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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

980934-TX

VIA OVERNIGHT DELIVERY

DEPOSIT	DATE
D817	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 Alternative Local Exchange 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 alternative local exchange 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/kar

Terrence J. Ferguson

Level 3 Communications, LLC

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:
AJ

98 JUL 24 AM 10

Enclosures

cc: Abby Jensen

245778 1

DOCUMENT NUMBER-DATE
07844 JUL 24 98
FPSC-RECORDS/REPORTING

ORIGINAL

FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

APPLICATION FORM
for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.

2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

3. Use a separate sheet for each answer which will not fit the allotted space.

4. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications, Certification & Compliance Section
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866
(904) 413-6600

5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250 made payable to the Florida Public Service Commission at the above address.

FORM PSC/CMU 8 (11/95)
Required by Chapter 364.337 F.S.

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

(X) Original authority (new company)

( ) Approval of transfer (to another certificated company)
Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

( ) Approval of assignment of existing certificate (to a non-certificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

( ) Approval for transfer of control (to another certificated company)
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:
Level 3 Communications, LLC ("Level 3" or the "Applicant.")

3. Name under which the applicant will do business (d/b/a):
Not applicable.

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

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

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

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

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

Level 3 does not yet have a Florida mailing address. Level 3's registered agent in Florida is CT Corporation System, 1200 South Pine Island Road, Plantation, FL 33324.

6. Structure of organization:

( ) Individual
( ) Foreign corporation
( ) General Partnership
( ) Joint Venture
( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership
(X) Other, Please explain **Level 3 is a Delaware limited liability company. Please refer to Section 9 for further information.**

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

Not Applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

None of Level 3's officers, directors, nor any of the ten largest stockholders, have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or any crime; nor are any such proceedings pending.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

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 Attachment 1.

Corporate charter number: **(LLC Document No. M97000000824)**

10. Please provide the name, title, address, telephone number, Internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Commission liaison: Terrence J. Ferguson, Senior Vice President and General Counsel, Level 3 Communications, LLC, 3555 Farnam Street, Omaha, Nebraska 68131, (402) 536-3624 (Tel.), (402) 536-3632 (Fax).

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

Level 3 is a start-up company and has not yet begun providing local exchange service in any state. However, Level 3 currently is authorized to provide local exchange telecommunications services in California, Colorado, the District of Columbia, Georgia, Illinois, Massachusetts, Maryland, Michigan, New York, Texas, Virginia and Washington. Level 3 also has applications for local exchange authority pending in New Jersey and Pennsylvania.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

Level 3 has not been denied authority to provide telecommunications service in any jurisdiction.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No penalties have been imposed against the applicant in any other state.

14. Please indicate how a customer can file a service complaint with your company.

Level 3's customers' bills will include a toll-free number and an address to which inquiries and complaints may be addressed. Level 3 may be reached for customer service inquiries at its toll-free number, 1-877-4LEVEL3.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

Level 3 will file a complete price list with the Commission in accordance with Commission Rule 25-24.825 prior to initiating service.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability. **See Exhibit 2.**

Regarding the showing of financial capability, the following applies:

The application <u>should contain</u> 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 attest that the financial statements are true and correct.

B. Managerial capability. **See Exhibit 3.**

C. Technical capability. **See Exhibit 3.**

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, described in detail the difference.)

Level 3 will negotiate an E911/911 interconnection arrangement with the incumbent LECs that will allow it to complete 911 calls for its customers. Level 3 will coordinate with the agency operating the Public Service Answering Point ("PSAP") in each locality that it serves, in order to assure that 911 calls are routed and delivered in the manner desired by the PSAP. In those localities

where E911 service has been implemented, Level 3 also will make arrangements for the proper delivery of Automatic Number Identification ("ANI") and Automatic Location Identification ("ALI") information to the PSAP.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

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".

Official: Signature ________ Date ________

Title: Terrence J. Ferguson
Senior Vice President and General Counsel

(402) 536-3624
Telephone Number

Address: 3555 Farnam Street
Omaha, Nebraska 68131

EXHIBITS

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: 197A00057301

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 2:0
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:

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

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 hereto.

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.)

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:

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

CT Corporation System
(Name)

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

Plantation, Florida 33324
(City/State/Zip)

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

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

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

997 FINANCIAL PERFORMANCE

97 was a significant year for the company. Late in the year, a new business plan was ablished to focus on the provision of communications services using the framework of ewit Diversified Group Inc. (KDG) as the foundation. The company was renamed Level 3 ommunications, Inc. The letter to stockholders, which begins on the facing page, addresses at plan and the potential for Level 3 Communications going forward.

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

rior to establishing its new business plan, KDG's assets consisted of investments in a variety companies, comprising the non-construction holdings of Peter Kiewit Sons', Inc. Among ose non-construction businesses was a 24% interest in CalEnergy Company, Inc., which on nuary 2, 1998, was sold to CalEnergy. *(For more information, see page K-[illegible].)*

LEVEL 3 COMMUNICATIONS[1]

SELECTED FINANCIAL DATA

(dollars in millions, except per share amounts)	Fiscal Year Ended 1997	1996
Results of Operations		
Revenue	$ 332	$ 652
Earnings from continuing operations	83	104
Net earnings	248	221
Per Common Share		
Earnings from continuing operations		
Basic	.66	.90
Diluted	.66	.90
Net earnings		
Basic	[illegible]	[illegible]
Diluted	[illegible]	[illegible]
Dividends		.10
Book value	[illegible]	10.85
Financial Position		
Total assets	[illegible]	2,504
Current portion of long term debt		[illegible]
Long-term debt, less current portion	13	320
Stockholders' equity	1,878	1,257

[1] On January 19, 1998, Kiewit Diversified Group Inc. (KDG), a subsidiary of Peter Kiewit Sons', Inc., changed its name to Level 3 Communications, Inc. This table is drawn from the enclosed 10-K filed with the Securities and Exchange Commission by Peter Kiewit Sons', Inc. for the fiscal year ending December 27, 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.

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 can 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."

"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

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.

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

Wall Street Journal
January 20, 1998

Rapid Data Growth Overtakes Voice

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."*[3]

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 technology is simple economics. The efficiencies made possible by the underlying IP technology are so significant that the cost implications are enormous and irrefutable.

[3] 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 $27 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

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 $27 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.

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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 11)*

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.

"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

- **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.

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.

> **"The OSO program calls upon the management of our company to put their money where their mouth is."**
>
> James Q. Crowe
> *Level 3 President and CEO*

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.

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 business 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.

Simple Economics Are Driving The Technological Change To Internet Protocol

IP Technology Is Much Less Expensive And Improving Much Faster Than Traditonal 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.

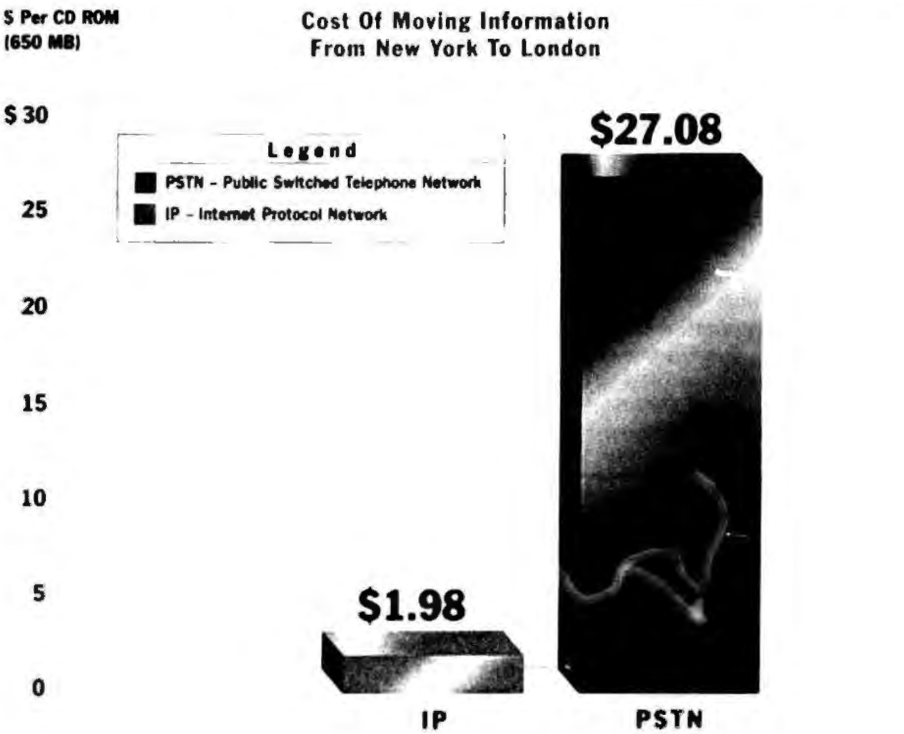
For example, for a provider with both local and long distance facilities to move a 650 megabit CD ROM worth of information from New York to Los Angeles (the equivalent of the contents of eight encyclopedia volumes) over the traditional public switched telephone network (PSTN) would cost the provider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

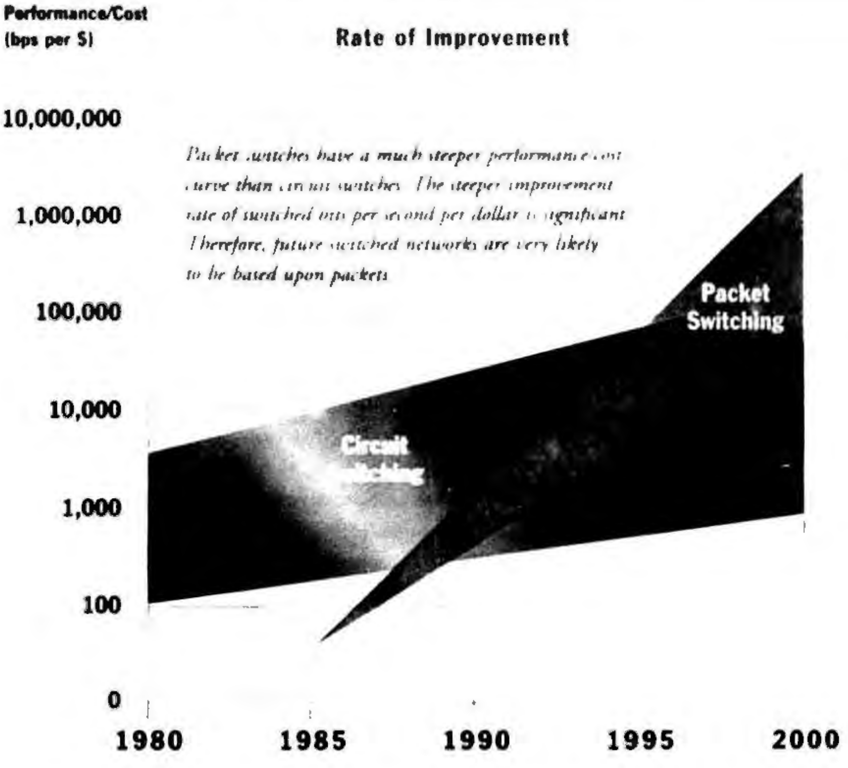
"Level 3's approach — running all traffic over a single network is easier, cheaper, and quicker to manage and upgrade."

- Information Week
January 19, 1998

Packet Switching Costs less



Packet Switching Improving Faster



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

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.

"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

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 trans-oceanic capacity.

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 trans-oceanic capacity.

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.

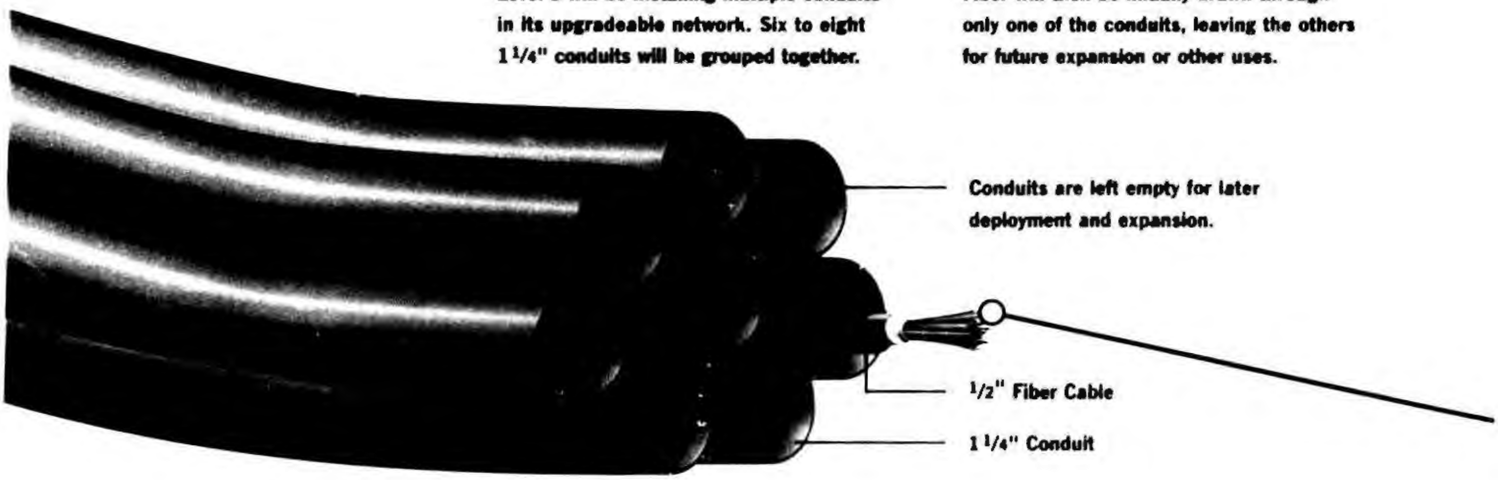
Technology is adapting and changing rapidly — fiber is now in its third generation this decade. This same fast-paced evolution will continue to occur, and by laying a multi-conduit network, Level 3 will be able to adapt to these new changes to give customers quality connections at lower costs without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

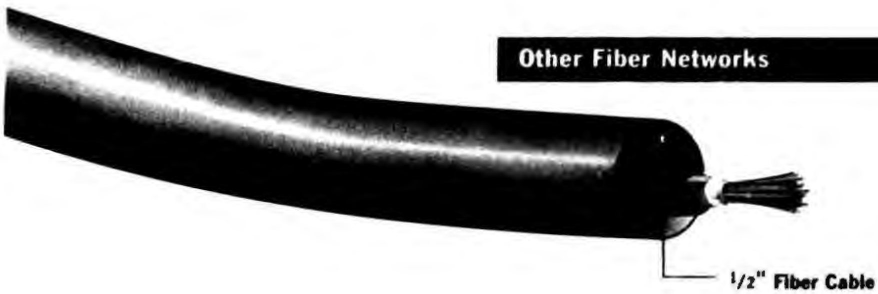
Level 3's Upgradeable Fiber Network

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.

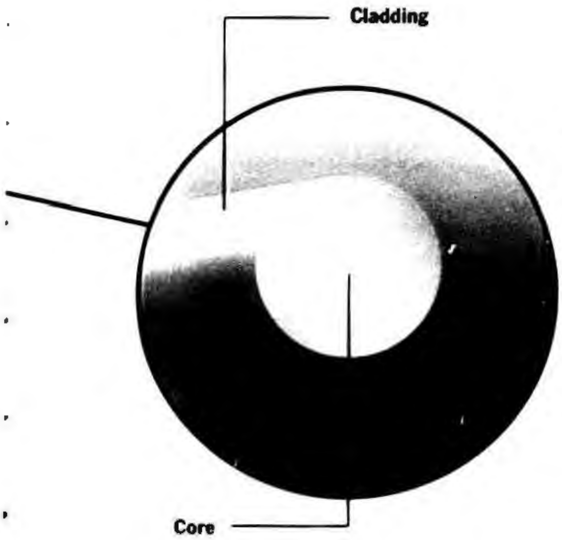
By 1995, Dense Wavelength Division Multiplexing (DWDM), teamed with new higher speed electronic terminals pushed the capacity limit to slightly beyond 160,000 simultaneous telephone calls on longer "spans" of about 30 miles.

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

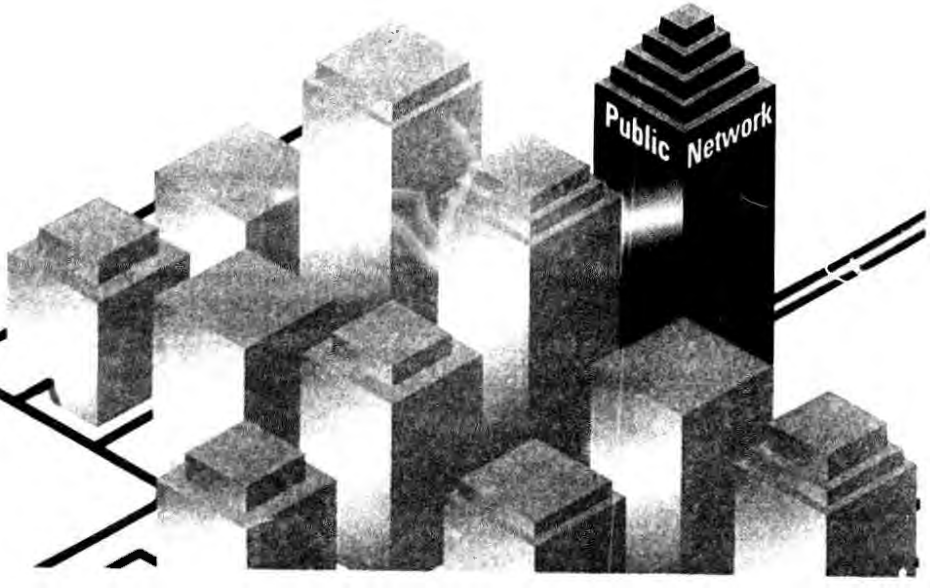
COMPANY WILL CONNECT DIRECTLY WITH THE PUBLIC SWITCHED TELEPHONE NETWORK, ENABLING SEAMLESS, UBIQUITOUS SERVICE

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.

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.

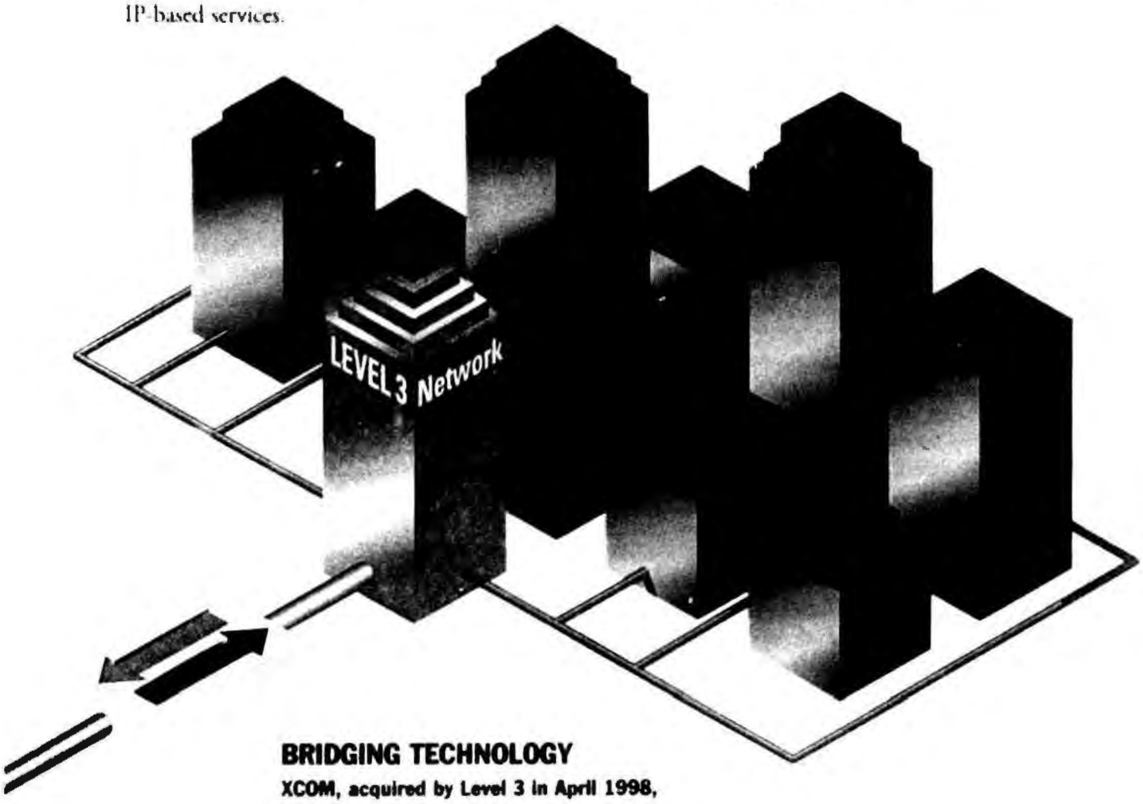
"The pricing differential will be so astronomic that the established carriers will have to react. These guys [Level 3] are really going to have an impact." Frank Dzrubeck, president, Communications Network Architects, Inc.

Network World
January 26, 1998



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.

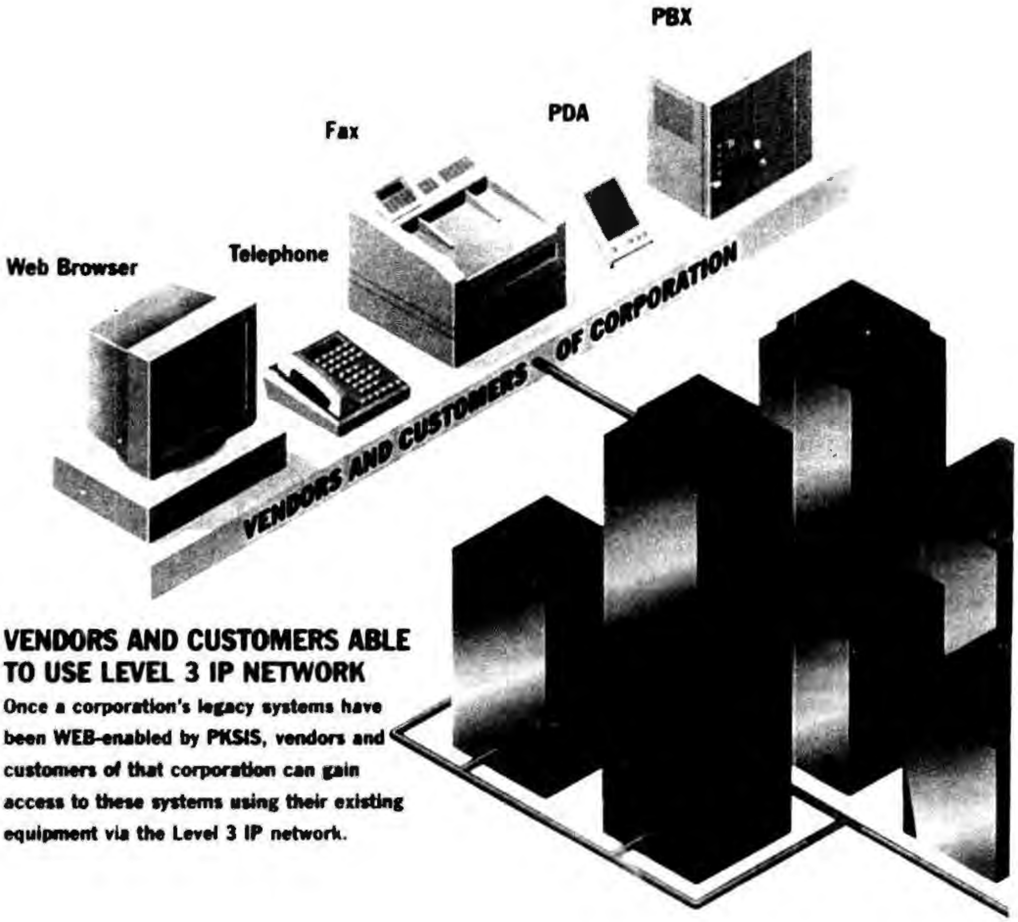
Using Their Existing Computer Systems, Customers Can Access Level 3's Network

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

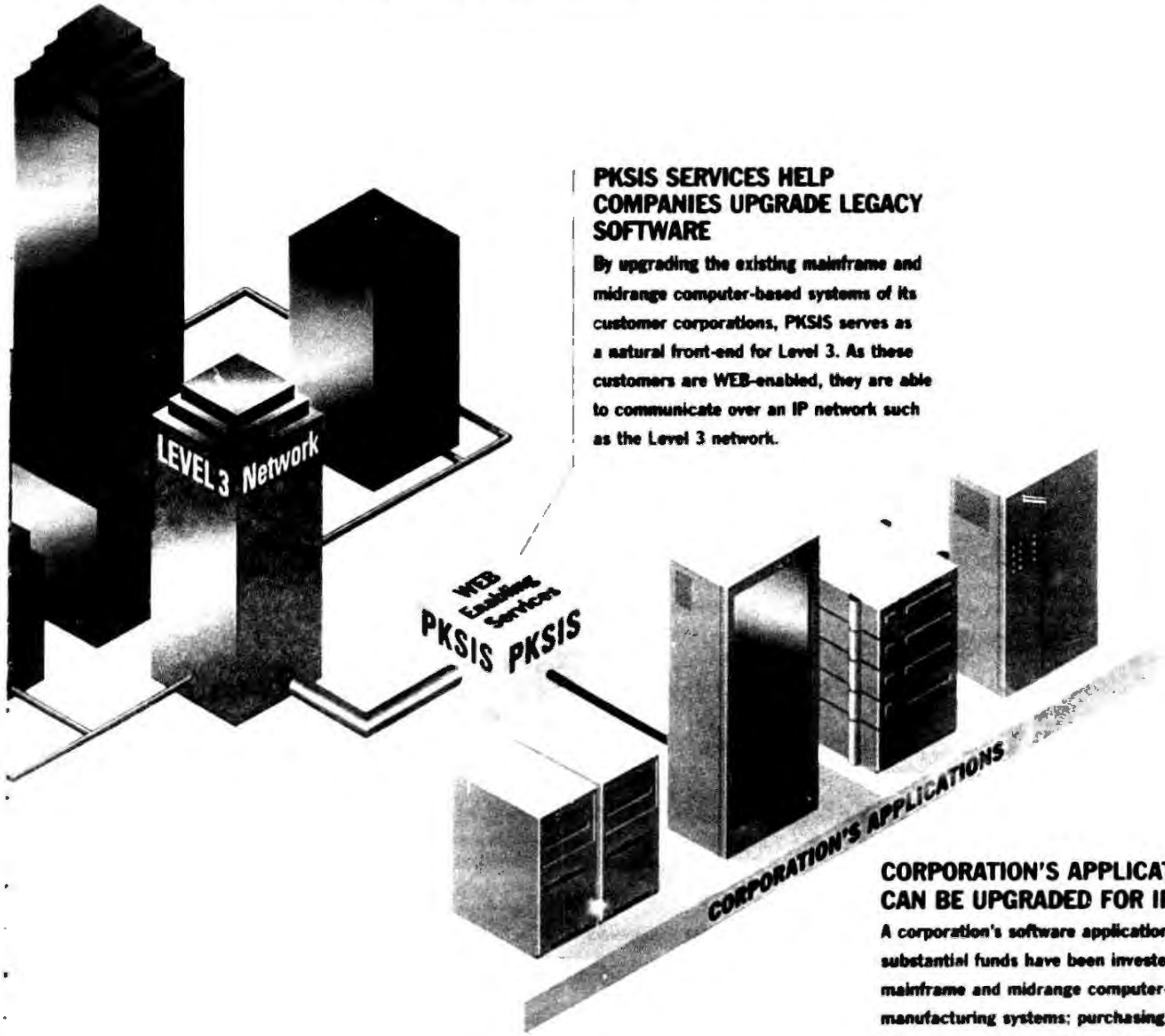


VENDORS AND CUSTOMERS ABLE TO USE LEVEL 3 IP NETWORK

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 2000SM service converts customers' date related information. LexiBridgeSM 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 in Cable Michigan, Inc. and Commonwealth Telephone Enterprises, Inc., and approximately 46 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 [illegible] 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

Raul Pupo
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

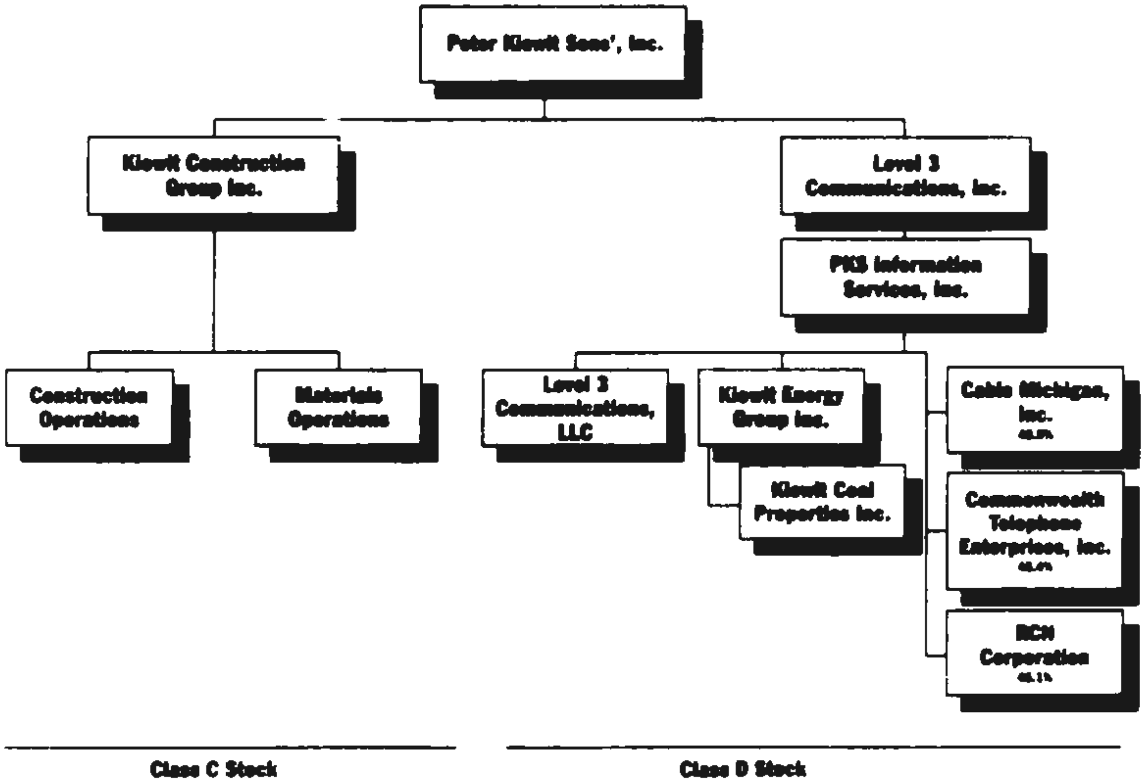
Portions of the Company's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

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 (Exhibir 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, 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 Officerof 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, 1997. Class C stock can be issued only to Company employees and can be resold only to the Company at a formula price based on the 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 C-TEC Corporation that had 57% of the available voting rights. At December 28, 1996, the Group owned 48% of the outstanding shares and 62% of the voting rights.

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

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

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

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

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

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

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

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

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

This item contains information about Peter Kiewit Sons', Inc. (the "Company") as a whole. Separate reports containing management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and 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 integration's revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Discontinued Operations – Energy. Income from discontinued operations increased to $29 million in 1997 from $9 million in 1996. The acquisition of Northern Electric 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.V., 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 the 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	$ 1.17
Net Income:			
Class C Stock			
Basic	$ 15.99	$ 10.13	$ 7.78
Diluted	$ 15.35	$ 9.76	$ 7.62
Class D Stock			
Basic	$ .74	$ .97	$ 1.29
Diluted	$ .74	$ .97	$ 1.29

See accompanying notes to consolidated financial statements.

(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 Alternative Local Exchange 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 alternative local exchange 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,

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.003000225

CHECK DATE	CHECK NUMBER	CHECK AMOUNT
22-JUL-98	3000225	********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