENDORS AND CUSTOMERS ABLE TO USE LEVEL 3 IP NETWORK

Once a corporation's legacy systems have been WEB-enabled by PKSIS, vendors and customers of that corporation can gain access to these systems using their existing equipment via the Level 3 IP network.

Level 3's subsidiary, PKS Information Services (PKSIS), provides custom tailored Enterprise Internet Services allowing companies to preserve their investments in older, legacy computer hardware and software, while leveraging the benefits of IP networks. PKSIS' system integration organization develops cost-effective methods to connect stand-alone and closed legacy platforms for users worldwide. In effect, PKSIS helps corporations upgrade their existing systems so these systems are compatible with the newer Internet technologies.

These "WEB-enabling" services pave the way for these customers to use Level 3's network. Combined, Level 3 and PKSIS give corporate customers the capability to open their legacy systems — in which they have a substantial investment — to employees, to their customers and vendors as needed and to enjoy the cost, speed and security benefits of Level 3's IP network.



PKSIS SERVICES HELP COMPANIES UPGRADE LEGACY SOFTWARE

By upgrading the existing mainframe and midrange computer-based systems of its customer corporations, PKSIS serves as a natural front-end for Level 3. As these customers are WEB-enabled, they are able to communicate over an IP network such as the Level 3 network.

CORPORATION'S APPLICATIONS CAN BE UPGRADED FOR IP

A corporation's software applications, in which substantial funds have been invested, include such mainframe and midrange computer-based systems as: manufacturing systems; purchasing systems; billing and payroll systems; order entry systems and more.

LEVEL 3 COMMUNICATIONS, INC.

Effective January 19, 1998, Kiewit Diversified Group Inc. changed its name to Level 3 Communications, Inc. For the 1997 fiscal year, the company had consolidated revenues of $332 million. Following the sale of its CalEnergy interests and bond sale, Level 3 had approximately $4 billion in cash and cash equivalents, and $5 billion in total asset value. As the parent corporation, Level 3 Communications, Inc. has a number of operating subsidiaries, including:

Level 3 Communications, LLC

Known as "the network company," Level 3 Communications, LLC, is building an advanced Internet Protocol (IP) technology-based network across the U.S. that is expected to be completed in phases by the year 2001. To provide service in the interim, the company has signed an agreement to lease capacity on a national network over which it will be able to offer advanced IP-based services in selected cities beginning in the third quarter of 1998. Level 3 will be the first company to combine both local and long distance IP technology based networks end to end across the U.S. The company will focus primarily on the business market using its network to provide a full range of communications services — including local, long distance and data transmission as well as other enhanced services and Internet access services. Plans also call for the company to expand internationally.

PKS Information Services, Inc. (PKSIS)

PKS Information Services, Inc. is a full service computer outsourcing, systems integration and enterprise Internet solutions company. The company is an acknowledged service leader and has a successful record of providing high-quality, custom tailored solutions. PKSIS' computing operation offers customers dedicated, low-cost, high-performance computing environments, 24 hours a day, seven days a week.

PKSIS helps customers define, develop and implement cost effective information systems. A network integration group designs and implements all LAN/WAN topologies and network management platforms. The company's Suite 2000[SM] service converts customers' date related information. LegaBridge[SM] is a PKSIS solution that helps customers convert older legacy applications to client/server and Internet platforms.

Commonwealth Telephone Enterprises, Inc., Cable Michigan, Inc., and RCN Corporation *(collectively, the C-TEC Companies)*

Level 3 engages in the telecommunications business through ownership of approximately 48.5 percent of the common stock of Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc. and approximately [illegible] percent of the common stock in RCN Corporation, which were created as a result of a restructuring transaction completed by C-TEC Corporation on September 30, 1997. The C-TEC Companies have interests in local telephone, video programming, long distance telephone, cable television, communication engineering and competitive telephone businesses.

KCP Inc. (KCP)

The company engages in the coal mining business through ownership by KCP of a 50 percent interest in three coal mines, which are operated and managed by a subsidiary of Peter Kiewit Sons', Inc.

BOARD OF DIRECTORS

Walter Scott, Jr.
Chairman of the Board
Level 3 Communications, Inc.
Chairman Emeritus
Peter Kiewit Sons', Inc.

James Q. Crowe
President, Chief Executive Officer
Level 3 Communications, Inc.

R. Douglas Bradbury
Executive Vice President,
Chief Financial Officer
Level 3 Communications, Inc.

Robert B. Daugherty
Former Chairman of the Board,
Chief Executive Officer
Valmont Industries, Inc.

William L. Grewcock
Vice Chairman
Peter Kiewit Sons', Inc.

Charles M. Harper
Former Chairman of the Board,
Chief Executive Officer
RJR Nabisco Holdings Corp.

Richard R. Jaros
Former President
Kiewit Diversified Group, Inc.

Robert E. Julian
Chairman of the Board
PKS Information Services, Inc.

David C. McCourt
Chairman, Chief Executive Officer
Commonwealth Telephone Enterprises, Inc.
Cable Michigan, Inc. and RCN

Kenneth E. Stinson
Chairman of the Board,
Chief Executive Officer
Peter Kiewit Sons', Inc.

Michael B. Yanney
Chairman of the Board, President and
Chief Executive Officer
America First Companies L.L.C.

EXECUTIVE OFFICERS AND OTHER MANAGEMENT

James Q. Crowe
President,
Chief Executive Officer

R. Douglas Bradbury
Executive Vice President,
Chief Financial Officer

Kevin J. O'Hara
Executive Vice President,
Chief Operating Officer

Reed Pope
President,
Chief Executive Officer
PKS Information Services, Inc

Daniel Caruso
Senior Vice President
Network Services

Terrence J. Ferguson
Senior Vice President,
General Counsel

Michael Frank
Senior Vice President
Human Resources

Mark L. Gershien
Senior Vice President
Sales and Marketing

Joseph M. Howell, III
Senior Vice President
Corporate Marketing

Michael Jones
Senior Vice President,
Chief Information Officer

Ronald J. Vidal
Senior Vice President
New Ventures

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended **December 27, 1997**	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)

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

None.

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

Class C Common Stock, par value $.0625
Class D Common Stock, par value $.0625

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

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

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

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

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

Portions of the Company's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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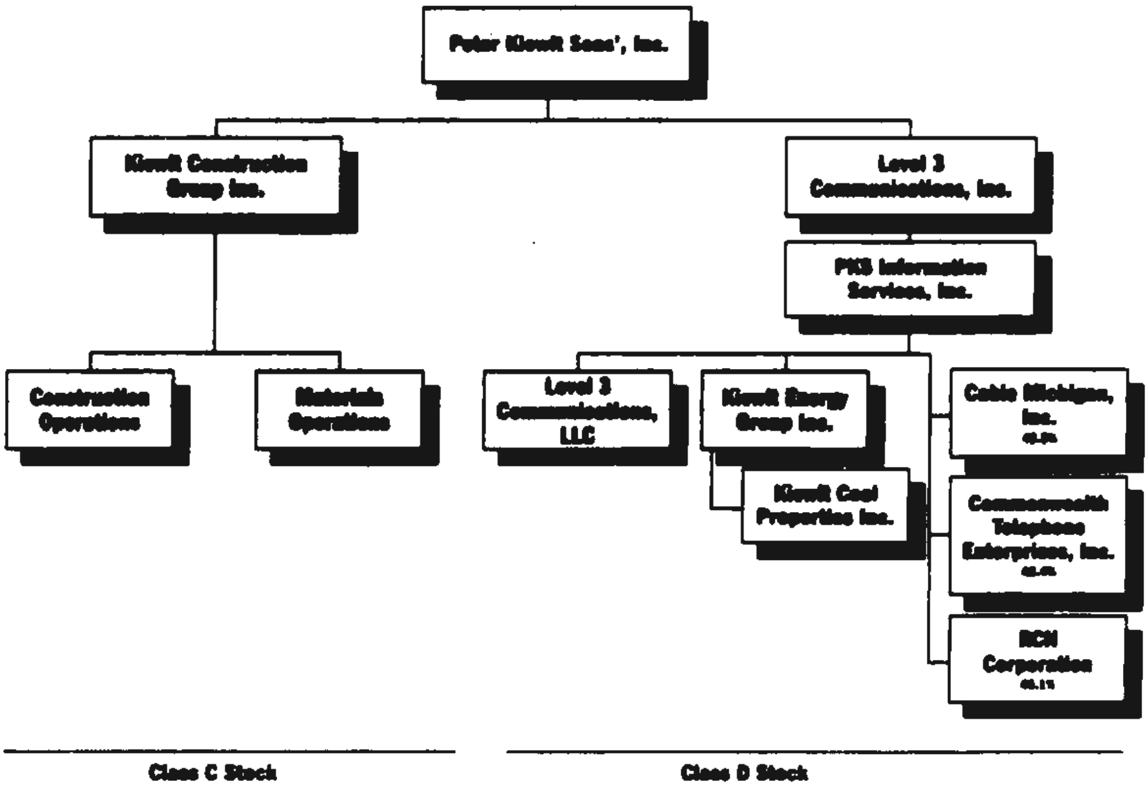
PART I

ITEM 1. BUSINESS

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



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

On December 8, 1997, the Company's stockholders ratified the decision of the Company's Board of Directors (the "PKS Board") to separate the business conducted by the Construction Group and the business conducted by the Diversified Group (collectively, the "Business Groups") into two independent companies. In connection with the consummation of this transaction, the PKS Board declared a dividend of eight-tenths of one share of the Company's newly created Class R Convertible Common Stock, par value $.01 per share ("Class R stock") with respect to each outstanding share of Class C stock. The Class R stock is convertible in shares of Class D stock pursuant to a defined formula. In addition, the Company has announced that effective March 31, 1998, the Company, through a resolution of the PKS Board, shall cause each outstanding share of Class C stock to be mandatorily exchanged (the "Share Exchange") pursuant to provisions of the PKS Restated Certificate of Incorporation (the "PKS Certificate") for one outstanding share of Common Stock, par value $.01 per share, of PKS Holdings, Inc. ("PKS Holdings"), a recently formed, direct, wholly owned subsidiary of PKS, to which the eight-tenths of one share of Class R Stock would attach (collectively, the "Transaction"). In connection with the consummation of the Transaction, the Company will change its name to Level 3 Communications, Inc and PKS Holdings, Inc. will change its name to Peter Kiewit Sons', Inc. The Company has announced that the PKS Board has approved in principle a plan to force conversion of all 6,538,231 shares of Class R Stock outstanding. Due to certain provisions of the Class R stock, conversion will not be forced prior to May 1998, and the final decision to force conversion would be made at that time. The decision may be made not to force conversion if it were decided that conversion is not in the best interest of the then stockholders of the Company.

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

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

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

KIEWIT CONSTRUCTION GROUP

CONSTRUCTION OPERATIONS

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

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

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

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

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

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

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

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

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

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

MATERIALS OPERATIONS

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

LEVEL 3 COMMUNICATIONS, INC.

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

INFORMATION SERVICES

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

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

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

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

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

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

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

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

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

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

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

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

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

- Web browsers can provide a standardized interface to data and applications and thus help to minimize costs of training personnel to access and use these resources; and

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

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

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

To implement its strategy, Level 3 has formulated a long term business plan that provides for the development of an end-to-end network optimized for the Internet Protocol. Initially, Level 3 will offer its services over facilities, both local and national, that are in part leased from third parties to allow for the offering of services during the construction of its own facilities. Over time, it is anticipated that the portion of Level 3's network that includes leased facilities will decrease and the portion of facilities that have been constructed, and are owned, by Level 3 will increase. Over the next 4 to 6 years, it is anticipated that the Level 3 network will encompass local facilities in approximately 40 North American markets, leased backbone facilities in approximately 10 additional North American markets, a national or inter-city network covering approximately 15,000 miles, the establishment of local facilities in approximately 10 European and 4 Asian markets and an inter-city network covering approximately 2,000 miles across Europe. Level 3 intends to design and construct its inter-city network using multiple conduits. Level 3 believes that the spare conduits will allow it to deploy future technological innovations and expand capacity without incurring significant overbuild costs. The foregoing description of the Level 3 network and the Expansion

Plan constitutes a forward-looking statement. The actual configuration of the network, including the number of markets served and the expanse of the inter-city networks will depend on a variety of factors including Level 3's ability to: access markets; design fiber optic network backbone routes; attract and retain qualified personnel; design, develop and deploy enterprise support systems that will allow Level 3 to build and operate a packet switched network that interconnects with the public switched network, install fiber optic cable and facilities; obtain rights-of-way, building access rights, unbundled loops and required government authorizations, franchises and permits; and to negotiate interconnection and peering agreements.

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

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

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

C-TEC COMPANIES

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

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

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

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

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

Accounting Method. Since the ownership by Level 3 of the equity and voting rights of each of RCN, Cable Michigan and Commonwealth Telephone at the end of 1997 was less than 50%, under generally accepted accounting principles, Level 3 uses the equity method to account for its investments in each of these companies. Under the equity method, Level 3 reports its proportionate share of each of Commonwealth Telephone's, RCN's and Cable Michigan's earnings, even though it has received no dividends from those companies. Level 3 keeps track of the carrying value of its investment in each of the C-TEC Companies. "Carrying value" is the purchase price of the investment, plus the investor's proportionate share of the investee's earnings, less the amortized portion of goodwill, less any dividends paid. Level 3 purchased its C-TEC Companies shares at a premium over the book value of the underlying net assets. This premium is being amortized over a period of between 30 to 40 years. At December 27, 1997 the carrying value of Level 3's Commonwealth Telephone shares was $75 million, RCN shares was $214 million and Cable Michigan shares was $46 million.

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

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

COAL MINING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CALENERGY COMPANY, INC.

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

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

OTHER BUSINESSES

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

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

Kiewit Mutual Fund. Kiewit Mutual Fund, a Delaware business trust and a registered investment company, was formed in 1994. Initially formed to manage the Company's internal investments, shares in Kiewit Mutual Fund are now available for purchase by the general public. The Fund's investors currently include individuals and unrelated companies, as well as Company affiliated joint ventures, pension plans, as the current longterm contracts expire. In addition, these cost disadvantages may adversely affect KCP's ability to compete for spot sales in the future.

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

GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

ITEM 2. PROPERTIES.

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

1. Ratification of the decision of the PKS Board to separate the construction business of PKS and the diversified business of PKS into two independent companies through the declaration

of a dividend of eight-tenths of one share of newly created Class R Convertible Common Stock, par value $.01 per share ("Class R stock"), of PKS with respect to each outstanding share of Class C Construction & Mining Group Restricted Redeemable Convertible Exchangeable Common Stock, par value $.0625 per share ("Class C stock"), of PKS, and mandatory exchange of each outstanding share of Class C stock for one outstanding share of Common Stock, par value $.01 per share, of PKS Holdings, Inc. (collectively, the "Transaction").

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

2. Approval of amendments to the PKS Certificate (the "Initial Certificate Amendments"), to: (i) create the Class R Stock to be distributed in the Transaction; (ii) increase from 50,000,000 to 500,000,000 the number of shares of Class D Diversified Group Convertible Exchangeable Common Stock, par value $.0625 per share ("Class D stock"), which PKS is authorized to issue; (iii) designate 10 shares of Class D stock as "Class D Stock, Non-Redeemable Series"; and (iv) eliminate the requirement that the Certificate of Incorporation of PKS Holdings as in effect at the time of the Share Exchange be substantially similar to the PKS Certificate.

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

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

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

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

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

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Business Experience	Age	PKS Director Since
Walter Scott, Jr.*	Chairman of the Board and President, PKS (for more than the past five years); also a director of Berkshire Hathaway, Inc., Burlington Resources, Inc., CalEnergy, ConAgra, Inc., Commonwealth Telephone Enterprises, Inc., RCN Corporation, U.S. Bancorp and Valmont Industries, Inc.	66	09/27/79 – Chairman 04/22/64 – Director
Peter Kiewit, Jr.	Attorney, of counsel to the law firm of Gallagher & Kennedy of Phoenix, Arizona (for more than the past five years)	71	01/13/66
William L. Grewcock*	Vice Chairman, PKS (for more than the past five years)	72	01/11/68
Robert B. Daugherty	Director (and formerly Chairman of the Board and Chief Executive Officer) Valmont Industries, Inc. (for more than the past five years)	75	01/08/86
Charles M. Harper	Former Chairman of the Board and Chief Executive Officer of RJR Nabisco Holdings Corp. Currently a director (and formerly Chairman of the Board and Chief Executive Officer) of ConAgra, Inc. and also a director of E.I. DuPont de Nemours and Company, Norwest Corp. and Valmont Industries, Inc.	69	01/08/86
Kenneth E. Stinson*	Executive Vice President, PKS (for more than the past five years); Chairman (since 1993) and CEO (since 1992), KCG; also a director of ConAgra, Inc. and Valmont Industries, Inc.	55	01/07/87
Richard Geary*	Executive Vice President, KCG; President of Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	62	04/29/88
George B. Toll, Jr.*	Executive Vice President, KCG (since 1994); Vice President, Kiewit Pacific Co., a KCG construction subsidiary (1992-1994)	61	06/05/93

Name	Business Experience	Age	PKS Director Since
James Q. Crowe*	President and Chief Executive Officer, Level 3 (since August 1, 1997); Chairman of the Board, WorldCom, Inc., an international telecommunications company (January 1997-July 1997); Chairman of the Board, MFS Communications Company, Inc., an international telecommunications company (1992-1996) (MFS was a Diversified Group subsidiary until 1995); also a director of Commonwealth Telephone Enterprises, Inc., RCN Corporation, and InaCom Communications, Inc.	48	06/05/93
Richard R. Jaros	Executive Vice President (1993-1997) and Chief Financial Officer (1995-1997), PKS; President of Level 3 (1996-1997); President and COO of CalEnergy (1992-1993); also a director of CalEnergy, Commonwealth Telephone Enterprises, Inc., RCN Corporation and WorldCom, Inc.	46	06/05/93
Richard W. Colf*	Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/03/95
Bruce E. Grewcock*	Executive Vice President, KCG (since 1996), Chairman (since 1996), President (1992-1996) and Sr. Vice President (1992) of Kiewit Mining Group Inc.; also a director of Kinross Gold Corporation	44	06/04/94
Tait P. Johnson*	President, Gilbert Industrial Corporation, a KCG construction subsidiary (for more than the past five years); President (1992-1996), Gilbert Southern Corp., a KCG construction subsidiary	48	06/03/95
Allan K. Kirkwood*	Senior Vice President, Kiewit Pacific Co., a KCG construction subsidiary (for more than the past five years)	54	06/07/97

Identified by asterisks are the ten persons currently serving as executive officers of PKS. Executive officers are those directors who are employed by PKS or its subsidiaries. Bruce E. Grewcock is the son of William L. Grewcock.

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

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

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

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

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

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

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

PART II

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA.

PETER KIEWIT SONS', INC.
SELECTED CONSOLIDATED FINANCIAL DATA

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

(dollars in millions, except per share amounts)	Fiscal Year Ended				
	1997	1996	1995	1994	1993
Results of Operations:					
Revenue (1)	$ 332	$ 652	$ 580	$ 537	$ 267
Earnings from continuing operations	83	104	126	28	174
Net earnings (2)	248	221	244	110	261
Financial Position:					
Total assets (1)	2,779	3,066	2,945	4,048	3,236
Current portion of long-term debt (1)	3	57	40	30	11
Long term debt, less current portion (1)	137	320	361	899	452
Stockholders' equity (3)	2,230	1,819	1,607	1,736	1,671

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

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

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

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

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

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

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

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

KIEWIT CONSTRUCTION & MINING GROUP
SELECTED FINANCIAL DATA

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

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

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

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

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

DIVERSIFIED GROUP
SELECTED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations 1997 vs. 1996

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations 1996 vs. 1995

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

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

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

Telecommunications. Revenue for the telecommunications segment increased 13% to $367 million for fiscal 1996. C-TEC's telephone group's $10 million, or 8%, increase in sales and C-TEC's cable group's $33 million or 26% increase in revenue were the primary contributors to the improved results. The increase in telephone group revenue is due to higher intrastate access revenue from the growth in access minutes, an increase of 13,000 access lines, and higher internet access and video conferencing sales. Cable group revenue increased primarily due to higher average subscribers and the effects of rate increases in April 1995 and February 1996. Subscriber counts increased primarily due to the acquisition of Pennsylvania Cable Systems, formerly Twin County Trans Video, Inc., in September 1995, and the consolidation of Mercom, Inc. since August 1995. Pennsylvania Cable Systems and Mercom account for $23 million of the increase in cable revenue in 1996.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Condition - December 27, 1997

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.
ITEM 11. EXECUTIVE COMPENSATION.
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

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

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

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, effective January 8, 1992 (Exhibit 3.1 to Company's Form 10K for 1991).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Peter Kiewit Sons', Inc., effective December 8, 1997.
3.4	Bylaws, composite copy, including all amendments, as of March 19, 1993 (Exhibit 3.4 to Company's Form 10-K for 1992).

10.1	Separation Agreement, dated December 8, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings Inc. and Kiewit Construction Group Inc.
10.2	Amendment No. 1 to Separation Agreement, dated March 18, 1997, by and among PKS, Kiewit Diversified Group Inc., PKS Holdings, Inc. and Kiewit Construction Group Inc.
21	List of subsidiaries of the Company.
23	Consents of Coopers & Lybrand LLP
27	Financial data schedules.
99.A	Kiewit Construction & Mining Group Financial Statements and Other Information.
99.B	Diversified Group Financial Statements and Other Information.

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

SIGNATURES

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

PETER KIEWIT SONS', INC.
By: /s/ Walter Scott, Jr.
Name: Walter Scott, Jr.
Title: Chairman of the Board

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

/s/ WALTER SCOTT, JR. Walter Scott, Jr.	Chairman of the Board and President (principal executive officer)
/s/ R. Douglas Bradbury R. Douglas Bradbury	Executive Vice President of Level 3 Communications, Inc. (principal financial officer)
/s/ ERIC J. MORTENSEN Eric J. Mortensen	Controller (principal accounting officer)
/s/ RICHARD W. COLF Richard W. Colf, Director	/s/ RICHARD R. JAROS Richard R. Jaros, Director
/s/ JAMES Q. CROWE James Q. Crowe, Director	/s/ TAIT P. JOHNSON Tait P. Johnson, Director
/s/ ROBERT B. DAUGHERTY Robert B. Daugherty, Director	/s/ ALLAN K. KIRKWOOD Allan K. Kirkwood, Director
/s/ RICHARD GEARY Richard Geary, Director	/s/ PETER KIEWIT, JR. Peter Kiewit, Jr., Director
/s/ BRUCE E. GREWCOCK Bruce E. Grewcock, Director	/s/ KENNETH E. STINSON Kenneth E. Stinson, Director
/s/ WILLIAM L. GREWCOCK William L. Grewcock, Director	/s/ GEORGE B. TOLL, JR. George B. Toll, Jr., Director
/s/ CHARLES M. HARPER Charles M. Harper, Director	

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Index to Financial Statements

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

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

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

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

Coopers & Lybrand LLP

Omaha, Nebraska
March 30, 1998

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the three years ended December 27, 1997

(dollars in millions, except per share data)	1997	1996	1995
Revenue	$ 332	$ 652	$ 580
Cost of Revenue	(175)	(384)	(345)
	157	268	235
General and Administrative Expenses	(114)	(181)	(190)
Operating Earnings	43	87	45
Other (Expense) Income:			
Equity losses, net	(43)	(9)	(5)
Investment income, net	45	56	45
Interest expense, net	(15)	(33)	(23)
Gain on subsidiary's stock transactions, net	-	-	3
Other, net	1	6	125
	(12)	20	145
Equity Loss in MFS	-	-	(131)
Earnings Before Income Taxes, Minority Interest and Discontinued Operations	31	107	59
Income Tax Benefit (Provision)	48	(3)	79
Minority Interest in Net Loss (Income) of Subsidiaries	4	-	(12)
Income from Continuing Operations	83	104	126
Discontinued Operations:			
Construction, net of income tax (expense) of ($107), ($72) and ($60)	155	108	104
Energy, net of income tax benefit (expense) of $1, ($9) and ($8)	10	9	14
Income from Discontinued Operations	165	117	118
Net Earnings	$ 248	$ 221	$ 244
Earnings Per Share:			
Continuing Operations:			
Class D Stock			
Basic	$ .66	$ .90	$ 1.17
Diluted	$ .66	$ .90	$ 1.1[illegible]
Net Income:			
Class C Stock			
Basic	$ 15.99	$ 10.13	$ 7.78
Diluted	$ 15.35	$ 9.76	$ 7.62
Class D Stock			
Basic	$ .74	$ .97	$ 1.29
Diluted	$ .74	$ .97	$ 1.29

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC AND SUBSIDIARIES

Consolidated Balance Sheets
December 27, 1997 and December 28, 1996

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 27, 1997 and December 28, 1996
(continued)

(dollars in millions)	1997	1996
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 31	$ 79
Current portion of long-term debt:		
Telecommunications	-	55
Other	3	2
Accrued reclamation and other mining costs	19	19
Deferred income taxes	15	5
Other	21	87
Total Current Liabilities	89	247
Long-Term Debt, less current portion:		
Telecommunications	-	207
Other	137	113
Deferred Income Taxes	83	148
Accrued Reclamation Costs	100	98
Other Liabilities	139	216
Minority Interest	1	218
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding in 1997 and 1996	-	-
Common stock, $.0625 par value, $2.1 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: — outstanding in 1997 and 263,468 outstanding in 1996	-	-
Class C, authorized 125,000,000 shares: 10,132,343 outstanding in 1997 and 10,743,173 outstanding in 1996	1	1
Class D, authorized 500,000,000 shares: 135,517,140 outstanding in 1997 and 115,901,215 — outstanding in 1996	8	1
Class R, authorized 8,500,000 shares: outstanding in 1997 and 1996	-	-
Additional paid in capital	427	235
Foreign currency adjustment	(7)	(7)
Net unrealized holding gain	2	23
Retained earnings	1,799	1,566
Total Stockholders' Equity	2,230	1,819
	$ 2,779	$ 3,066

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three years ended December 27, 1997

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

See accompanying notes to consolidated financial statements

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the three years ended December 27, 1997
(continued)

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

See accompanying notes to consolidated financial statements

PETER KIEWIT SONS', INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the three years ended December 27, 1997

(dollars in millions)	Class B&C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 31, 1994	$ 1	$ 1	$ 182	$ (7)	$ (8)	$1,567	$1,736
Issuances of stock	-	-	$ 29	-	-	-	29
Repurchases of stock	-	-	$ (1)	-	-	$ (5)	$ (6)
Foreign currency adjustment	-	-	-	$ 1	-	-	1
Net unrealized holding gain	-	-	-	-	$ 25	-	25
Net earnings	-	-	-	-	-	$ 244	244
Dividends:(a) Class C ($1.05 per common share)	-	-	-	-	-	(12)	(12)
Class D ($.10 per common share)	-	-	-	-	-	(11)	(11)
MFS Dividend	-	-	-	-	-	(399)	(399)
Balance at December 30, 1995	1	1	210	(6)	17	1,384	1,607
Issuances of stock	-	-	$ 27	-	-		27
Repurchases of stock	-	-	(2)		-	(14)	(16)
Foreign currency adjustment	-	-	-	(1)	-	-	(1)
Net unrealized holding gain	-	-	-	-	6	-	6
Net earnings	-	-	-	-	-	221	221
Dividends: (b) Class C ($1.30 per common share)	-	-	-	-	-	(13)	(13)
Class D ($.10 per common share)	-	-	-	-	-	(12)	(12)
Balance at December 28, 1996	$ 1	$ 1	$ 235	$ (7)	$ 23	$1,566	$1,819

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

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

(dollars in millions)	Class B & C Common Stock	Class D Common Stock	Additional Paid-in Capital	Foreign Currency Adjustment	Net Unrealized Holding Gain (Loss)	Retained Earnings	Total
Balance at December 28, 1996	$ 1	$ 1	$ 235	$ (7)	$ 23	$ 1,566	$ 1,819
Issuances of stock	-	-	172	-	-	-	172
Repurchases of stock	-	-	-	-	-	(2)	(2)
Option Activity	-	-	27	-	-	-	27
Class D Stock Split	-	7	(7)	-	-	-	-
Foreign currency adjustment	-	-	-	-	-	-	-
Net unrealized holding loss	-	-	-	-	(21)	-	(21)
Net earnings	-	-	-	-	-	248	248
Dividends: (c) Class C ($1.50 per common share)	-	-	-	-	-	(13)	(13)
Balance at December 27, 1997	$ 1	$ 8	$ 427	$ (7)	$ 2	$ 1,799	$ 2,230

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

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

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

See accompanying notes to consolidated financial statements.

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

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

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

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

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

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

Description of Business Groups

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Construction Contracts

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

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

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

Coal Sales Contracts

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

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

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

Information Services Revenue

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

Telecommunications Revenue

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

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Depreciation and Amortization.

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

Intangible Assets

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

Long Lived Assets

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

Reserves for Reclamation

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

Foreign Currencies

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

Subsidiary and Investee Stock Activity

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

Earnings Per Share

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Class D Stock	1997	1996	1995
Income from continuing operations available to common shareholders (in millions)	$ 83	$ 104	$ 126
Add: Interest expense, net of tax effect associated with convertible debentures	-	-	*
Income from continuing operations for fully diluted shares	83	104	126
Income from discontinued operations	10	9	14
Net Income	$ 93	$ 113	$ 140
Total number of weighted average shares outstanding used to compute basic earnings per share (in thousands)	124,647	116,006	108,594
Additional dilutive stock options	539	311	-
Additional dilutive shares assuming conversion of convertible debentures	-	-	257
Total number of shares used to compute diluted earnings per share.	125,186	116,317	108,851
Continuing Operations:			
Basic earnings per share	$ .66	$ .90	$ 1.17
Diluted earnings per share	$ .66	$ .90	$ 1.17
Discontinued Operations:			
Basic earnings per share	$ .08	$ .07	$ .12
Diluted earnings per share	$ .08	$ .07	$ .12
Net Income:			
Basic earnings per share	$ .74	$ .97	$ 1.29
Diluted earnings per share	$ .74	$ .97	$ 1.29

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (cont.)

Stock Dividend

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

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

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

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

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

Reclassifications

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

Fiscal Year

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Reorganization

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

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

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

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

Financial Position (dollars in millions)	1997	1996
Current assets	$ 1,057	$ 764
Other assets	284	274
Total assets	$ 1,341	$ 1,038
Current liabilities	579	397
Other liabilities	99	79
Minority interest	11	-
Total liabilities	689	476
Net assets	$ 652	$ 562

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Reorganization (cont.)

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

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

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

(3) Discontinued Energy Operations

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

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

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

The following is summarized financial information for discontinued energy operations:

Income from Discontinued Operations	1997	1996	1995
Operations			
Equity in:			
CalEnergy earnings, net	$ 16	$ 20	$ 10
CE Electric earnings, net	17	(2)	-
International energy projects earnings, net	5	(5)	6
Investment income from CalEnergy		5	6
Income tax expense	(9)	(9)	(8)
Income from operations	$ 29	$ 9	$ 14
CalEnergy Stock Transactions			
Gain on investee stock activity	$ 68	$ -	$ -
Income tax expense	(24)	-	-
	$ 44	$ -	$ -
Extraordinary Loss — Windfall Tax			
Level 3's share from CalEnergy	$ (39)	$ -	$ -
Level 3's share from CE Electric	(58)	-	-
Income tax benefit	34	-	-
Extraordinary loss	$ (63)	$ -	$ -

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

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

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

Operations (dollars in millions)	1997	1996	1995
Revenue	$ 2,271	$ 576	$ 399
Income before extraordinary item	52	92	62
Extraordinary item — Windfall tax	(136)	-	-
Level 3's share:			
Income before extraordinary item	18	22	13
Goodwill amortization	(2)	(2)	(3)
Equity in income of CalEnergy before extraordinary item	$ 16	$ 20	$ 10
Extraordinary item — Windfall tax	$ (39)	$ -	$ -

Financial Position (dollars in millions)	1997	1996
Current assets	$ 2,053	$ 945
Other assets	5,435	4,768
Total assets	7,488	5,713
Current liabilities	1,440	1,232
Other liabilities	4,494	3,301
Minority interest	134	299
Total liabilities	6,068	4,832
Net assets	$ 1,420	$ 881
Level 3's share:		
Equity in net assets	$ 337	$ 267
Goodwill	-	25
Investment in CalEnergy	$ 337	$ 292

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

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

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

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

Operations (dollars in millions)	1997	1996
Revenue	$ 1,564	$ 37
Income before extraordinary item	58	-
Extraordinary item — Windfall tax	(194)	-
Level 3's share:		
Income before extraordinary item	$ 17	$ -
Management fee paid to CalEnergy	-	(2)
	17	(2)
Extraordinary item — Windfall tax	$ (58)	$ -

Financial Position (dollars in millions)	1997	1996
Current assets	$ 419	$ 583
Other assets	2,519	1,772
Total assets	2,938	2,355
Current liabilities	1,166	785
Other liabilities	1,265	718
Preferred stock	56	153
Minority interest	-	112
Total liabilities	2,487	1,768
Net assets	$ 451	$ 587
Level 3's share:		
Equity in net assets	$ 135	$ 176

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

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

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

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

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

Financial Position (dollars in millions)	Mahanagdong	Casecnan	Dieng	Other	Total
1997					
Current assets	$ 42	$ 334	$ 87	$ 67	$ 530
Other assets	252	148	240	171	811
Total assets	294	482	327	238	1,341
Current liabilities	11	12	88	61	172
Other liabilities	186	372	123	56	737
Total liabilities (with recourse only to the projects)	197	384	211	117	909
Net assets	$ 97	$ 98	$ 116	$ 121	$ 432
Level 3's share:					
Equity in net assets	$ 48	$ 49	$ 46	$ 43	$ 186

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Discontinued Energy Operations (cont.)

Financial Position (dollars in millions)	Mahanagdong	Casecnan	Dieng	Other	Total
1996					
Current assets	$ 1	$ 441	$ 15	$ 10	$ 467
Other assets	239	51	118	36	444
Total assets	240	492	133	46	911
Current liabilities	15	9	24	11	59
Other liabilities	153	372	35	-	560
Total liabilities (with recourse only to the projects)	168	381	59	11	619
Net assets	$ 72	$ 111	$ 74	$ 35	$ 292
Level 3's share:					
Equity in net assets	$ 36	$ 55	$ 36	$ 17	$ 144
Loan to Project	-	-	5	-	5
	$ 36	$ 55	$ 41	$ 17	$ 149

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) MFS Spin-off

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

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

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

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

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

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

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

(6) Disclosures about Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (cont.)

Marketable Securities, Restricted Securities and Non-current Investments

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Disclosures about Fair Value of Financial Instruments (cont.)

(dollars in millions)	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
1996:				
Marketable Securities:				
Kiewit Mutual Fund:				
Short-term government	$ 100	$ -	$ -	$ 100
Intermediate term bond	65	2	-	67
Tax exempt	126	2	-	128
Equity	5	2	-	7
Corporate debt securities (held by C-TEC)	47	-	-	47
Collateralized mortgage obligations	-	1	-	1
Other securities	20	2	-	22
	$ 363	$ 9	$ -	$ 372
Restricted Securities:				
Kiewit Mutual Fund:				
Intermediate term bond	$ 8	$ -	$ -	$ 8
Equity	7	2	-	9
	$ 15	$ 2	$ -	$ 17
Non-current investments:				
Equity securities	$ 49	$ 26	$ -	$ 75

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

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

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

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

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

Long-term Debt

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments

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

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments (cont.)

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

Operations (dollars in millions)	1997	1996	1995
Commonwealth Telephone Enterprises			
Revenue	$ 197	$ 186	$ 174
Net income available to common stockholders	20	20	31
Level 3's share:			
Net income	10	10	15
Goodwill amortization	(1)	(1)	1
Equity in net income	$ 9	$ 9	$ 16
Cable Michigan			
Revenue	$ 81	$ 76	$ 60
Net loss available to common stockholders	(4)	(8)	(10)
Level 3's share:			
Net loss	(2)	(4)	(5)
Goodwill amortization	(4)	(4)	(4)
Equity in net loss	$ (6)	$ (8)	$ (9)
RCN Corporation			
Revenue	$ 127	$ 105	$ 91
Net (loss) income available to common stockholders	(52)	(6)	2
Level 3's share:			
Net (loss) income	(26)	(3)	1
Goodwill amortization	-	(3)	1
Equity in net (loss) income	$ (26)	$ (6)	$ 2

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Investments (cont.)

Financial Position (in millions)	Commonwealth Telephone Enterprises 1997	Commonwealth Telephone Enterprises 1996	Cable Michigan 1997	Cable Michigan 1996	RCN Corporation 1997	RCN Corporation 1996
Current assets	$ 71	$ 51	$ 23	$ 10	$ 698	$ 143
Other assets	303	266	120	139	453	485
Total assets	374	317	143	149	1,151	628
Current liabilities	76	59	16	24	70	57
Other liabilities	260	189	166	190	708	175
Minority interest	-	-	15	15	16	5
Total liabilities	336	248	197	229	794	237
Net assets (liabilities)	$ 38	$ 69	$ (54)	$ (80)	$ 357	$ 391
Level 3's Share:						
Equity in net assets	$ 18	$ 33	$ (26)	$ (38)	$ 173	$ 189
Goodwill	57	58	72	75	41	41
	$ 75	$ 91	$ 46	$ 37	$ 214	$ 230

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

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

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

(8) Intangible Assets

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Long-Term Debt

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

(dollars in millions)	1997	1996
CPTC Long-term Debt (with recourse only to CPTC):		
Bank Note		
(7.7% due 2008)	$ 65	$ 65
Institutional Note		
(9.45% due 2017)	35	35
OCTA Debt		
(9.0% due 2006)	8	6
Subordinated Debt		
(9.5% No Maturity)	6	2
	114	108
Other:		
Pavilion Towers Debt (8.4% due 2007)	15	-
Capitalized Leases	6	1
Other	5	6
	26	7
C-TEC Longterm Debt (with recourse only to C-TEC):		
Credit Agreement — National Bank for Cooperatives		
(7.51% due 2009)	-	110
Senior Secured Notes		
(9.65% due 1999)	-	134
Term Credit Agreement — Morgan Guaranty Trust Company		
(7% due 2002)	-	18
	-	262
	140	377
Less current portion	(3)	(57)
	$ 137	$ 320

(9) Long-Term Debt (cont.)

CPTC:

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

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

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

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

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

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

Other:

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Income Taxes

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

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

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

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Income Taxes (cont.)

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

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

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

(11) Stockholders' Equity

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Class D Stock Plan

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

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Class D Stock Plan (cont.)

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

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

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

(13) Industry and Geographic Data

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

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

Geographic Data (dollars in millions)	Information Services	Telecom-munications (C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
1997						
Revenue:						
United States	$ 94	$ -	$ 222	$ 16	$ -	$ 332
Other	-	-	-	-	-	-
	$ 94	$ -	$ 222	$ 16	$ -	$ 332
Operating Earnings:						
United States	$ (16)	$ -	$ 82	$ (23)	$ -	$ 43
Other	-	-	-	-	-	-
	$ (16)	$ -	$ 82	$ (23)	$ -	$ 43
Identifiable Assets:						
United States	$ 59	$ 336	$ 499	$ 588	$ 870	$ 2,352
Other	2	-	-	-	425	427
	$ 61	$ 336	$ 499	$ 588	$ 1,295	$ 2,779
1996						
Revenue:						
United States	$ 42	$ 367	$ 234	$ 9	$ -	$ 652
Other	-	-	-	-	-	-
	$ 42	$ 367	$ 234	$ 9	$ -	$ 652
Operating Earnings:						
United States	$ (3)	$ 31	$ 94	$ (35)	$ -	$ 87
Other	-	-	-	-	-	-
	$ (3)	$ 31	$ 94	$ (35)	$ -	$ 87
Identifiable Assets:						
United States	$ 29	$ 1,100	$ 387	$ 380	$ 761	$ 2,657
Other	-	-	-	-	409	409
	$ 29	$ 1,100	$ 387	$ 380	$ 1,170	$ 3,066

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Industry and Geographic Data (cont.)

Geographic Data (dollars in millions)	Information Services	Telecommunications (C-TEC Entities)	Coal Mining	Other	Discontinued Operations	Consolidated
1995						
Revenue:						
United States	$ 36	$ 325	$ 216	$ 3	$ -	$ 580
Other	-	-	-	-	-	-
	$ 36	$ 325	$ 216	$ 3	$ -	$ 580
Operating Earnings:						
United States	$ 4	$ 37	$ 77	$ (73)	$ -	$ 45
Other	-	-	-	-	-	-
	$ 4	$ 37	$ 77	$ (73)	$ -	$ 45
Identifiable Assets:						
United States	$ 34	$ 1,143	$ 368	$ 614	$ 614	$ 2,773
Other	-	-	-	-	172	172
	$ 34	$ 1,143	$ 368	$ 614	$ 786	$ 2,945

(14) Related Party Transactions

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

(15) Fair Value of Financial Instruments

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

	1997		1996	
(dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Note 6)	$ 87	$ 87	$ 147	$ 147
Marketable securities (Note 6)	678	678	372	372
Restricted securities (Note 6)	22	22	17	17
Investment in equity securities (Notes 6 & 7)	-	-	75	75
Investment in C-TEC entities (Note 7)	335	776	355	315
Investments in discontinued operations (Note 3)	643	854	608	960
Long-term debt (Notes 6 & 9)	140	140	377	384

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Notes to Consolidated Financial Statements

(16) C-TEC Restructuring

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) C-TEC Restructuring (cont.)

Financial Position (dollars in millions)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	$ 87	$ 71
Marketable securities	678	325
Restricted securities	22	17
Receivables	42	34
Investment in Discontinued Operations — Energy	643	608
Other	22	12
Total Current Assets	1,494	1,067
Net Property, Plant and Equipment	184	174
Investments	383	458
Investments in Discontinued Operations — Construction	652	562
Intangible Assets, net	21	23
Other Assets	45	49
	$ 2,779	$ 2,333
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 31	$ 41
Current portion of long-term debt	3	2
Accrued reclamation and other mining costs	19	19
Other	36	27
Total Current Liabilities	89	89
Long-term Debt, less current portion	137	113
Deferred Income Taxes	83	47
Accrued Reclamation Costs	100	98
Other Liabilities	139	163
Minority Interest	1	4
Stockholders' Equity	2,230	1,819
	$ 2,779	$ 2,333

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Pro Forma Information (unaudited).

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Other Matters

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

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

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

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

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

(19) Subsequent Events

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

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

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Subsequent Events (cont.)

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

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - K/A
Amendment No. 2 to
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended
December 27, 1997

Commission File
Number 0-15658

LEVEL 3 COMMUNICATIONS, INC.
(formerly known as 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) 536-3677
(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act:
None.
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01

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

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

The aggregate market value of the registrant's stock ("Common Stock") held by nonaffiliates as of March 15, 1998 was $7.3 billion, based on the closing price of the registrant's common stock on the NASDAQ OTC Bulletin Board on that date.

As of March 15, 1998, 146,943,752 shares of the Common Stock were outstanding.

INTRODUCTION

This Form 10-K/A amends the Form 10-K filed by Peter Kiewit Sons', Inc. (the "Company") on March 31, 1998, as amended by a Form 10-K/A Amendment No. 1 to Form 10-K filed by the Company on April 23, 1998. This Form 10-K/A is being filed solely to set forth the information required by Part III (Items 10, 11, 12 and 13) of Form 10-K, because a definitive proxy statement containing such information will not be filed within 120 days after the end of the fiscal year covered by the Company's original Form 10-K filing. This Form 10-K/A amends Part III of the Company's original Form 10-K filing only, and all other portions of the Company's original 10-K filing remain in effect.

On March 31, 1998, the Company exchanged for all of its then outstanding Class C Stock for all of the capital stock of a subsidiary (the "Construction Subsidiary") holding the stock of Kiewit Construction Group Inc. ("KCG"), the construction subsidiary of the Company (the "Split-Off"). In connection with the Split-Off, the Company was renamed "Level 3 Communications, Inc." and the Construction Subsidiary was renamed "Peter Kiewit Sons', Inc." (In this Form 10-K/A, the Construction Subsidiary is referred to as "New PKS").

ITEM 10. MANAGEMENT

Directors and Executive Officers

Set forth below is information as of April 27, 1998 about each director and executive officer of the Company, including his business experience during the past five years.

Name	Age	Position
Walter Scott, Jr.	66	Chairman of the Board
James Q. Crowe	48	President, Chief Executive Officer and Director
R. Douglas Bradbury	47	Executive Vice President, Chief Financial Officer and Director
Kevin J. O'Hara	37	Executive Vice President and Chief Operating Officer
Terrence J. Ferguson	55	Senior Vice President, General Counsel and Secretary
Robert B. Daugherty	75	Director
William L. Grewcock	72	Director
Charles M. Harper	70	Director
Richard R. Jaros	46	Director
Robert E. Julian	58	Director
David C. McCourt	40	Director
Kenneth E. Stinson	55	Director
Michael B. Yanney	63	Director

Walter Scott, Jr. has been the Chairman of the Board of the Company since September 1979, and a director of the Company since April 1964. Mr. Scott has been Chairman Emeritus of New PKS since the Split-Off. Mr. Scott is also a director of Berkshire Hathaway Inc., Burlington Resources Inc., CalEnergy Company, Inc. ("CalEnergy"), ConAgra, Inc., Commonwealth Telephone Enterprises Inc. ("Commonwealth Telephone"), RCN Corporation ("RCN"), U.S. Bancorp and Valmont Industries, Inc.

James Q. Crowe has been the President and Chief Executive Officer of the Company since August 1997, and a director of the Company since June 1993. Mr. Crowe was President and Chief Executive Officer of MFS Communications Company, Inc. ("MFS") from June 1993 to June 1997. Mr. Crowe also served as Chairman of the Board of WorldCom, Inc. ("WorldCom") from January 1997 until July 1997, and as Chairman of the Board of MFS from 1992 through 1996. Mr. Crowe is presently a director of Commonwealth Telephone, RCN and InaCom Communications, Inc.

R. Douglas Bradbury has been Executive Vice President and Chief Financial Officer of the Company since August 1997 and a director of the Company since March 1998. Mr. Bradbury served as Chief Financial Officer of MFS from 1992 to 1996, Senior Vice President of MFS from 1992 to 1995, and Executive Vice President of MFS from 1995 to 1996

Kevin J. O'Hara has been Executive Vice President of the Company since August 1997, and Chief Operating Officer of the Company since March 1998. Prior to that, Mr. O'Hara served as President and Chief Executive Officer of MFS Global Network Services, Inc. from 1995 to 1997, and as Senior Vice President of MFS and President of MFS Development, Inc. from October 1992 to August 1995. From 1990 to 1992, he was a Vice President of MFS Telecom, Inc. ("MFS Telecom")

Terrence J. Ferguson has been Senior Vice President, General Counsel and Secretary of the Company since August 1997. Prior to that he was a Senior Vice President of MFS from September 1992 to February 1997, General Counsel from January 1992 to February 1997 and Secretary from November 1991 to February 1997.

Robert B. Daugherty has been a director of the Company since January 1986. Mr. Daugherty has been a Director of Valmont Industries, Inc. for more than the past five years, and formerly was Chairman of the Board and Chief Executive Officer of Valmont Industries, Inc.

William L. Grewcock has been a director of the Company since January 1968. Prior to the Split-Off, Mr. Grewcock was Vice Chairman of the Company for more than five years.

Charles M. Harper has been a director of the Company since January 1986. Mr. Harper was Chairman of the Board of RJR Nabisco Holdings Corp. ("RJR Nabisco") from May 1993 to May 1996 and Chief Executive Officer of RJR Nabisco from May 1993 to December 1995. Prior to that, Mr. Harper was Chairman of the Board and Chief Executive Officer of ConAgra, Inc. Mr. Harper is currently a director of ConAgra, Inc., E.I. DuPont de Nemours and Company, Norwest Corporation and Valmont Industries, Inc.

Richard R. Jaros has been a director of the Company since June 1993 and served as President of the Company from 1996 to 1997. Mr. Jaros served as Executive Vice President of the Company from 1993 to 1997 and Chief Financial Officer of the Company from 1995 to 1997. He also served as President and Chief Operating Officer of CalEnergy from 1992 to 1993, and is presently a director of CalEnergy, Commonwealth Telephone and RCN.

Robert E. Julian has been a director of the Company since March 31, 1998. Mr. Julian has also been Chairman of the Board of PKSIS since 1995. From 1992 to 1995 Mr. Julian served as Executive Vice President and Chief Financial Officer of the Company.

David C. McCourt has been a director of the Company since March 31, 1998. Mr. McCourt has also served as Chairman and Chief Executive Officer of Commonwealth Telephone, Cable Michigan, Inc. and RCN since October 1997. From 1993 to 1997 Mr. McCourt served as Chairman of the Board and Chief Executive Officer of C-TEC Corporation. Mr. McCourt is also a director of Mercom, Inc.

Kenneth E. Stinson has been a director of the Company since January 1987. Mr. Stinson has been Chairman of the Board and Chief Executive Officer of New PKS since the Split-Off. Prior to the Split-Off, Mr. Stinson was Executive Vice President of the Company for more than the last five years. Mr. Stinson is also a director of ConAgra, Inc. and Valmont Industries, Inc.

Michael B. Yanney has been a director of the Company since March 31, 1998. He has served as Chairman of the Board, President and Chief Executive Officer of America First Companies L.L.C. for more than the last five years. Mr. Yanney is also a director of Burlington Northern Santa Fe Corporation, RCN, Forest Oil Corporation and Mid-America Apartment Communities, Inc

ITEM 11. Compensation

1997 Executive Officer and Director Compensation

The table below shows the annual compensation of the chief executive officer and the next four most highly compensated executive officers of the Company for the 1997 fiscal year (the "Named Executive Officers").

		Annual Compensation		
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)
Walter Scott, Jr. Chief Executive Officer	1997	872,551	2,000,000	191,109
	1996	715,000	2,000,000	276,400
	1995	630,000	1,250,000	157,800
Kenneth E. Stinson Executive Vice President President	1997	476,669	1,500,000	
	1996	402,500	900,000	
	1995	351,300	600,000	
Richard Geary Executive Vice President of KCG	1997	285,919	770,000	
	1996	270,750	600,000	
	1995	252,800	525,000	
George B. Toll, Jr.[2] Executive Vice President of KCG	1997	257,705	650,000	
	1996	231,250	500,000	
	1995	201,250	400,000	
Allan K. Kirkwood Senior Vice President of Kiewit Pacific, a KCG subsidiary	1997	221,250	360,000	
	1996	192,350	310,006	
	1995	166,150	240,000	

(1) Other Annual Compensation means perquisites and other personal benefits received by each of the Named Executive Officers, if over $50,000. The only reportable amounts are the non-business use of Company aircraft attributable to Mr. Scott. Aircraft usage values are calculated under federal income tax regulations and are reported as taxable income by Mr. Scott.

Each of the Named Executive Officers other than Mr. Scott set forth above is now employed by New PKS and is no longer an officer of the Company. Mr. Scott continues as Chairman of the Board of the Company, but is no longer the Chief Executive Officer of the Company. Richard R. Jaros, who resigned as an Executive Vice President of the Company effective July 31, 1997, received a salary of $458,574 and a bonus of $262,350 for fiscal year 1997. Messrs. Crowe, Bradbury, O'Hara and Ferguson, the four current executive officers of the Company who were employed by the Company during 1997, were paid salaries for 1997 of $144,129, $102,564, $82,051 and $52,019 respectively, and no other reportable compensation, during 1997. Each such executive officer was employed by the Company for only part of fiscal year 1997.

During 1997, each of the directors of the Company who were not employed by the Company during 1997 received directors fees consisting of an annual retainer of $30,000 (pro-rated in the case of Mr. Crowe, who was employed by the Company for part of 1997) and fees of $1,200 per board meeting and $1,500 for the annual shareholder's meeting.

Compensation Committee Interlocks and Insider Participation

Prior to the Split-Off, the Compensation Committee of the Company consisted of Messrs. Daugherty and Harper and Mr. Peter Kiewit, Jr., none of whom is an officer or employee of PKS. Each of Messrs. Daugherty, Harper and Kiewit purchased Common Stock from PKS in 1997. See "Certain Relationships and Related Transactions."

After the Split-Off, the Compensation Committee of the Company consists of Messrs. Yanney, McCourt and Jaros, none of whom is an officer or employee of the Company. Each of Messrs. Yanney and McCourt purchased Common Stock from the Company in 1997. Mr. Jaros has entered into a separation agreement with the Company, pursuant to which, among other things, he has received certain severance payments. See "Certain Relationships and Related Transactions."

Change in Control Arrangements

The Company's 1995 Stock Plan (the "Plan") provides that upon a change in control of the Company (as defined in the Plan), (i) all awards under the Plan shall become immediately vested and (ii) the Committee may cancel any outstanding awards under the Plan upon ten days' advance written notice, and pay the value of such awards to the holders thereof in cash or stock. Messrs. Crowe, Bradbury, O'Hara and Ferguson are all participants in the Plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of Common Stock as of March 31, 1998 by the Company's directors, certain executive officers and directors and executive officers as a group, and each person known by the Company to beneficially own more than 5% of the outstanding Common Stock.

Name (1)	Number of Shares of Common Stock	Percent of Common Stock
Walter Scott, Jr. (2)	17,686,247	12.1%
James Q. Crowe	5,666,360	3.9%
R. Douglas Bradbury	1,277,595	*
Kevin J. O'Hara (3)	878,080	*
Robert B. Daugherty	-	*
William L. Grewcock (4)	5,762,070	3.9%
Charles M. Harper	95,000	*
Richard R. Jaros (5)	1,748,749	1.2%
Robert E. Julian	1,996,790	1.4%
David C. McCourt	57,500	*
Kenneth E. Stinson	150,280	*
Michael B. Yanney	50,000	*
Directors and Executive Officers as a Group	35,886,556	24.2%
Donald L. Sturm (6)	9,111,875	6.2%

*Less than 1%

(1) The address of each person set forth above other than Mr. Sturm is c/o the Company, 3555 Farnam Street, Omaha, Nebraska 68131.

(2) Includes 49,850 shares of Common Stock held by the Suzanne Scott Irrevocable Trust as to which Mr. Scott shares voting and investment powers, and 30,769 shares of Common Stock to be owned by Mr. Scott as a result of the conversion of the 80,000 shares of Class R Stock owned currently by Mr. Scott, assuming a Conversion Value (as defined in the Level 3 Certificate of Incorporation) of $25 and a stock price of $65 per share.

(3) Includes 25,000 shares of Common Stock held by Kevin J. O'Hara Family LTD Partnership.

(4) Includes 577,320 shares of Common Stock held by Grewcock Family Limited Partnership. Includes 175,615 shares of Common Stock held by the Bill & Berniece Grewcock Foundation as to which Mr. Grewcock shares voting and investment powers, and 630 shares of Common Stock to be owned by Mr. Grewcock as a result of the conversion of the 1,638 shares of Class R Stock owned currently by Mr. Grewcock, assuming a Conversion Value of $25 and a stock price of $65 per share.

(5) Includes 185,000 shares of Common Stock held by the Jaros Family Limited Partnership. Includes 1,000,000 shares of Common Stock subject to options granted to Mr. Jaros. See "Certain Relationships and Related Transactions."

(6) Mr. Sturm's business address is 3033 East First Avenue, Denver, Colorado 80206. Based on the Company's records as of February 28, 1998, Mr. Sturm owns 7,805,155 shares of Common Stock, and has voting and investment power with respect to 1,306,720 shares held by trusts and partnerships established for family members.

ITEM 13. CERTAIN TRANSACTIONS AND RELATIONSHIPS

In connection with his retention as Chief Executive Officer of the Company, Mr. Crowe entered into an engagement agreement (the "Engagement Agreement") with the Company. Under the Engagement Agreement, the Company acquired from Mr. Crowe, Mr. Bradbury and Mr. Ferguson, Broadband Capital Group, L.L.C., a company formed to develop investment opportunities, for a purchase price of $68,523, the owners' cash investment in that company. Pursuant to the Engagement Agreement, the Company sold 5,000,000 shares of Common Stock to Mr. Crowe and 1,250,000 shares of Common Stock to Mr. Bradbury, in each case at $10.85 per share. The Engagement Agreement also provided that the Company would make available for sale, from time to time prior to the consummation of the Split-Off, to certain employees of the Company designated by Mr. Crowe, including Mr. O'Hara and Mr. Ferguson, in connection with the implementation of the current business plan of the Company ("Employees"), up to an aggregate of 5,250,000 shares of Common Stock at $10.85 per share.

The Company entered into agreements with each Business Plan Employee that provided that the Company may repurchase any Common Stock sold to the Business Plan Employee if the Business Plan Employee resigns at any time before January 1, 1999.

On August 5, 1997, the Company purchased a jet aircraft from a company controlled by Mr. Crowe for $5.7 million, the price paid by the company for the aircraft in June 1997. The Company and Mr. Crowe have entered into an aircraft operating lease, under which Mr. Crowe may lease the aircraft for personal use at rates specified by certain Federal Aviation Administration regulations. The Company anticipates that Mr. Crowe will lease approximately 15% of the aircraft's annual flight time, and will pay the Company approximately $70,000 per year at the current lease rate.

The Company entered into a separation agreement with Mr. Jaros, a director of the Company, in connection with the resignation of Mr. Jaros as President of Kiewit Diversified Group Inc., a subsidiary of the Company, effective July 31, 1997. Under the separation agreement, the Company paid Mr. Jaros $1.8 million on July 31, and agreed to pay Mr. Jaros the balance of his 1997 salary ($187,500) between August 1 and December 31, 1997 and a bonus payment of $262,350 when the Company made its customary executive bonus payments in 1998. The Company also agreed to amend the option agreements with Mr. Jaros with respect to the options to purchase 750,000 shares of Common Stock at $8.08 per share granted to Mr. Jaros in 1995, and the options to purchase 250,000 shares of Common Stock at $9.90 per share granted to Mr. Jaros in 1996, to provide that those options would be fully vested on July 31, 1997, and would be exercisable at any time during the ten-year term of the original option agreements.

In December 1996, the Company agreed to sell 50,000 shares of Common Stock to Mr. Harper, 50,000 shares of Common Stock to Mr. Daugherty and 40,000 shares of Common Stock to Mr. Kiewit, in each case at $9.90 per share. Those stock purchase transactions were consummated in March 1997

In October 1997, the Company sold 50,000 shares of Common Stock to Mr. Yanney and 50,000 shares of Common Stock to Mr. McCourt, in each case at $10.85 per share.

The Company loaned George B. Toll, Jr. $800,000 during 1994 in connection with the purchase of a residence and relocation expenses. The full principal amount of his demand note payable to the Company is currently outstanding. Mr. Toll was a director and executive officer of the Company prior to the Split-Off, but is no longer either a director or executive officer of the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of April, 1998.

LEVEL 3 COMMUNICATIONS, INC

By: /s/ James Q. Crowe
James Q. Crowe
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 27th day of April, 1998.

/s/ JAMES Q. CROWE James Q. Crowe	Chairman of the Board and President (Director and Principal Executive Officer)
/s/ R. DOUGLAS BRADBURY R. Douglas Bradbury	Chief Financial Officer (Director and Principal Financial Officer)
/s/ ERIC J. MORTENSEN Eric J. Mortensen	Controller (Principal Accounting Officer)
/s/ WALTER SCOTT, JR. Walter Scott, Jr., Director	/s/ ROBERT B. DAUGHERTY Robert B. Daugherty, Director
/s/ WILLIAM L. GREWCOCK William L. Grewcock, Director	/s/ CHARLES M. HARPER Charles M. Harper, Director
/s/ RICHARD R. JAROS Richard R. Jaros, Director	/s/ ROBERT E. JULIAN Robert E. Julian, Director
/s/ DAVID C. MCCOURT David C. McCourt, Director	/s/ KENNETH E. STINSON Kenneth E. Stinson, Director
/s/ MICHAEL B. YANNEY Michael B. Yanney, Director	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of April, 1998.

LEVEL 3 COMMUNICATIONS, INC

By: /s/ James Q. Crowe
James Q. Crowe
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 27th day of April, 1998.

/s/ JAMES Q. CROWE James Q. Crowe	Chairman of the Board and President (Director and Principal Executive Officer)
/s/ R. DOUGLAS BRADBURY R. Douglas Bradbury	Chief Financial Officer (Director and Principal Financial Officer)
/s/ ERIC J. MORTENSEN Eric J. Mortensen	Controller (Principal Accounting Officer)
/s/ WALTER SCOTT, JR. Walter Scott, Jr., Director	/s/ ROBERT B. DAUGHERTY Robert B. Daugherty, Director
/s/ WILLIAM L. GREWCOCK William L. Grewcock, Director	/s/ CHARLES M. HARPER Charles M. Harper, Director
/s/ RICHARD R. JAROS Richard R. Jaros, Director	/s/ ROBERT E. JULIAN Robert E. Julian, Director
/s/ DAVID C. MCCOURT David C. McCourt, Director	/s/ KENNETH E. STINSON Kenneth E. Stinson, Director
/s/ MICHAEL B. YANNEY Michael B. Yanney, Director	

LEVEL 3 COMMUNICATIONS, INC

By: /s/ James Q. Crowe
James Q. Crowe
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 27th day of April, 1998.

/s/ JAMES Q. CROWE James Q. Crowe	Chairman of the Board and President (Director and Principal Executive Officer)
/s/ R. DOUGLAS BRADBURY R. Douglas Bradbury	Chief Financial Officer (Director and Principal Financial Officer)
/s/ ERIC J. MORTENSEN Eric J. Mortensen	Controller (Principal Accounting Officer)
/s/ WALTER SCOTT, JR. Walter Scott, Jr., Director	/s/ ROBERT B. DAUGHERTY Robert B. Daugherty, Director
/s/ WILLIAM L. GREWCOCK William L. Grewcock, Director	/s/ CHARLES M. HARPER Charles M. Harper, Director
/s/ RICHARD R. JAROS Richard R. Jaros, Director	/s/ ROBERT E. JULIAN Robert E. Julian, Director
/s/ DAVID C. MCCOURT David C. McCourt, Director	/s/ KENNETH E. STINSON Kenneth E. Stinson, Director
/s/ MICHAEL B. YANNEY Michael B. Yanney, Director	

<u>EXHIBIT 4</u>

Managerial and Technical Qualifications

MANAGEMENT BIOGRAPHIES

James Q. Crowe

James Q. Crowe is President and CEO of Level 3 Communications, Inc., formerly known as Kiewit Diversified Group Inc., a wholly owned subsidiary of Peter Kiewit Sons', Inc. (PKS). Level 3 is a diversified corporation with interests in construction, mining, telecommunications, energy and infrastructure privatization and development.

Mr. Crowe previously held the position of Chairman and CEO of MFS Communications Company, Inc (MFS) from July 1986 until December 1996. When the company merged with WorldCom, Inc. in 1996, he was then elected Chairman of the Board of WorldCom

MFS was the parent corporation of a family of companies serving the communications needs of business and government, and was a unit of PKS until September 1995 when it was spun off and became an independent, publicly owned corporation. Prior to founding MFS, Mr. Crowe was Group Vice President of Morrison Knudsen Corporation.

Mr. Crowe presently serves on the board of directors of Level 3 Communications, Inc., Peter Kiewit Sons' Inc., RCN Corporation, Commonwealth Telephone Enterprises, Inc., and Inacom Communications, Inc.

Mr. Crowe graduated from Rennselaar Polytechnic Institute with a Bachelor of Science degree in mechanical engineering. He also holds a Master of Business Administration degree from Pepperdine University

Kevin J. O'Hara

Kevin J. O'Hara is the Executive Vice President and COO of Level 3 Communications, Inc., responsible for expanding Level 3's presence in the telecommunications industry. Prior to joining Level 3, Mr. O'Hara was President and CEO of MFS Global Network Services ("GNS"). GNS was the service arm of MFS responsible for the planning, development, engineering and operations of all MFS networks and services worldwide.

Previously, Mr. O'Hara held the position of President, MFS Development, and Vice President Network Services for MFS Telecom. Prior to joining MFS at the end of 1989, Mr. O'Hara held management positions with Peter Kiewit Sons', Inc. in Omaha, Nebraska for nine years. In his last position before joining MFS, Mr. O'Hara served as the area manager for Kiewit Network Technologies, Inc. with responsibility for the physical construction of the MFS networks. Mr. O'Hara earned a Bachelor of Science degree in Electrical Engineering from Drexel University, Philadelphia and a Masters Degree in Business Administration from the University of Chicago.

R. Douglas Bradbury

R. Douglas Bradbury has been Executive Vice President and Chief Financial Officer of Level 3 Communications, Inc. since August 1, 1997. Prior to joining Level 3, Mr. Bradbury was the Chief Financial Officer (1992-1996), Executive Vice President (1995-1996), and/or Senior Vice President (1992-1995) of MFS Communications Company, Inc. He was Senior Vice President - Corporate Affairs for MFS Telecom from 1988-1992.

Before joining MFS in 1988, Mr. Bradbury served as Executive Vice President and Chief Operating Officer at American Pioneer Telephone, Inc., a regional long distance carrier based in Orlando, Florida, and a Vice President of Manufacturers Hanover Trust Company in New York City and Milan, Italy

Terrence J. Ferguson

Since September 1997, Terrence J. Ferguson has acted as Senior Vice President, General Counsel and Secretary of Level 3 Communications, Inc. (Mr. Ferguson also holds the position of Senior Vice President, General Counsel and Secretary of Level 3 Communications, LLC.) Mr. Ferguson previously was Senior Vice President from September 1992 to February 1997, General Counsel from January 1992 to February 1997 and Secretary from November 1991 to February 1997 of MFS Communications Company, Inc. ("MFS"), an integrated communications provider of both local and long distance services to business and government customers.

Prior to his work with MFS, Mr. Ferguson was Senior Corporate Attorney for Peter Kiewit Sons', Inc., a leading construction, mining, energy and telecommunications company, from December 1981 to September 1992. Mr. Ferguson was also a member of the Kutak Rock law firm from September 1976 to January 1981.

Mr. Ferguson received his law degree from Georgetown University Law Center in 1967, and received a Bachelor of Science Degree from Creighton University in 1964.

Neil J. Eckstein

Since January 1998, Neil J. Eckstein has been Vice President, Assistant General Counsel of Level 3 Communications, Inc. Mr. Eckstein is also Vice President of Level 3 Communications, LLC. From September 1989 until January 1998, Mr. Eckstein was an associate in the corporate department of Willkie Farr & Gallagher, an international law firm headquartered in New York, New York. While an associate at Willkie Farr & Gallagher, Mr. Eckstein concentrated in the areas of corporate finance, mergers and acquisitions and general corporate representations, with an emphasis on representing clients in the competitive telecommunications industry.

Mr. Eckstein received his law degree from Fordham University School of Law in 1989, and received a Bachelor of Arts degree, Cum Laude, with High Honors in Politics from Brandeis University in 1986.

Daniel P. Caruso

Mr. Caruso is Senior Vice President responsible for Level 3's Network Services organization. This organization designs, engineers, constructs and operates Level 3's communications network.

Prior to joining Level 3, Mr. Caruso was responsible for WorldCom's Local Service network planning and service delivery organization. This organization was charged with developing new local markets, implementing CLEC networks in WorldCom's local markets, planning for the local switch and fiber networks, developing business support systems to enable scaling of local switched services, and provisioning local switched service.

Prior to this assignment, Mr. Caruso managed network development groups. These groups were responsible for driving MFS' network expansions into new geographical markets in the northeast and central regions of the U.S. Mr. Caruso's responsibilities included overseeing the business plan and "build versus buy" analysis; securing franchise and right-of-way agreements; acquiring start-up competitive access providers; negotiating joint venture agreements; and overseeing network construction.

Before joining MFS in January 1993, Mr. Caruso spent several years at Ameritech. His most recent position at Ameritech was with their corporate development group analyzing Ameritech's entry in cable TV, security alarm services, and other ventures Mr Caruso also held several engineering, operations, and financial positions within Ameritech's operating units.

Mr. Caruso holds an MBA degree from University of Chicago and a B.S. in Engineering from the University of Illinois at Champaign/Urbana.

Michael R. Frank

Mr. Frank is currently Senior Vice President of Human Resources for Level 3 Communications. Prior to this assignment he was Senior Vice President of Human Resources for MFS Communications from 1994 – 1997. Additionally he has held senior level Human Resources positions at the Walt Disney Company, Pepsico and General Mills over the past 20 years.

Mike has been active in numerous industry, functional and civic organizations and is an occasional speaker for those organizations. Mike received his Bachelor's Degree from Creighton University in Omaha.

Matthew J. Johnson

Since January 1998, Matthew J. Johnson has been Vice President, Corporate Legal of Level 3 Communications, Inc. From 1995, Mr. Johnson was Vice President, Legal of Peter Kiewit Sons', Inc., one of North America's largest and most respected construction organizations. From 1991-1994 Mr. Johnson served as Corporate Counsel for Peter Kiewit Sons', Inc.

Mr. Johnson received his law degree from the University of Texas in 1980, and received a Bachelor of Arts degree from the University of Nebraska in 1978.

Mike Jones

Mr. Jones is Senior Vice President and CIO for Level 3 Communications. Mike's organization is responsible for the development, support and operations of all of Level 3's information and network management systems.

Prior to joining Level 3, Mr. Jones was Vice President and Chief Information Officer for Corporate Express, Inc. in Broomfield Colorado. Corporate Express is a $4 billion international corporation providing essential business products and services to large organizations.

Prior to joining Corporate Express Mike was the Director of Billing Systems for Sprint International, and an Associate Partner with Andersen Consulting.

Mike has a degree in Accounting and Computer Science from Southwestern Oklahoma State University.

EXHIBIT 5

Proposed Interexchange Tariff

TITLE SHEET
FLORIDA TELECOMMUNICATIONS TARIFF

This tariff contains the rates, rules and regulations governing communication services within the state of Florida provided by Level 3 Communications, LLC with principal offices at 1450 Infinite Drive, Louisville, Colorado 80027.

COMMUNICATIONS SERVICES

CHECK SHEET

The Sheets 1 to 58 are effective as of the date shown. Revised pages as named below contain all changes from the original tariff that are in effect on the date thereof.

SHEET	REVISION	SHEET	REVISION	SHEET	REVISION
1	Original	15	Original	29	Original
2	Original	16	Original	30	Original
3	Original	17	Original	31	Original
4	Original	18	Original	32	Original
5	Original	19	Original	33	Original
6	Original	20	Original	34	Original
7	Original	21	Original	35	Original
8	Original	22	Original	36	Original
9	Original	23	Original	37	Original
10	Original	25	Original	38	Original
11	Original	26	Original	39	Original
12	Original	27	Original	40	Original
13	Original	28	Original		
14	Original				

COMMUNICATIONS SERVICES

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COMMUNICATIONS SERVICES

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purpose indicated below:

D	Delete or Discontinue
I	Change Resulting In An Increase To A Customer's Bill
M	Moved from Another Tariff Location
N	New
R	Change Resulting In A Reduction To A Customer's Bill
T	Change In Text or Regulation But No Change In Rate or Charge

TARIFF FORMAT

(A) Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

(B) Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the FPSC. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the FPSC follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.

TARIFF FORMAT (cont'd.)

(C) Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

(D) Check Sheets - When a tariff filing is made with the FPSC, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the FPSC.

COMMUNICATIONS SERVICES

Certain terms used generally throughout this tariff are described below

Advance Payment
Part or all of a payment required before the start of service.

Communications Services
The Company's intrastate telephone services offered pursuant to this tariff.

Company
Level 3 Communications, LLC the issuer of this tariff.

Customer
The person, firm, or corporation which orders service for the Company's communications services and is responsible for the payment of charges and compliance with the Company's regulations.

Joint User
A person, firm or corporation which is designated by the Customer as a user of services furnished to the Customer by the Company, and to whom a portion of the charges for service will be billed under a joint user arrangement as specified herein.

LATA
A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

LEC
Local Exchange Carrier. The local phone companies that provide local transmission services.

Recurring Charges
The monthly charges to the Customer for services which continue for the agreed upon duration of the service.

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Omaha, NE 68131

COMMUNICATIONS SERVICES

Terms used generally throughout this Tariff (cont'd)

Service Commencement Date

The first date on which the Company notifies the Customer that the requested service is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and the Customer may mutually agree on a substitute Service Commencement Date.

Service Order

The written request for communications services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

User

A Customer, Joint User, or any other person authorized by the Customer to use service provided under this tariff.

2.1 Undertaking of the Company

2.1.1 Application

(A) This tariff applies to intrastate interexchange communications services furnished by Level 3 to customers within the State of Florida in accordance with the conditions set forth below. This tariff applies only for the use of the Company's services for communications between and among points within the State of Florida.

(B) Services offered under this tariff are not offered for the purpose of completing calls between two points within the same local calling area or metropolitan exchange area, as defined in the tariffs of the Local Exchange Telecommunications Company or Companies serving those points.

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2.1 Undertaking of the Company (cont'd.)

2.1.2 Scope

The Company undertakes to furnish communications services in accordance with the terms and conditions set forth in this tariff.

2.1.3 Shortage of Facilities

All service is subject to the availability of suitable facilities. The Company reserves the right to limit the length of communications or to discontinue furnishing services when necessary because of the lack of transmission medium capacity or because of any causes beyond its control.

2.1.4 Terms and Conditions

(A) Service is provided on the basis of a minimum period of at least one month, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have 30 days.

(B) Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customer will also be required to execute any other documents as may be reasonably requested by the Company.

2.1 Undertaking of the Company (cont'd.)

2.1.4 Terms and Conditions (cont'd.)

(C) At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the current rates unless terminated by either party upon 30 days written notice. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the Service Order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the Service Order shall survive such termination.

(D) In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

(E) This tariff shall be interpreted and governed by the laws of the State of Florida without regard for its choice of laws provision.

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company

(A) Except as otherwise stated in this Section, the liability of the Company for damages arising out of either: (1) the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services, or (2) the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service.

(B) Except for the extension of allowances to the Customer for interruptions in service, the Company shall not be liable to a Customer or third party for any direct, indirect, incidental, special, consequential, exemplary or punitive damages, including but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure or breakdown off facilities associated with the service.

(C) The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the amount erroneously billed or, in the event that payment has been made and services has been discounted, to a refund of the amount erroneously billed.

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company (cont'd.)

(D) The Company shall not be liable for any claims for loss or damages involving:

1. Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen;

2. Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer, any underlying carrier, the LEC or other third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

3. Any unlawful or unauthorized use of the Company's facilities and services;

4. Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the transmission of communications by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services with Customer-provided facilities or services;

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company (cont'd.)

5. Breach in the privacy or security of communications transmitted over the Company's facilities;

6. Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is promised by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph A of this Subsection 2.3.1.

7. Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;

8. Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;

9. Any intentional, wrongful act of a Company employee when such act is not within the scope of the employee's responsibilities for the Company and/or is not authorized by the Company;

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company (cont'd.)

10. Any representations made by Company employees that do not comport, or that are inconsistent, with the provisions of this Tariff;

11. Any act or omission in connection with the provision of 911, E911, or similar services;

12. Any noncompletion of calls due to network busy conditions;

13. Any calls not actually attempted to be completed during any period that service is unavailable.

(E) The Company shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Company or Customer equipment or facilities or service provided by the Company.

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company (cont'd.)

(F) The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. The Company shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.

(G) The Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or nonpreemptibility as may be provided by the other entities.

(H) Any claim of whatever nature against the Company shall be deemed conclusively to have been waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.

2.1 Undertaking of the Company (cont'd.)

2.1.5 Liability of the Company (cont'd.)

(I) THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

2.2 Prohibited Uses

(A) The services the Company offers shall not be used for any unlawful purpose or for any use for which the Customer has not obtained all required governmental approvals, authorization, licenses, consents and permits.

(B) The Company may require applicants for service who intend to use the Company's offering for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and regulations, policies, orders, and decisions.

(C) The Company may require a Customer to immediately shut down its transmission if such transmission is causing interference to others.

(D) A customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

2.3 Obligations of the Customer

2.3.1 Liability of the Customer

(A) The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invitees, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.

(B) To the extent caused by any negligent or intentional act of the Customer as described in (A), preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, for (1) any loss, destruction or damage to property of any third party, (2) the death of or injury to persons, including, but not limited to, employees or invitees of either party, and (3) any liability incurred by the Company to any third party pursuant to this or any other tariff of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.

2.3 Obligations of the Customer (cont'd.)

2.3.1 Liability of the Customer (cont'd.)

C) The Customer shall not assert any claim against any other customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this Tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other customer or user and not by any act or omission of the Company. Nothing in this Tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

2.4 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount up to one month of estimated monthly usage charges. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill.

2.5 Customer Deposits

The company will not request customer deposits, unless the customer does not meet minimum credit requirements.

2.6 Payment Arrangements

2.6.1 Payment for Service

The Customer is responsible for the payment of all charges for services furnished by the Company to the Customer.

(A) Taxes

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (however, designated) (excluding taxes on the Company's net income) imposed on or based upon the provision, sale or use of Company's services. All taxes are listed as separate items and are not included in the quoted rates.

2.6.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other users for services and facilities furnished to the Customer by the Company.

(A) Non-recurring charges are due and payable within 30 days after the date of the invoice.

(B) The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days after the date of the invoice. When billing is based upon customer usage, usage charges will be billed monthly for the preceding billing period.

2.6 Payment Arrangements (cont'd.)

2.6.2 Billing and Collection of Charges (cont'd.)

(C) When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rate basis. For this purpose, every month is considered to have 30 days.

(D) Billing of the Customer by the Company will begin on the Service Commencement Date, which is the day on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

(E) If any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds which are not immediately available upon presentment, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, multiplied by a late factor. The late factor shall be the lesser of:

(1) a rate of 1.5 percent per month; or

(2) the highest interest rate which may be applied under state law for commercial transactions.

(F) The Customer will be assessed a charge of twenty-five dollars ($25.00) for each check submitted by the Customer to the Company which a financial institution refuses to honor.

2.6 Payment Arrangements (cont'd.)

2.6.2 Billing and Collection of Charges (cont'd.)

(G) Customers have up to 30 days (commencing 5 days after remittance of the bill) to initiate a dispute over charges or to receive credits.

(H) If service is disconnected by the Company in accordance with section 2.6.3 following and later restored, restoration of service will be subject to all applicable installation charges.

2.6.3 Discontinuance of Service for Cause

(A) Upon nonpayment of any amounts owing to the Company, the Company may, by giving 24 hours prior written notice to the Customer, discontinue or suspend service without incurring any liability.

(B) Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving 24 hours prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

(C) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

2.6 Payment Arrangements (Cont'd.)

2.6.3 Discontinuance of Service for Cause (cont'd.)

(D) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.

(E) Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

(F) In the event of fraudulent use of the Company's network, the Company may without notice suspend or discontinue service. The Customer will be liable for all related costs as set forth in Section 2.9 of this tariff. The Customer will also be responsible for payment of any reconnection charges.

(G) Upon the Company's discontinuance of service to the Customer, the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

2.6 Payment Arrangements (cont'd.)

2.6.4 Notice to Company for Cancellation of Service

Customers desiring to terminate service shall provide Company thirty (30) days written notice of desire to terminate service.

2.7 Allowances for Interruptions in Service

A service is interrupted when it becomes unusable to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff. In accordance with the Commission's rules, the Company is liable only for service interruptions of 24 hours or greater. If the Company is aware of an outage Company may credit a Customer's account for loss of service. The Company will consider such situations on a case by case basis.

2.7.1 Limitations on Allowances

No credit allowance will be made for any interruption of service:

A. due to the negligence of, or noncompliance with the provisions of this Tariff by, any person or entity other than the Company, including but not limited to the Customer or other common carriers connected to the service of the Company;

B. due to the failure of power, equipment, systems, or services not provided by the Company;

C. due to circumstances or causes beyond the control of the Company;

D. during any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

2.7 Allowances for Interruptions in Service (cont'd.)

2.7.1 Limitations on Allowances (cont'd.)

E. during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

F. that occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

G. that was not reported to the Company within fifteen (15) days of the date that service was affected.

2.7.2 Application of Credits for Interruptions of Service

A. When the Company determines that an interruption in service has occurred and that a credit to a Customer's charges are due as described in this Tariff, the Company will apply that credit directly to the Customer's account. Such Credits are to be calculated by multiplying the fixed monthly, recurring rate (if any) for the affected Service by the ratio that the number of hours the Interruption bears to 720 hours. (For the purpose of this computation, each month is deemed to have 720 hours.) Credit will be rounded to the nearest hour.

B. Except as otherwise explicitly provided for in this Tariff, credits and credit allowances are the Customer's sole and exclusive remedy for any and all interruptions in service.

2.8 Cancellation of Service/Termination Liability

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.7), Customer agrees to pay to Company termination liability charges, which are defined below. These charges shall become due and owing as of the effective date of the cancellation or termination.

2.8 Cancellation of Service/Termination Liability (cont'd.)

2.8.1 Termination Liability

Customer's termination liability for cancellation of service shall be equal to:

(a) all unpaid Non-Recurring charges reasonably expended by Company to establish service to Customer, plus;

(b) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of Customer, plus;

(c) all Recurring Charges specified in the applicable Service Order for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation;

(d) minus a reasonable allowance for costs avoided by the Company as a direct result of Customer's cancellation.

2.9 Customc. Liability for Unauthorized Use of the Network

2.9.1 Unauthorized Use of the Network

Unauthorized use of the Network occurs when a person or entity that does not have actual, apparent, or implied authority to use the Network, obtains the Company's services provided under this tariff.

SECTION 3 Description of Services and Rates

3.1 Description of Services

Carrier provides interexchange telecommunications services. Calls are rated based on the duration of the call. In addition, a monthly recurring charge may apply. Unless otherwise indicated, rates are identified in this tariff as per minute rates.

3.2 Usage Rates

Unless otherwise indicated herein, all calls are billed in one minute initial and one minute additional billing increments.

3.3 Rate Schedules

This section sets forth the rates and charges applicable to Carrier's service offerings.

3.3.1 Message Telecommunications Services

Message Telecommunications Services ("MTS") consist of the furnishing of outbound message telephone service between telephone stations located within the state. MTS is available on both a switched and dedicated basis.

A. 1+Long Distance Telecommunications Services

Rate per minute: $0.11

3.3 Rate Schedules (Cont'd)

3.3.2 800 Service

800 Service is an inbound-only service in which callers located within the State may place toll-free calls to a telephone in the 800 area code assigned to the Customer. 800 Service is available on both a switched and dedicated basis.

A. Rate Plan

Rate per minute: $0.11

3.4 Rates Charged Based on Timing of Calls

3.4.1 Initial and Additional Period

Calls that terminate between billing increments will be rounded to the next highest increment. For example, a call with a 6 second increment lasting 35 seconds will be rounded to 36 seconds, while a 37 second long call will be rounded to 42 seconds.

3.4.2 Rounding

Once the call duration is computed in billing increments, the appropriate per minute charges as listed in the rate schedules will be applied to the call. Calls with charges that include a fraction of a cent will be rounded to the next highest cent. For example, a Customer making a call with a computed charge of $1.434 will be charged $1.44.

3.5 Rates Based Upon Calculation of Distance

Where the charges for service are specified based upon distance, the following rules apply:

3.5.1 Distance between two points is measured as airline distance between the Rate Centers of the originating and terminating telephone lines. The Rate Center is set of geographic coordinated. as referenced in National Exchange Carrier Association, Inc. Tariff FCC No. 4, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where their is no telephone number associated with an access line on the Company's network (such as dedicated 800 or WATS access line), the Company will apply the Rate Center of the Customer's main billing telephone number.

3.5.2 The airline distance between any two Rate Centers is determined as follows:

(A) Obtain the "V" (vertical) and "H" (horizontal) coordinates for each Rate Center from the above-referenced NECA tariff.

(B) Compute the difference between the "V" coordinates of the two rate centers; and the difference between the two "H" coordinates.

(C) Square each difference obtained in step (B) above.

3.5.2 Rates Based Upon Calculation of Distance (cont'd.)

(D) Add the square of the "V" difference and the square of the "H" difference obtained in step (C).

(E) Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.

(F) Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

(G) Formula = $\sqrt{\dfrac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$

3.6 Minimum Call Completion Rate

A customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 99.5% during peak use periods for the Company services.

3.7 Special Service Arrangements

Customer-specific service arrangements, which may include engineering, installation, construction, facilities, assembly and/or other special services, may be furnished in addition to existing tariff offerings. Rates, terms, and conditions plus any additional regulations, if applicable for the special service arrangements will be developed upon the customer's request. Unless otherwise specified, the regulations for the special service arrangements are in addition to the applicable regulations specified in other sections of this tariff. The necessary tariff revisions will be filed to reflect the special service arrangements.

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3.8 Exemptions and Special Rates

3.8.1 Discounts for Hearing Impaired Customers

A telephone toll message which is communicated using a telecommunications device for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will receive, upon request, credit on charges for certain intrastate toll calls placed between TDDs. The credit to be given on a subsequent bill for such calls placed between TDDs will be equal to applying the evening rate during business day hours and the night/weekend rate during the evening rate period. Discounts do not apply to surcharges or per call add on charges for operator service when the call is placed by a method that would normally incur the surcharge.

3.8.2 Operator Assistance for Handicapped Persons

Operator station surcharges will be waived for operator assistance provided to a caller who identified him or herself as being handicapped and unable to dial the call because of a handicap.

3.8.3 Directory Assistance for Handicapped Persons

There is no charge for Directory Assistance for the first 50 calls in a monthly billing period from handicapped persons. Such persons must contact the Company for credit on their directory assistance calls.

3.8.4 Discounts for Telecommunications Relay Service

For intrastate toll calls received from the telecommunications relay service, there will be a 50 percent discount off the applicable rate for a voice non relay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call will be discounted 60 percent off the applicable rate for a voice non relay call.

COMMUNICATIONS SERVICES

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COMMUNICATIONS SERVICES

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APPENDICES

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APPENDIX B	INTRASTATE NETWORK
APPENDIX C	FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

EXHIBITS

EXHIBIT 1	CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS
EXHIBIT 2	OFFICER AFFILIATIONS WITH FLORIDA TELEPHONE COMPANIES
EXHIBIT 2	FINANCIAL STATEMENTS FOR THE MOST RECENT 3 YEARS
EXHIBIT 3	MANAGERIAL AND TECHNICAL QUALIFICATIONS
EXHIBIT 4	PROPOSED INTEREXCHANGE TARIFF

(L3)
Level 3
Communications

Terrence J. Ferguson
Senior Vice President
General Counsel
TEL: (402) 536-3624
FAX: (402) 536-3645
terry.ferguson@L3.com

July 23, 1998

VIA OVERNIGHT DELIVERY

DEPOSIT D817 DATE JUL 24 1998

Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak, Blvd.
Tallahassee, Florida 32399-0870

Re: Application of Level 3 Communications, LLC for Authority to Provide Interexchange Telecommunications Service in Florida

Dear Ms. Bayó:

Enclosed for filing on behalf of Level 3 Communications, LLC ("Level 3") please find an original and six (6) copies of Level 3's application for authority to provide interexchange telecommunications service in Florida. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the extra copy and return it to the undersigned in the enclosed self-addressed, stamped envelope. Should you have any questions concerning this filing, please do not hesitate to contact me.

Level 3 Communications, L.L.C.
1450 Infinite Drive
Louisville, CO 80027

NORWEST BANK MONTANA, N.A
175 NORTH 27TH STREET
BILLINGS, MT 59101
93-527/929

No. 003000224

CHECK DATE	CHECK NUMBER	CHECK AMOUNT
22-JUL-98	3000224	********250.00

PAY Two Hundred Fifty Dollars And 00 Cents*******************************

TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BLVD
TALLAHASSEE, FL 32399-0866
United States