2016 ANNUAL REPORT
NOTICE OF 2017 ANNUAL MEETING AND PROXY STATEMENT

Annual Meeting | May 25, 2017 | Broomfield, CO

Some statements made in this Annual Report to Stockholders are forward-looking in nature and are based on management's current expectations or beliefs. These forward-looking statements are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside Level 3's control, which could cause actual events to differ materially from those expressed or implied by the statements. Important factors that could prevent Level 3 from achieving its stated goals include, but are not limited to, the company's ability to: increase revenue from its services to realize its targets for financial and operating performance; develop and maintain effective business support systems; manage system and network failures or disruptions; avert the breach of its network and computer system security measures; develop new services that meet customer demands and generate acceptable margins; manage the future expansion or adaptation of its network to remain competitive; defend intellectual property and proprietary rights; manage risks associated with continued uncertainty in the global economy; manage continued or accelerated decreases in market pricing for communications services; obtain capacity for its network from other providers and interconnect its network with other networks on favorable terms; successfully integrate future acquisitions; effectively manage political, legal, regulatory, foreign currency and other risks it is exposed to due to its substantial international operations; mitigate its exposure to contingent liabilities; and meet all of the terms and conditions of its debt obligations. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this presentation should be evaluated in light of these important factors. Level 3 is under no obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-Looking Statements

Except for the historical and factual information contained herein, the matters set forth in this communication, including statements regarding the expected timing and benefits of the proposed transaction, such as efficiencies, cost savings, enhanced revenues, growth potential, market profile and financial strength, and the competitive ability and position of the combined company, and other statements identified by words such as "will," "estimates," "anticipates," "believes," "expects," "projects," "plans," "intends," "may," "should," "could," "seeks" and similar expressions, are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, (i) are not guarantees of future results, (ii) are inherently speculative and (iii) are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied in those statements if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the ability of the parties to timely and successfully receive the required approvals for the combination from regulatory agencies free of conditions materially adverse to the parties and from their respective shareholders; the possibility that the anticipated benefits from the proposed transaction cannot be fully realized or may take longer to realize than expected; the possibility that costs, difficulties or disruptions related to the integration of Level 3's operations with those of CenturyLink will be greater than expected; the ability of the combined company to retain and hire key personnel; the effects of competition from a wide variety of competitive providers, including lower demand for CenturyLink's legacy offerings; the effects of new, emerging or competing technologies, including those that could make the combined company's products less desirable or obsolete; the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, access charges, universal service, broadband deployment, data protection and net neutrality; adverse changes in CenturyLink's or the combined company's access to credit markets on favorable terms, whether caused by changes in its financial position, lower debt credit ratings, unstable markets or otherwise; the combined company's ability to effectively adjust to changes in the communications industry, and changes in the composition of its markets and product mix; possible changes in the demand for, or pricing of, the combined company's products and services, including the combined company's ability to effectively respond to increased demand for high-speed broadband service; changes in the operating plans, capital allocation plans or corporate strategies of the combined company, whether based on changes in market conditions, changes in the cash flows or financial position of the combined company, or otherwise; the combined company's ability to successfully maintain the quality and profitability of its existing product and service offerings and to introduce new offerings on a timely and cost-effective basis; the adverse impact on the combined company's business and network from possible equipment failures, service outages, security breaches or similar events impacting its network; the combined company's ability to maintain favorable relations with key business partners, suppliers, vendors, landlords and financial institutions; the ability of the combined company to utilize net operating losses in amounts projected; changes in the future cash requirements of the combined company; and other risk factors and cautionary statements as detailed from time to time in each of CenturyLink's and Level 3's reports filed with the U.S. Securities and Exchange Commission (the "SEC"). Due to these risks and uncertainties, there can be no assurance that the proposed combination or any other transaction described above will in fact be completed in the manner described or at all. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the proposed combination or the combined company. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this communication. Unless legally required, CenturyLink and Level 3 undertake no obligation and each expressly disclaim any such obligation, to update publicly any forward-looking statements, whether as a result of new information, future events, changed events or otherwise.

Additional Information

In connection with the proposed combination, CenturyLink filed a registration statement on Form S-4 with the SEC (Registration Statement No. 333-215121), which was declared effective by the SEC on February 13, 2017. CenturyLink and Level 3 have filed a joint proxy statement/prospectus and will file other relevant documents concerning the proposed transaction with the SEC. CenturyLink and Level 3 began mailing the definitive joint proxy statement/prospectus to their respective security holders on or about February 13, 2017. The definitive joint proxy statement/prospectus, dated as of February 13, 2017, contains important information about CenturyLink, Level 3, the proposed combination and related matters. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE DEFINITIVE JOINT PROXY STATEMENT/PROSPECTUS AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED COMBINATION OR INCORPORATED BY REFERENCE IN THE DEFINITIVE JOINT PROXY STATEMENT/ PROSPECTUS CAREFULLY BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain the definitive joint proxy statement/prospectus and the filings that are incorporated by reference in the definitive joint proxy statement/ prospectus, as well as other filings containing information about CenturyLink and Level 3, free of charge, at the website maintained by the SEC at www.sec.gov. Investors and security holders may also obtain these documents free of charge by directing a request to CenturyLink, 100 CenturyLink Drive, Monroe, Louisiana 71203, Attention: Corporate Secretary, or to Level 3, 1025 Eldorado Boulevard, Broomfield, Colorado 80021, Attention: Investor Relations.

LEVEL 3 COMMUNICATIONS, INC.

1025 Eldorado Boulevard
Broomfield, CO 80021

April 7, 2017

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Level 3 Communications, Inc. ("Level 3") to be held at 9:00 a.m. on May 25, 2017, at the Level 3 Headquarters, 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

As you may know, on October 31, 2016, Level 3 entered into an Agreement and Plan of Merger (the "merger agreement") with CenturyLink, Inc. ("CenturyLink"), Wildcat Merger Sub 1 LLC ("merger sub 1"), and WWG Merger Sub LLC ("merger sub 2"). The merger agreement provides, among other things, that subject to the satisfaction or waiver of the conditions set forth therein (i) merger sub 1 will merge with and into Level 3 (the "merger"), with Level 3 surviving the merger as an indirect wholly-owned subsidiary of CenturyLink, and (ii) immediately following the effective time of the merger, Level 3 shall merge with and into merger sub 2, with merger sub 2 surviving the subsequent merger as an indirect wholly-owned subsidiary of CenturyLink. The merger agreement and the merger were approved by Level 3's stockholders and CenturyLink's shareholders approved the proposal to issue shares of CenturyLink common stock to Level 3 stockholders in connection with the merger. The transaction is subject to regulatory approvals, including expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, review by the U.S. Federal Communications Commission, certain state regulatory approvals and other customary closing conditions.

At the Annual Meeting, you will be asked to consider and act upon the following matters:

- the election to our Board of Directors of 11 directors, each for a one-year term until the 2018 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
- the approval, on an advisory basis, of our named executive officers' executive compensation; and
- the approval of a proposal to indicate the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers; and
- the ratification of the appointment of our independent auditor; and
- the transaction of such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Our Board of Directors recommends that you:

- elect the 11 nominees for director, each for a one-year term until the 2018 Annual Meeting of Stockholders;
- approve, on an advisory basis, of our named executive officers' executive compensation;
- approve the proposal to have the stockholders conduct an advisory vote on the executive compensation program for our named executive officers each year; and
- ratify the appointment of our independent auditor.

Information concerning these proposals and other important information is contained in the attached Notice of Annual Meeting and Proxy Statement. It is important that your shares be represented at the Annual Meeting, regardless of the number you hold. To ensure your representation at the Annual Meeting, if you are a stockholder of record, you may vote in person at the Annual Meeting. We will give you a ballot when you arrive. If you do not wish to vote in person or if you will not be attending the Annual Meeting, you may vote by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials previously mailed to you, or, if you requested or otherwise received printed copies of the proxy materials, you can also vote by mail, by telephone or over the Internet as

instructed on the proxy card you received. If you attend the Annual Meeting, you may vote in person even if you have previously returned a proxy card. This year members of our senior management will not be making a presentation or holding a question and answer session following the completion of the formal business portion of the Annual Meeting. The Annual Meeting will conclude at the end of the formal business.

Sincerely,

James O. Ellis, Jr.
Chairman of the Board

TABLE OF CONTENTS

PROXY STATEMENT	**1**
ELECTION OF DIRECTORS PROPOSAL (ITEM 1)	**1**
Nomination Procedures	1
Director Qualifications, Experience and Tenure	3
Board Structure and Risk Oversight	11
Corporate Governance	12
Audit Committee	15
Classified Business and Security Committee	15
Compensation Committee	15
Nominating and Governance Committee	16
Strategic Planning Committee	16
Director Compensation	16
Stock Ownership Guidelines for Directors	18
Political Contributions and Lobbying	18
Diversity and Inclusion at Level 3	19
Additional Information for Submission of Nominations for Director	19
Information About Our Executive Officers	20
Executive Succession Planning	22
Certain Relationships and Related Transactions	22
APPROVE, ON AN ADVISORY BASIS, NAMED EXECUTIVE OFFICER COMPENSATION (ITEM 2)	**23**
COMPENSATION DISCUSSION AND ANALYSIS	**24**
Executive Summary	24
Executive Compensation Program Philosophy	27
How We Determine Executive Compensation	28
Components of 2016 Executive Compensation	31
Governance Features	40
Summary Compensation Table	42
Grants of Plan Based Awards in 2016	43
Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 Table	44
Outstanding Equity Awards at 2016 Fiscal Year End	45
Options Exercised and Stock Vested in 2016	46
Equity Compensation Plan Information	47
Potential Payments Upon Termination or Change of Control	47
FREQUENCY OF VOTE, ON ADVISORY BASIS, OF NAMED EXECUTIVE OFFICER COMPENSATION (ITEM 3)	**50**
RATIFY THE APPOINTMENT OF INDEPENDENT AUDITOR (ITEM 4)	**51**
AUDIT COMMITTEE REPORT	**52**
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	**54**
OTHER MATTERS	**56**
FUTURE STOCKHOLDER PROPOSALS	**56**
FREQUENTLY ASKED QUESTIONS	**57**
Annex 1—Non-GAAP Reconciliations	A-1-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

Level(3) COMMUNICATIONS

Notice of 2017 Annual Meeting of Stockholders

When: Thursday, May 25, 2017 at 9:00 a.m.

Where: Headquarters of Level 3 Communications, Inc.
1025 Eldorado Boulevard
Broomfield, Colorado 80021

Items of Business:

1. To elect to our Board of Directors 11 directors, each for a one-year term until the 2018 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve, on an advisory basis, the named executive officer executive compensation; and
3. To approve a proposal of the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers; and
4. To ratify the appointment of our independent auditor; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of that meeting.

Record Date: The Board of Directors has fixed the close of business on March 31, 2017, as the record date for the determination of the holders of our common stock entitled to notice of, and to vote at, the Annual Meeting. Only holders of record of Level 3 common stock at the close of business on March 31, 2017, will be entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement. As of May 15, 2017, ten days prior to the Annual Meeting, a list of stockholders entitled to notice of the Annual Meeting and that have the right to vote at the Annual Meeting will be available for inspection at the Level 3 offices located at 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

Required Votes: Each of the 11 nominees for director will be elected by a majority of the votes cast with respect to that nominee. Since this election is not contested, a “majority of votes cast” means that the number of votes “For” a nominee’s election needs to be greater than the number of votes cast as “Against” with respect to that nominee’s election.

To be approved by our stockholders, the proposal on the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers will be determined by which choice, one year, two years or three years receives a plurality of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

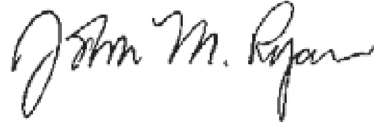
Each of the other proposals to be considered at the Annual Meeting requires the affirmative vote of a majority of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

Attendance: ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, IF YOU DO NOT WISH TO VOTE IN PERSON OR IF YOU WILL NOT BE ATTENDING THE ANNUAL MEETING, YOU MAY VOTE BY PROXY. YOU CAN VOTE BY PROXY OVER THE INTERNET BY FOLLOWING THE INSTRUCTIONS PROVIDED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS THAT WAS PREVIOUSLY MAILED TO YOU, OR, IF YOU REQUESTED OR OTHERWISE RECEIVED PRINTED COPIES OF THE PROXY MATERIALS, YOU CAN ALSO VOTE BY MAIL, BY TELEPHONE OR OVER THE INTERNET AS INSTRUCTED ON THE PROXY CARD THAT YOU RECEIVED. ANY STOCKHOLDER ATTENDING THE ANNUAL MEETING MAY VOTE IN PERSON EVEN IF THAT STOCKHOLDER HAS RETURNED A PROXY.

The matters to be considered at the Annual Meeting are more fully described in the accompanying Proxy Statement, which forms a part of this Notice.

Dated: April 7, 2017

By Order of the Board of Directors



John M. Ryan
Executive Vice President and Secretary

By Mail

You may vote your shares by marking your proxy card and returning in the postage-paid envelope.

By Telephone

You may vote your shares by calling 1-800-690-6903.

By Internet

You can vote your shares online at www.proxyvote.com.

In Person

You can vote in person at the annual meeting.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 25, 2017:
The Level 3 Communications, Inc. Proxy Statement for the 2017 Annual Meeting of Stockholders and the 2016 Annual Report to Stockholders are available at http://www.proxyvote.com.

LEVEL 3 COMMUNICATIONS, INC.

1025 Eldorado Boulevard
Broomfield, CO 80021

PROXY STATEMENT

April 7, 2017

2017 ANNUAL MEETING OF STOCKHOLDERS

May 25, 2017

We are furnishing you this Proxy Statement in connection with the solicitation of proxies on behalf of the Board of Directors of Level 3 Communications, Inc. ("Level 3," the "company," "we," "us," or "our") to be voted at the Annual Meeting of Stockholders to be held on May 25, 2017, or any adjournment or postponements thereof (the "Annual Meeting"). This Proxy Statement, the Notice of Annual Meeting, the accompanying Proxy and the Annual Report to Stockholders are first being mailed or made available to Stockholders on or about April 7, 2017. We sometimes refer to our Board of Directors as the "Board" and to this document as the "Proxy Statement."

You should read the entire Proxy Statement before you cast your vote.

ELECTION OF DIRECTORS PROPOSAL (ITEM 1)

At the Annual Meeting, the 11 directors that are standing for election will be elected to hold office for a one-year term until the 2018 Annual Meeting, or until their successors have been elected and qualified. If any nominee shall, prior to the Annual Meeting, become unavailable for election as a director, the persons named in the accompanying form of proxy will, in their discretion, vote for that replacement nominee, if any, as may be recommended by the Board, or the Board may reduce the number of directors to eliminate the vacancy.

Nomination Procedures

In exploring potential candidates for director, the Nominating and Governance Committee of the Board considers individuals recommended by members of the committee, other directors, members of management, stockholders or self-nominated individuals. The committee is advised of all nominations submitted to us and determines whether it will further consider those candidates using the criteria described below. The committee members apply the criteria described below, and also exercise their judgment to select those potential candidates they believe are best suited to serve as members of our Board and, when considered as a group, provide a diversity of viewpoints, professional experiences, educational backgrounds, professional skills and other individual qualities and attributes that contribute to Board heterogeneity and effectiveness, including the potential candidate's prior Board tenure.

In order to be considered, each proposed candidate must:

- be ethical;
- have proven judgment and competence;
- have professional skills and experience in dealing with a large, complex organization or in dealing with complex issues that are complementary to the background and experience represented on the Board and that meet our needs;
- have demonstrated the ability to act independently and be willing to represent the interests of all stockholders and not just those of a particular philosophy or constituency; and
- be willing and able to devote sufficient time to fulfill his/her responsibilities to Level 3 and our stockholders.

After the Nominating and Governance Committee has completed its evaluation, it presents its recommendation to the full Board for the full Board's consideration and approval. In presenting its recommendation, the committee also reports on other candidates who were considered but not selected.

In connection with our acquisition of Global Crossing Limited ("Global Crossing"), on April 10, 2011, we entered into a Stockholder Rights Agreement with STT Crossing Ltd. ("STT Crossing"), which was the majority shareholder of Global Crossing. We refer to this agreement as the STT Stockholder Rights Agreement. Pursuant to the STT Stockholder Rights Agreement, STT Crossing has the right to nominate for election to the Board that number of individuals as required by the terms of that agreement. For 2017, STT Crossing is entitled to designate for nomination two individuals and has selected Steven T. Clontz and Peter Seah Lim Huat.

Pursuant to the STT Stockholder Rights Agreement, the Nominating and Governance Committee of the Board, subject to the fiduciary duties of the members of that committee and any applicable regulation or listing requirement of the New York Stock Exchange, is obligated to nominate the individuals designated by STT Crossing for election to the Board. In addition, the Board is required to recommend that the stockholders vote in favor of the nominees designated by STT Crossing and we are required to use all reasonable efforts to cause the individuals to be elected as members of the Board. In making its recommendations to the full Board regarding the nominees for election to our Board at the Annual Meeting, the Nominating and Governance Committee of the Board considered the reasons stated by STT Crossing for why its designees were selected. These reasons are included in the Board Skills Matrix and the biographies below for each of the STT Crossing designees.

We will report any material change to any of these procedures in a quarterly or annual filing with the Securities and Exchange Commission, or the SEC, and any new procedure will be available on our website at www.level3.com.

The members of the Nominating and Governance Committee believe that each of the nominees meet the criteria described above. In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he or she should serve as a director, we also believe that all of our nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to Level 3 and our Board.

Director Qualifications, Experience and Tenure

Board Skills Matrix

	James O. Ellis Jr.	Jeff K. Storey	Kevin P. Chilton	Steven T. Clontz	Irene M. Esteves	T. Michael Glenn	Spencer B. Hays	Michael J. Mahoney	Kevin W. Mooney	Peter Seah Lim Huat	Peter van Oppen
Executive Management experience is important because directors with experience running public/private companies or other large organizations typically possess strong leadership qualities and the ability to identify and develop those qualities in others	●	●	●	●	●	●	●	●	●	●	●
Industry experience is important in overseeing the development and implementation of our business strategy and operating plan		●		●	●		●	●	●	●	●
Accounting/Finance experience is important in overseeing our financial reporting and internal controls to assure transparency and accuracy			●	●	●	●		●	●	●	●
Risk Management experience is important in overseeing the risks facing the Company	●	●	●	●	●	●	●	●	●	●	●
Global experience is important in understanding and reviewing our global business and strategy	●	●	●	●	●	●	●	●	●	●	●
Investor experience is important in overseeing our interface with the investment community and matters related to stockholder engagement		●		●	●	●	●	●	●	●	●
Cybersecurity experience is important in overseeing the cyber risks facing the Company and protecting corporate cybersecurity	●	●	●			●					
Government/Regulatory experience is important to understand our business with various federal, state and local governmental departments and agencies and key regulatory issues affecting the company	●	●	●	●			●	●			
US citizens who possess U.S. security clearance required pursuant to Executive Order 12968 to be appointed to the Classified Business and Security Committee	●	●	●								
STT Designee by STT Crossing is required pursuant to the STT Stockholder Rights Agreement				●						●	

Set forth below is information as of April 7, 2017, about our nominees for election to our Board of Directors.

ADMIRAL JAMES O. ELLIS JR. (USN, Retired)

Former Commander, U.S. Strategic Command

Director since: 2005

Chairman of the Board: 2014

Independent

Age: 69

Committees:

Chairman of the Nominating and Governance Committee;

Member of the Classified Business and Security Committee

Qualifications:

Mr. Ellis has over 40 years of experience in managing and leading large and complex technology-focused organizations, in large part as a result of serving for 35 years as an active duty member of the U.S. Navy.

The Board selected Mr. Ellis to serve as a director because it believes that it benefits from his insights gained from his years of management and government experience as we continue to implement our business strategy and review opportunities to grow our business with various federal, state and local governmental departments and agencies.

Experience:

Mr. Ellis has been a private investor since May 2012, and he has served as an Annenberg Distinguished Fellow of the Hoover Institution at Stanford University since November 2014. From May 2005 until May 2012, Mr. Ellis was the President and Chief Executive Officer of the Institute of Nuclear Power Operations. Prior to that, Mr. Ellis served as Commander, U.S. Strategic Command in Omaha, Nebraska, reporting directly to the Secretary of Defense, from July 2004 until retiring in May 2005. In his 35-year naval career, he held seven commands. A graduate of the U.S. Naval Academy, he also holds M.S. degrees in Aerospace Engineering from the Georgia Institute of Technology and in Aeronautical Systems from the University of West Florida. Mr. Ellis has been elected to The National Academy of Engineering, which honors those who have made outstanding contributions to engineering research, practice, or education.

Mr. Ellis is a director of Dominion Resources, Inc. and Lockheed Martin Corporation. Mr. Ellis served on the Board of Directors of Inmarsat PLC until March 2015.

JEFF K. STOREY

President and CEO of Level 3 Communications

Director since: 2013

Age: 56

Committees:

Member of the Classified Business and Security Committee

Qualifications:

Mr. Storey has 30 years of experience in leading companies in various portions of the telecommunications industry.

The Board selected Mr. Storey to serve as a director because he is our Chief Executive Officer, and the Board believes that it is critical that our Chief Executive Officer serve as a member of our Board for a variety of reasons, including his key role in formulating and leading the implementation of our business strategy.

Experience:

Mr. Storey has been our President and Chief Executive Officer since April 2013. Before that, he was President and Chief Operating Officer of Level 3 from December 2008 until April 2013. From December 2005 until May 2008, Mr. Storey was President, Leucadia Telecommunications Group of Leucadia National Corporation, where he directed and managed Leucadia's investments in telecommunications companies. Prior to that, beginning in October 2002, Mr. Storey was President and Chief Executive Officer of WilTel Communications Group, LLC until its sale to the Company in December 2005. Prior to this position, Mr. Storey was Chief Operations Officer, Network for Williams Communications, Inc., where he had responsibility for all areas of operations for the company's communications network, including planning, engineering, field operations, service delivery and network management.

GENERAL KEVIN P. CHILTON (USAF, Retired)

Former Commander, U.S. Strategic Command

Director since: 2012

Independent

Age: 62

Committees:

Chairman of the Classified Business and Security Committee

Member of the Nominating and Governance Committee

Qualifications:

Mr. Chilton has over 34 years of experience managing operations for the U.S. Department of Defense nuclear, space and cyberspace operations.

The Board selected Mr. Chilton to serve as a director because it will benefit from his extensive command and leadership experience in the Air Force, which provides him with a valuable blend of political, legislative, international and regulatory knowledge and experience as we continue to implement our business strategy and review opportunities to grow our business with various federal, state and local governmental departments and agencies.

Experience:

Mr. Chilton has been an independent consultant since February 2011. In February 2011, he retired from the U.S. Air Force. He served as Commander, U.S. Strategic Command, from 2007 through 2011, overseeing the U.S. Department of Defense nuclear, space and cyberspace operations. From 2006 to 2007, Mr. Chilton served as Commander of Air Force Space Command, where he was responsible for all Air Force space and nuclear ICBM programs. Mr. Chilton also served as a NASA astronaut from 1987 to 1996, including on three space shuttle flights, and as the Deputy Program Manager for the International Space Station from 1996 to 1998.

Mr. Chilton is a member of the Board of Trustees of the USAF Academy Falcon Foundation, and the Board of Governors of the Los Alamos and Lawrence Livermore National Laboratory. Mr. Chilton is a director of Anadarko Petroleum Corporation and Orbital ATK Corporation.

STEVEN T. CLONTZ

Senior Executive Vice President, Singapore Technologies Telemedia Pte. Ltd.

Director since: 2012

Independent

Age: 66

Committees:

Chairman of the Strategic Planning Committee

Member of the Nominating and Governance Committee

Qualifications:

Mr. Clontz has held several senior executive positions and has experience leading companies outside of the United States, including telecommunications companies.

Mr. Clontz has been designated as a nominee by STT Crossing pursuant to the STT Stockholder Rights Agreement. STT Crossing believes that Mr. Clontz brings to Level 3's board extensive telecommunications business and operating experience, and that his leadership roles at non-U.S. companies bring an international perspective that adds diversity to the deliberations of Level 3's Board.

Experience:

Mr. Clontz served as a member of the executive committee of Global Crossing from December 2003 until its sale to the Company in October 2011. Mr. Clontz has been Senior Executive Vice President (International) of Singapore Technologies Telemedia Pte. Ltd. since January 2010. Effective March 2013, Mr. Clontz is also a Corporate Adviser to Temasek Holdings (Private) Limited. He was chief executive officer of StarHub Ltd from 1999 to 2009 and has served as the Non-Executive Chairman of StarHub Ltd since July 2015 and as a director since 1999. From 1995 to 1998, Mr. Clontz served as chief executive officer, president and a director of IPC Information Systems. Prior to that, Mr. Clontz worked at BellSouth International, joining in 1987 and holding senior executive positions of increasing responsibility, serving the last three years as president Asia-Pacific. Mr. Clontz began his career as an engineer with Southern Bell in 1973.

Mr. Clontz served as a director of InterDigital, Inc. from 1999 until 2015 and Equinix from 2005 until 2013.

IRENE M. ESTEVES

Former CFO of Time Warner Cable

Director since: 2014

Independent

Age: 57

Committees:

Member of the Audit Committee

Qualifications:

Ms. Esteves has over 20 years of experience overseeing global finance, risk management, finance operations, human resources and corporate strategy for prominent U.S. and global companies, including Time Warner Cable Inc.

The Board believes Ms. Esteves brings a strong history of strategic leadership, strong accounting and finance background, and valuable industry perspective to the Level 3 Board.

Experience:

Ms. Esteves is an experienced public company executive, having served most recently as Chief Financial Officer of Time Warner Cable Inc. from July 2011 to May 2013. Ms. Esteves previously served as Executive Vice President and Chief Financial Officer of XL Group plc from May 2010 to June 2011. Prior to that position, Ms. Esteves served as Senior Vice President and Chief Financial Officer of Regions Financial Corporation from April 2008 to February 2010 and as Chief Financial Officer of the Capital Management Group, Wachovia Corporation from 2006 to 2008.

Ms. Esteves was a member of the tw telecom inc. Board of Directors from June 2014 until October 31, 2014 and previously served on the Board of Directors of Timberland Co. and Johnson Diversey Inc. Ms. Esteves is a director of Aramark and Spirit AeroSystems Holdings.

T. MICHAEL GLENN

Former Executive Vice President, FedEx Corporation

Director since: 2012

Independent

Age: 61

Committees:

Member of the Audit Committee

Qualifications:

Mr. Glenn has over 30 years of business leadership experience in an organization that is known for highly developed processes and worldwide operations.

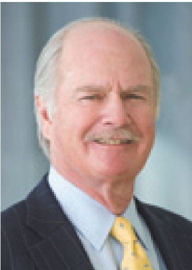
The Board selected Mr. Glenn to serve as a director because it believes that he brings extensive executive leadership, strategic, marketing, process development and communications experience on a worldwide basis to our Board from his service as one of the top leaders at FedEx Corporation.

Experience:

From 1998 until his retirement in December 2016, Mr. Glenn was the Executive Vice President—Market Development and Corporate Communications of FedEx Corporation. Mr. Glenn was also a member of the five-person executive committee, responsible for planning and executing FedEx's strategic business activities. From 2000 until his retirement, Mr. Glenn also served as President and Chief Executive Officer of FedEx Corporate Services. From 1994 to 1998, Mr. Glenn was Senior Vice President—Marketing and Corporate Communications of FedEx Express.

Mr. Glenn was formerly a director of Deluxe Corporation and Renasant Corporation. Mr. Glenn is a director of Pentair Inc.

SPENCER B. HAYS



Former Deputy General Counsel of Time Warner Inc.

Director since: 2014

Independent

Age: 72

Committees:

Member of the Compensation Committee

Qualifications:

Mr. Hays is a senior corporate attorney with over 25 years of experience with a large public company, including experience in the telecom industry.

The Board selected Mr. Hays to serve as a director because Mr. Hays has broad experience in a wide array of issues confronting public companies, including corporate governance, executive compensation, mergers and acquisitions, finance, securities and business law and corporate compliance.

Experience:

Mr. Hays served as Senior Vice President and Deputy General Counsel of Time Warner Inc., from January 2001 to March 2006. Prior to that, Mr. Hays served as Vice President and Deputy General Counsel of Time Warner Inc., from its formation in 1990 to January 2001.

Mr. Hays was a member of the tw telecom inc. Board of Directors from October 1999 to September 2006 and from April 2007 until October 31, 2014.

MICHAEL J. MAHONEY

Former CEO of Commonwealth Telephone Enterprises, Inc.

Director since: 2007

Independent

Age: 66

Committees:

Chairman of the Compensation Committee

Qualifications:

Mr. Mahoney has over 30 years of experience in leading and directing companies in the telecommunications industry, having most recently served as the Chief Executive Officer of Commonwealth Telephone Enterprises, Inc. ("Commonwealth").

The Board selected Mr. Mahoney to serve as a director because it believes he has extensive experience related to the delivery of communications services to a wide variety of customers, and because he has run a communications company with many of the same issues that we face. As a former chief executive officer, Mr. Mahoney has been involved in strategic planning, operations, succession planning, compensation, employee management and the evaluation of acquisition opportunities.

Experience:

Mr. Mahoney has been a private investor since March 2007. From 2000 until March 2007, Mr. Mahoney was the President and Chief Executive Officer of Commonwealth. Prior to that, from 1997 until 2000, Mr. Mahoney was President and Chief Operating Officer of RCN Corporation. Mr. Mahoney also served as President and Chief Operating Officer of C-TEC Corporation from 1993 until 1997.

Mr. Mahoney was previously a member of the Board of Trustees of Wilkes University. Mr. Mahoney is a director of FairPoint Communications, Inc.

KEVIN W. MOONEY

President, Blackbaud, Inc.

Director since: 2014

Independent

Age: 58

Committees:

Member of the Audit Committee

Qualifications:

Mr. Mooney has extensive experience in telecommunications operations and, as a former chief financial officer of a public telecommunications company, in accounting matters.

The Board selected Mr. Mooney to serve as a director because Mr. Mooney brings perspective from his experience with a non-telecommunications enterprise organization, his finance and accounting background and his expertise in telecommunications, IT infrastructure and software.

Experience:

Since October 2009, Mr. Mooney has served as President, General Markets Division, of Blackbaud, Inc., a leading provider of software and professional services to the not-for-profit market, where he previously served as Chief Commercial Officer. Prior to that, Mr. Mooney served as Chief Commercial Officer of Travelport GDS, a privately held provider of IT infrastructure and distribution services to the travel industry from August 2007 to July 2008. Prior to this position, Mr. Mooney served as Chief Financial Officer of Worldspan, L.P., a privately held transaction processing firm from March 2005 until its acquisition by Travelport GDS in August 2007.

Mr. Mooney was a member of the tw telecom inc. Board of Directors from 2005 until October 31, 2014.

PETER SEAH LIM HUAT

Chairman of DBS Group Holdings Ltd/ DBS Bank Ltd

Director since: 2011

Independent

Age: 70

Committees:

Member of the Compensation Committee

Qualifications:

Mr. Seah has been designated as a nominee by STT Crossing pursuant to the STT Stockholder Rights Agreement.

STT Crossing believes that Mr. Seah's service as the chief executive of Overseas Union Bank and Singapore Technologies provides him with valuable business, leadership and management experience. STT Crossing also believes that his many years of experience in banking will give him important insights into Level 3's capital structure and the capital markets. STT Crossing further believes that Mr. Seah's experience on the board of directors of many non-U.S. companies will enable him to bring a global perspective to Level 3's board, including best practices gained from other countries.

Experience:

Mr. Seah is the Chairman of DBS Group Holdings Ltd and DBS Bank Ltd, the Chairman of Singapore Airlines Limited and the Deputy Chairman of STT Communications Ltd. From December 2001 until December 2004 Mr. Seah was President and Chief Executive Officer of Singapore Technologies Pte Ltd (which we refer to as Singapore Technologies) and also a member of its Board of Directors. Before joining Singapore Technologies in December 2001, he was a banker for the prior 33 years, retiring as Vice Chairman & Chief Executive Officer of Overseas Union Bank in September 2001. In addition, Mr. Seah was awarded the Distinguished Service Order in 2012 and the Public Service Star in 1999 by the Government of Singapore.

Mr. Seah has served on the boards of CapitaLand Limited, STATS ChipPac Ltd., SembCorp Industries Ltd, PT Indosat Tbk, Singapore Technologies Telemedia Pte. Ltd, Bank of China Limited, Singapore Technologies Engineering Ltd and StarHub Ltd. He also served as Vice Chairman of the Board of Directors of Global Crossing from December 2003 until its sale to us in October 2011. His other appointments include serving as Chairman of the Singapore Health Services Pte Ltd and LaSalle College of the Arts Limited.

PETER VAN OPPEN

Partner, Trilogy Partnership

Director since: 2013

Independent

Age: 64

Committees:

Chairman of the Audit Committee
Member of the Compensation Committee

Qualifications:

Mr. van Oppen has extensive experience in investing in technology and telecommunications based companies.

The Board selected Mr. van Oppen to serve as a director because of his experience as a chairman and chief executive officer of a global data storage company for over a decade, his extensive management and consulting experience, as well as his experience as a director of other public and private companies. In addition, Mr. van Oppen has served as and supervised public company chief financial officers and is a member of the American Institute of Certified Public Accountants.

Experience:

Mr. van Oppen has been a partner at Trilogy Partnership, a private investment firm focused on technology and telecommunications, since 2006. Prior to joining Trilogy, Mr. van Oppen served as Chief Executive Officer and Chairman of the Board for Advanced Digital Information Corporation (''ADIC''), a data storage company, for twelve years, from 1994 through its acquisition by Quantum Corp. in 2006. Prior to ADIC, Mr. van Oppen served as President and Chief Executive Officer of Interpoint, a predecessor company to ADIC, from 1989 until its acquisition by Crane Co. in October 1996, and had also been a consultant at PricewaterhouseCoopers and Bain & Company.

Mr. van Oppen currently serves as Chairman of the Board of Impinj and as a director and chairman of the Finance and Audit Committee of UW Medicine, which consists of community leaders appointed by the University of Washington Board of Regents. Mr. van Oppen is a former member and former chairman of the Board of Trustees at Whitman College and serves on the boards of directors of several private companies. Mr. van Oppen was formerly a director of Isilon Systems, Inc. and Western Wireless Corporation.

Our Corporate Governance Guidelines provide that a director should not be nominated to a new term if he would be over age 73 at the time of the election; however, this limitation may be waived by the Board if the Board feels to do so would be in our interests.

Vote Required

Our By-laws provide that each of the 11 nominees for director will be elected by a majority of the votes cast with respect to that nominee by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting. Since this election is not contested, a "majority of votes cast" means that the number of votes "For" a nominee's election needs to be greater than the number of votes cast as "Against" that nominee's election. Any current director who does not meet this standard is subject to the By-laws' requirement regarding resignations by directors who do not receive a majority of "For" votes. Under the By-laws, any incumbent director in an uncontested election who does not receive more "For" votes than "Against" votes is required to submit an offer of resignation to the Board. The Nominating and Governance Committee decides whether to accept such offer of resignation.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES NAMED ABOVE.

Board Structure and Risk Oversight

The Board believes that independent oversight of management is an important component of an effective board of directors. The independent Board members have determined that the most effective Board leadership structure for Level 3 at the present time is for the president and chief executive officer ("CEO") position to be separate from the Chairman of the Board position, a structure that has served us well for many years. The independent Board members believe that because the CEO is ultimately responsible for the day-to-day operation of Level 3 and for executing our strategy, and because our performance is an integral part of Board deliberations, the CEO should be an important part of the Board, but that under current circumstances, a different individual should act as Chairman of the Board. The Board retains the authority to modify this structure to best address our unique circumstances, and so advance the best interests of all stockholders, as and when appropriate.

The Board also believes, for the reasons set forth below, that its existing corporate governance practices also achieve independent oversight of management accountability. Our governance practices provide for strong independent leadership, independent discussion among directors and for independent evaluation of, and communication with, many members of senior management. These governance practices are reflected in our Corporate Governance Guidelines and the various Board committee charters, which are available on our website. Some of the relevant processes and other corporate governance practices include:

- The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the interests of Level 3 and our stockholders. The Board selects the senior management team, which is responsible for the day-to-day conduct of our business.
- Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.
- The Chairman of the Board and our CEO establish the agenda for each Board meeting. Each Board member is free and encouraged to suggest the inclusion of items on the agenda. Each Board member is free and encouraged to raise at any Board meeting subjects that are not on the agenda for that meeting.
- The Board reviews our long-term strategic plans during at least one Board meeting each year.
- The non-management directors periodically meet in executive session as a part of regularly scheduled Board meetings. The Chairman of the Board presides at these meetings, as he is not part of management.
- Regularly scheduled meetings of the Audit, Compensation and Nominating and Governance Committees are open to all Board members to attend to promote transparency and openness. The meetings of the Classified Business and Security committee are not open to all Board members, because members of that committee are required to hold a U.S. security clearance.
- Directors have full, free and appropriate access to our officers and employees. The Board welcomes regular attendance of our senior officers at each Board meeting.
- We conduct an orientation program for new directors as soon as practical following the meeting at which the new director is elected. This orientation includes presentations by senior management to familiarize new directors with our strategic plans, financial reporting, principal officers, auditing processes, and such other topics as the Board and/or the CEO feel are appropriate. All other directors are also invited to attend the orientation program.
- The Compensation Committee of the Board is responsible to review and approve the CEO's goals and objectives, evaluate the CEO's performance in light of these corporate objectives, and formulate and present to the independent members of the Board a recommendation for CEO compensation levels consistent with Company philosophy. The independent members of the Board approve the CEO's compensation.
- The Board conducts an annual self-evaluation to determine whether it and its committees are functioning effectively. The Chairman of the Board's Nominating and Governance Committee receives comments from all directors and reports to the Board with an assessment of the Board's performance.

The Board oversees our stockholders' interest in our long-term and overall success and our financial performance. The full Board is actively involved in overseeing risk management for us. It does so in part through its oversight of our top executives who supervise day-to-day risk management throughout Level 3. In addition, our executives regularly discuss recurring themes or material risks with the members of the Board, including recurring themes and materials risks raised by the Board members.

In addition, each of our Board committees considers the risks within its areas of responsibilities. For example, the Audit Committee considers financial risk on a quarterly basis, recommends guidelines to various financial related exposures and discusses with management policies with respect to risk assessment and risk management. The Audit Committee also reviews:

- risks related to financial reporting;
- any material violations of our policies brought to its attention;
- the outcome of our annual internal audit department's risk assessment, which seeks to identify internal controls risks and drives the internal audit plan for the coming year; and
- the outcome of periodic formal general business risk assessment discussions conducted amongst our CEO, the CEO's direct reports and other members of senior management.

The chairman of the Audit Committee reports to the full Board at regularly scheduled Board meetings on these reviews.

Material violations of our Worldwide Business Code of Conduct and related corporate policies are reported to the Audit Committee and, as required, are reported to the full Board. The Compensation Committee reviews our overall compensation program and its effectiveness at both linking executive pay to performance and aligning the interests of our executives and our stockholders. The Nominating and Governance Committee reviews our governance practices on an annual basis.

Corporate Governance

We have Corporate Governance Guidelines that address the governance activities of the Board and include criteria for determining the independence of the members of our Board. These guidelines are in addition to the requirements of the Securities and Exchange Commission and The New York Stock Exchange. The Guidelines also include requirements for the standing committees of the Board, responsibilities for Board members and the annual evaluation of the Board's and its committees' effectiveness. The Corporate Governance Guidelines are available on our website at *www.level3.com*. At any time that these guidelines are not available on our website, we will provide a copy upon written request made to Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

Although we include references to our website throughout this proxy statement, any information included in our website is not part of this Proxy Statement.

At Level 3, we know that corporate governance is the foundation for sustainable growth. Our governance policies and structures are designed to promote thoughtful consideration of our business actions and include:

- a voting standard for the election of directors (other than in contested elections) requiring nominees to receive a majority of the votes cast (see Item 1—Vote Required above);
- "proxy access" for director nominations; and
- an "exclusive forum" provision in our By-laws.

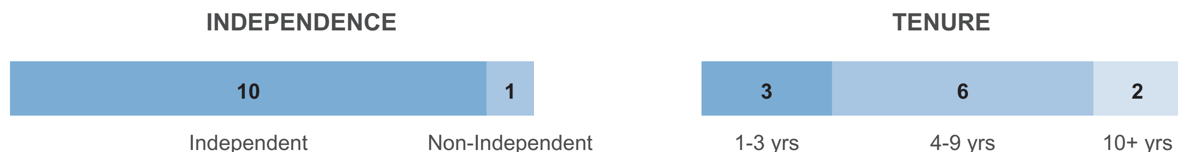
Corporate Governance at a Glance

Number of Independent Directors	**10**	Independent Directors Meet without Management Present	**Yes**
Average Age of Directors	**64**	Board Risk Oversight	**Yes**
Annual Elections of Directors	**Yes**	Codes of Conduct for Directors, Officers and Employees	**Yes**
Board Waivable Retirement Age	**73**	Stock Ownership Guidelines for Directors and Executive Officers	**Yes**
Majority Voting with Resignation in Non-contested Director Elections[(1)]	**Yes**	Anti-Hedging and Pledging Policies	**Yes**
Separate Chairman and CEO	**Yes**	Executive Compensation Pay for Performance Metrics	**Yes**

(1) See Item 1—Vote Required above.

Independence and Tenure

The Board also evaluates the independence of each director in accordance with applicable laws and regulations and its Corporate Governance Guidelines. Based on the recommendation of our Nominating and Governance Committee, the Board has determined that the following nominees are "independent" as required by applicable laws and regulations, by the listing standards of The New York Stock Exchange and by the Board's Corporate Governance Guidelines: James O. Ellis, Jr., Kevin P. Chilton, Steven T. Clontz, Irene M. Esteves, T. Michael Glenn, Spencer B. Hays, Michael J. Mahoney, Kevin W. Mooney, Peter Seah Lim Huat and Peter van Oppen. The Board has also concluded that all of the members of each of the Audit, Compensation and Nominating and Governance committees are "independent" in accordance with these same standards.



Code of Ethics

We have a Worldwide Business Code of Conduct, specific portions of which serve as our "code of ethics" under the standards mandated by the Sarbanes-Oxley Act of 2002, as amended. The complete Worldwide Business Code of Conduct is available on our website at *www.level3.com*. At any time that the Worldwide Business Code of Conduct is not available on our website, we will provide a copy upon written request made to Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021. If we amend the provisions of the Worldwide Business Code of Conduct that serve as our "code of ethics," or if we grant any waiver from those provisions that applies to our executive officers or directors, we will publicly disclose such amendment or waiver as required by applicable law, including by posting such amendment or waiver on our website at *www.level3.com* or by filing a Current Report on Form 8-K.

Stockholder Engagement

At Level 3, we believe regularly communicating with our stockholders and actively engaging with them throughout the year is important to ensure that management and the Board are aware of our stockholders' priorities. We believe that receiving regular feedback from stockholders is as an important tool to help refine Level 3's corporate governance practices. The Board strives to be responsive and to ensure that stockholders' concerns and observations are addressed appropriately.

In 2015, we implemented a governance engagement program in addition to management's commitment to investing time with stockholders on a quarterly basis through earnings calls, investor meetings and conferences.

During 2016, we continued to build on our stockholder engagement efforts that we kicked off in 2015. Last year, the engagement process began after filing the 2016 Proxy Statement. We reached out to our investors representing nearly 60 percent of our outstanding common stock to seek their interest to discuss various corporate governance topics based on the filing and gather feedback on the changes we implemented. In addition to those outreach efforts, our Chief Legal Officer met with investors among our top 10 holders to discuss governance matters, including board diversity, board oversight of cybersecurity issues, and approach to environmental, social and governance matters. The Board was provided summaries on the feedback received. The Board's commitment to listening to investor feedback is demonstrated in this proxy statement through the additional disclosure provided on those matters.

A stockholder who wishes to communicate directly with the Board, a committee of the Board or with an individual director, regarding matters related to Level 3 should send the communication to:

Level 3 Communications, Inc.
Board of Directors [or committee name or
director's name, as appropriate]
1025 Eldorado Boulevard
Broomfield, Colorado 80021

We will forward all stockholder correspondence about Level 3 to the Board, committee or individual director, as appropriate. Please note that we will not forward communications that are spam, junk mail and mass mailings, service complaints, service inquiries, new service suggestions, resumes and other forms of job inquiries, surveys, and business solicitations or advertisements.

Board of Directors' Meetings

The Board had a total of ten meetings in 2016, with no director attending less than 75% of the meetings. All of our directors attended more than 75% of the meetings of the Board's committees of which the person was a member. In addition, the non-management directors met without any management directors or employees present four times during 2016. These meetings are chaired by the Chairman of the Board.

Although we do not have a formal policy, it is expected that our Board members will attend our annual meetings. All of our Board members attended our 2016 Annual Meeting of Stockholders, other than Mr. Peter Seah Lim Huat.

Section 16(a) Beneficial Ownership Reporting Compliance

To our knowledge, no person that was a director, executive officer or beneficial owner of more than 10% of the outstanding shares of our common stock failed to timely file during 2016 all reports required under Section 16(a) of the Securities Exchange Act of 1934, as amended.

Summary of Committee Assignments and Tenure

	James O. Ellis Jr.	Jeff K. Storey	Kevin P. Chilton	Steven T. Clontz	Irene M. Esteves	T. Michael Glenn	Spencer B. Hays	Michael J. Mahoney	Kevin W. Mooney	Peter Seah Lim Huat	Peter van Oppen
Audit					●	●			●		C
Classified Business & Security	●	●	C								
Compensation							●	C		●	●
Nominating & Governance	C		●	●							
Tenure	12	4	5	5	3	5	3	10	3	6	4

Note that "C" indicates chair of committee

Audit Committee

The Audit Committee is responsible for appointing, setting compensation for, and overseeing the work of our independent registered public accounting firm. The Audit Committee reviews the services provided by our independent registered public accounting firm, consults with the independent registered public accounting firm and reviews the need for internal auditing procedures and the adequacy of internal controls. The members of the Audit Committee are Peter van Oppen (Chairman), Irene M. Esteves, T. Michael Glenn and Kevin W. Mooney. The Board has determined that the members of the Audit Committee are independent within the meaning of the listing standards of The New York Stock Exchange. While other members of the Audit Committee, including Irene M. Esteves and Kevin W. Mooney, have the requisite credentials and financial background to qualify as a "financial expert" as defined by the SEC, the Board has designated Peter van Oppen, Chairman of the Audit Committee, as the "financial expert" pursuant to that definition. The Audit Committee met eight times during 2016.

The Audit Committee also has the responsibility, among other things, of assisting the Board in meeting its oversight obligations regarding: (i) the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our independent auditor's qualifications and independence; (iv) the performance of our independent auditors; and (v) the performance of our internal audit function. The Audit Committee maintains free and open communications between the directors, the independent auditors, our internal audit department and our financial management team. It is the Audit Committee's expectation that the financial management team will fulfill its responsibility of bringing any significant items to the attention of the Audit Committee.

Additional information regarding the appointment of our independent auditor can be found under Item 4 (Ratify the Appointment of Independent Auditor), below.

The Audit Committee operates pursuant to a written charter. A copy of the Audit Committee's charter is available on our website at *www.level3.com*. A copy of the Audit Committee's 2016 Report is included as part of the disclosure for Item 4, below.

Classified Business and Security Committee

The Classified Business and Security Committee assists the Board in fulfilling its oversight responsibilities relating to our classified business activities and the security of personnel, data, and facilities. The Classified Business and Security Committee also establishes processes and procedures to ensure the security of our U.S. network assets (including to oversee cyber-security risks), which include transmission and routing equipment, switches and associated operational support systems and personnel. The Classified Business and Security Committee is comprised solely of members of our Board who are U.S. citizens who, if not already in possession of U.S. security clearances, must apply for U.S. security clearances pursuant to Executive Order 12968 immediately upon their appointment to the committee. The current members of the Classified Business and Security Committee are Kevin P. Chilton (Chairman), James O. Ellis, Jr., and Jeff K. Storey. The Classified Business and Security Committee met four times during 2016.

Compensation Committee

The Compensation Committee is responsible for overseeing our compensation strategy and policies to allow us to attract key employees and to determine that employees are rewarded appropriately for their contributions, that employees are motivated to achieve our objectives, that key employees are retained, and that such strategy and policies support our objectives, including the interests of our stockholders. The Compensation Committee also approves the salaries, bonuses and other compensation for all executive officers, and reviews and recommends to the full Board the compensation and benefits for non-employee directors. The members of the Compensation Committee are Michael J. Mahoney (Chairman), Spencer B. Hays, Peter Seah Lim Huat and Peter van Oppen. The Board has determined that the members of the Compensation Committee are independent within the meaning of the listing standards of The New York Stock Exchange. The Compensation Committee met six times in 2016.

The Compensation Discussion and Analysis below provides additional information on the Compensation Committee's processes and procedures for consideration of executive compensation and the role of Deloitte Consulting LLP, the committee's independent compensation consultant for 2016 compensation determinations. In addition, the Compensation Committee's report is included at the beginning of the Compensation Discussion and Analysis. The Compensation Committee operates pursuant to a written charter. A copy of the Compensation Committee's charter is available on our website at *www.level3.com*.

Compensation Committee Interlocks and Insider Participations

No member of the Compensation Committee during 2016 had a relationship that requires disclosure as a Compensation Committee Interlock.

Nominating and Governance Committee

The Nominating and Governance Committee provides oversight and guidance to the Board to ensure that the membership, structure, policies, and practices of the Board and its committees facilitate the effective exercise of the Board's role in the governance of the company. The Committee (i) reviews and evaluates the policies and practices with respect to the size, composition, independence and functioning of the Board and its committees, (ii) reflects those policies and practices in our Corporate Governance Guidelines and other governance documents, and (iii) evaluates the qualifications of, and recommends to the full Board, candidates for election as directors. The members of the Nominating and Governance Committee are James O. Ellis, Jr. (Chairman), Kevin P. Chilton and Steven T. Clontz. The Board has determined that the members of the Nominating and Governance Committee are independent within the meaning of the listing standards of The New York Stock Exchange. The Nominating and Governance Committee met three times in 2016.

The Nominating and Governance Committee operates pursuant to a written charter. A copy of the Nominating and Governance Committee's charter is available on our website at *www.level3.com*.

Strategic Planning Committee

In connection with the execution of the STT Stockholder Rights Agreement, we agreed to form a new committee of the Board to be called the Strategic Planning Committee. The Strategic Planning Committee was created to provide advice and assistance to the Board regarding the Board's role in monitoring and implementing our strategic plan, which includes (i) the results of our process of defining our broad strategy to achieve our business objectives and maximize the value of the company for our stockholders and other stakeholders and (ii) the related plans to implement that strategy.

The Strategic Planning Committee did not meet during 2016 and the Company and STT have determined that until further notice while this committee will remain a standing committee of the Board, it will not meet separately and will have a single member, Mr. Clontz, who will not be compensated for this committee membership.

Director Compensation

During 2016, each of our directors (other than Mr. Ellis, whose compensation is described below) who was not employed by us during 2016 earned fees for Board service consisting of a $75,000 annual cash retainer. The director who serves as the chair of the Audit Committee earned an additional $35,000 annual cash retainer and the director who serves as the chair of the Compensation Committee earned an additional $30,000 annual cash retainer for serving as chair of those committees. Each chair of the Nominating and Governance Committee and the Classified Business and Security Committee received an additional $20,000 for serving as chair of that committee.

Any member of the Board who was not employed by us during 2016 earned a $15,000 annual cash retainer for each non-chair membership on the Audit Committee and the Compensation Committee. Any member of the Board who was not employed by us during 2016 earned a $10,000 annual cash retainer for each

non-chair membership on the Nominating and Governance Committee and the Classified Business and Security Committee. James O. Ellis, Jr., our Chairman of the Board, is entitled to receive an annual cash retainer of $135,000 for serving as our Chairman of the Board.

We also compensate our non-employee directors with grants of RSUs. Each non-employee member of the Board receives a grant of restricted stock units, or RSUs, as of July 1 of each year, with the number of units determined by dividing $150,000 (or $250,000 for Mr. Ellis) by the volume-weighted average price of our common stock for the period from January 1 to June 30. The total number of RSUs issued to each non-employee member of the Board is subject to an overall cap of 6,666 shares (or 11,111 shares for Mr. Ellis). These RSUs vest and settle in shares of our common stock on the following July 1st.

We reimburse our non-employee directors for travel, lodging and other reasonable out-of-pocket expenses in connection with the attendance at Board, committee and stockholder meetings, as well as for other reasonable expenses related to service on the Board. We also provide liability insurance for our directors and officers. A group of insurance companies provides this coverage. The annual cost of this coverage is approximately $1.5 million.

We do not maintain any pension, nonqualified defined contribution or other deferred compensation plans for our non-employee directors.

The following table summarizes for 2016 the fees earned or paid in cash to our directors, the full grant date fair value of restricted stock unit awards made to our directors and other compensation received by our directors.

Name	Fees Earned or Paid in Cash	Stock Awards[1]	All Other Compensation	Total
James O. Ellis, Jr. (Chairman)	$165,000	$255,442	$1,929[2]	$422,371
Kevin P. Chilton	$105,000	$153,286		$258,286
Steven T. Clontz	$ 85,000	$153,286		$238,286
Irene M. Esteves	$ 90,000	$153,286		$243,286
T. Michael Glenn	$ 90,000	$153,286		$243,286
Spencer B. Hays	$ 90,000	$153,286		$243,286
Michael J. Mahoney	$105,000	$153,286		$258,286
Kevin W. Mooney	$ 90,000	$153,286		$243,286
Peter Seah Liam Huat	$ 90,000	$153,286	$1,329[2]	$244,615
Peter van Oppen	$125,000	$153,286		$278,286

(1) This column represents the full grant date fair value of the RSUs issued to our non-employee directors during 2016 based on our common stock price of $51.49 on June 30, 2016.

(2) Represents income that was imputed to the Board member when his spouse traveled with the Board member when the Board member attended a Board meeting.

The following indicates the RSUs held by our non-employee directors at December 31, 2016:

Name	Number of RSUs
James O. Ellis, Jr. (Chairman)	4,961
Kevin P. Chilton	2,977
Steven T. Clontz	2,977
Irene M. Esteves	2,977
T. Michael Glenn	2,977
Spencer B. Hays	2,977
Michael J. Mahoney	2,977
Kevin W. Mooney	2,977
Peter Seah Liam Huat	2,977
Peter van Oppen	2,977

Stock Ownership Guidelines for Directors

The Compensation Committee has adopted guidelines for ownership of our common stock for our Board members. These guidelines are reviewed at least annually, and may be updated or modified based on a variety of factors including stock market conditions.

The members of our Board are subject to an ownership guideline requiring them to hold stock that has a value that is equal to or greater than seven times (7x) the current annual cash retainer for a Board member. For members of our Board, the Board requires that each member hold all shares of our common stock received as compensation for Board service until such time as the Board member's ownership of common stock meets the ownership guideline.

Board members are permitted to sell stock to cover income tax liabilities associated with the vesting of a stock award even if the Board member does not then meet the ownership guideline. Restricted stock unit awards provided to members of the Board vest one year after grant. To determine a Board member's compliance with the ownership guideline, all awarded but unvested restricted stock units will be treated as shares of issued common stock on a one for one basis. In addition, shares of common stock held by the Board member, his or her spouse and minor children, along with shares of common stock held in the individual's retirement accounts and in trusts for the benefit of these individuals, will be included for purposes of determining the Board member's satisfaction of the ownership guideline.

The Board encourages each Board member to hold all shares of common stock received as compensation for Board service, or otherwise acquired, until the Board member is no longer a Board member. Any Board member who sells or otherwise transfers shares of common stock (other than as permitted above with respect to stock award vesting) where after giving effect to the sale or transfer, the Board member would own common stock in an amount less than the ownership guideline must volunteer to resign from the Board. The Board does not believe that such person should necessarily leave the Board. However, there should be an opportunity for the Board through the Board's Nominating and Governance Committee to review the continued appropriateness of the Board member's continued membership on the Board under the circumstances.

Political Contributions and Lobbying

Level 3 engages in advocacy to inform government officials, regulators and the public about Level 3's position on regulatory and policy issues that affect our business, employees, customers and consumers. Level 3 has been an ongoing, vocal advocate of various issues in the telecom industry, such as net neutrality and special access.

In the United States, Level 3 maintains a political action committee (the Level 3 "PAC") and makes contributions to political parties, political committees and candidates. The contributions made by the PAC

are not funded by corporate funds and are fully funded by voluntary contributions made by Level 3 employees and Board members.

As a general rule, Level 3, as a corporation, does not fund political contributions.

Diversity and Inclusion at Level 3

Level 3 believes diversity—of thought, backgrounds and experiences—affects all that we do, from our employees to the solutions we deliver. Our goal is to create an environment in which inclusion through diversity helps deepen the lives and work experience of our employees, enhances our innovation and creativity, and enriches our involvement in our communities. We want the people who work at Level 3 to feel good about their contributions, believe that everyone has a voice and the opportunity to make a difference. Ultimately, we believe this inclusiveness provides a better experience for our employees and for our customers.

We are building a culture of Respect, one of Level 3's Core Values, and use that as a guiding principle in everything we do from our hiring, leadership and training practices to the way we interact with our fellow employees, customers and communities.

Level 3's Employee Resource Groups (ERGs) lead the way for organic expansion of employee culture and contribute to workplace diversity. More than 20 percent of our employees globally are members of one of our nine ERGs.

Level 3 is committed to mentoring and developing female talent and we have developed a program called the Mentor-RINGs that connects high performing females with more experienced Level 3 colleagues. In 2016, we added to that program by expanding it to a co-ed Mentor-RINGs program with a goal to share the experiences of thought leadership across gender identities. In a survey of the program participants, 62 percent of mentees indicated that they felt a positive effect on their engagement at Level 3.

Corporate Social Responsibility is an important part of the Level 3 culture of diversity and inclusion. We support diverse cause areas by making donations through the Level 3 Cares program. The program allows our employees—whether individually, with their ERGs or as a part of team events—to connect with and support causes important to them. In coordinating their projects through Level 3 Cares, employees gain visibility and are given some paid time away from work to participate in their projects.

In addition to acknowledgements from our employees of our diversity efforts, we have won several diversity and inclusion awards, naming us a top employer for veterans (Military Times EDGE and CivilianJobs.com) and for Lesbian, Gay, Bisexual and Transgender (LGBT) equality.

We are proud of where we stand on diversity and inclusion today. While not forming a part of this proxy statement, please read more about Levels 3's diversity and inclusion initiatives at www.level3.com/en/careers/diversity-inclusion/.

Additional Information for Submission of Nominations for Director

Our By-laws require that a stockholder who wishes to nominate an individual for election as a director at our Annual Meeting of Stockholders (other than through proxy access) must give us advance written notice not less than 90 days prior to the anniversary date of the prior year's Annual Meeting of Stockholders and not more than 120 days prior to the anniversary date of the prior year's Annual Meeting of Stockholders, and must be a stockholder of record on the date of the giving of the required notice and on the record date for the determination of stockholders entitled to vote at that meeting. The stockholder's notice must provide the information required by our By-laws, which is summarized below, and is qualified in its entirety by the full text of our By-laws as the definitive statement of the required notice information.

Please see the Frequently Asked Questions section of this proxy statement for additional information that must be included in a stockholder notice.

This notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected. All notices must be delivered or mailed to the Secretary, Level 3 Communications, Inc.,1025 Eldorado Boulevard, Broomfield, Colorado 80021.

Information About Our Executive Officers

Set forth below is information as of April 7, 2017, about our executive officers other than Mr. Storey. Our executive officers have been determined in accordance with the rules of the SEC.

SUNIT S. PATEL

Executive Vice President and Chief Financial Officer **Age: 55**

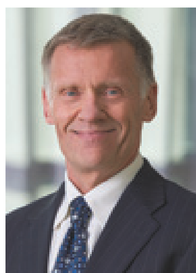
Sunit S. Patel has been Chief Financial Officer and an Executive Vice President of Level 3 since March 2008. Prior to March 2008, Mr. Patel was Chief Financial Officer from May 2003 and a Group Vice President of Level 3 from March 2003 to March 2008. Prior to that, Mr. Patel was Chief Financial Officer of Looking Glass Networks, Inc., a provider of metropolitan fiber optic networks, from April 2000 until March 2003. Mr. Patel was Treasurer of WorldCom Inc. and MCI Worldcom Inc., each long distance telephone services providers from 1997 to March 2000. From 1994 to 1997, Mr. Patel was Treasurer of MFS Communications Company, Inc.

JOHN M. RYAN

Executive Vice President, Chief Legal Officer and Secretary **Age: 54**

John M. Ryan has been Executive Vice President and Chief Legal Officer of Level 3 since June 2011. Mr. Ryan also became our Secretary in June 2014, having served as our Assistant Secretary since June 2011. Mr. Ryan is responsible for Level 3's legal and regulatory functions worldwide. Prior to his current position, Mr. Ryan was Executive Vice President, Chief Legal Officer and Secretary of the company from January 2011 until June 2011. Mr. Ryan was Senior Vice President and Assistant Chief Legal Officer of Level 3 Communications, LLC from March 2007 until January 2011, responsible for the customer and vendor contracting groups and the public policy group. Mr. Ryan was a Senior Vice President within the Legal Department from June 2004, and was a Vice President in the Legal Department from December 1999 through June 2004. Prior to December 1999, Mr. Ryan was a partner and associate at Fraser Stryker Law Firm in Omaha, where his practice focused on the communications industry.

ERIC J. MORTENSEN



Senior Vice President and Controller **Age: 58**

Eric J. Mortensen has been Senior Vice President and Controller of Level 3 since 2003. Prior to that, Mr. Mortensen was Vice President and Controller of Level 3 from 1999 to 2003 and was the Controller of Level 3 from 1997 to 1999. Prior to that, Mr. Mortensen was Controller and Assistant Controller of Kiewit Diversified Group for more than five years.

HÉCTOR R. ALONSO

Regional President Latin America **Age: 59**

Héctor R. Alonso has been Regional President Latin America since November 2011. Mr. Alonso joined the management team in connection with our completion of the acquisition of Global Crossing. In this position, Mr. Alonso has responsibility for our business in Latin America. Prior to the acquisition, Mr. Alonso served as managing director—Latin America from May 2007 until November 2011. Mr. Alonso joined Global Crossing after its acquisition of Impsat Fiber Networks, Inc. As managing director, Mr. Alonso oversaw Global Crossing's strategy and operations across Latin America. Prior to the acquisition by Global Crossing, Mr. Alonso served as Chief Financial Officer of Impsat, in which capacity he was responsible for finance, administration, planning, human resources and information management systems. Prior to becoming chief financial officer in June 2002, Mr. Alonso served as Impsat's Chief Operating Officer in Latin America and the U.S. and president of its Colombian operations. Prior to his tenure at Impsat, Mr. Alonso was managing director of Lime S.A., a waste management company in Colombia, and held other key positions in the Pescarmona group of companies.

LAURINDA Y. PANG

Regional President North America and Asia Pacific **Age: 47**

Laurinda Y. Pang has been the Regional President, North America and APAC since February 2016 and prior to that served as Executive Vice President and Chief Administrative Officer from June 2014 to February 17, 2016. Ms. Pang was the Chief Human Resources Officer for Level 3 from October 2011 until June 2014, developing the global organization to support the company's strategic initiatives and profitable growth. She has more than 20 years of experience in the telecommunications industry, holding leadership roles in human resources, customer experience, investor relations, operations, product management, sales and sales operations. Prior to Level 3, Ms. Pang was Senior Vice President of Human Resources at Global Crossing from May 2009 until October 2011. She also served as Vice President of Global Crossing customer experience re-engineering, where she was responsible for all aspects of global business transformation affecting customer experience. Prior to that, as Vice President for Global Crossing investor relations, she was responsible for communicating with shareholders, bondholders and financial analysts. She also served as the Chief of Staff to the CEO and Vice President of Operations for Global Crossing, and was a member of the executive team that restructured Global Crossing during a critical phase in its history.

Executive Succession Planning

The Board's responsibilities include succession planning for our President and CEO, Jeff Storey, and an oversight role with respect to succession planning for Mr. Storey's direct reports. The Board engages in succession planning discussions with respect to Mr. Storey on an annual basis and on a periodic but regular basis with respect to Mr. Storey's direct reports. The Board has the opportunity to interact with internal potential successors to Mr. Storey throughout the year at Board and committee meetings and other informal settings.

Certain Relationships and Related Transactions

Review and Approval of Related Party Transactions. We review all relationships and transactions in which we and (i) our directors, (ii) our executive officers, (iii) any person known by us to beneficially own over five percent of our outstanding common stock or (iv) their respective immediate family members, are participants under a written related party transactions policy. The purpose of this review is to determine whether these persons have a direct or indirect material interest in the transaction. Members of our Legal Department are primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers regarding related person transactions and for then determining, based on the facts and circumstances, whether the company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, related person transactions determined to be directly or indirectly material to the company or a related person are disclosed in our Proxy Statement. In addition, our Audit Committee reviews and determines whether to approve or ratify any related person transaction with a value equal to or over $50,000. In its review of a related party transaction that meets this threshold, the Audit Committee will consider:

- the benefits to the company;
- the effect on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, stockholder or executive officer;
- the availability of other sources for comparable products or services;
- the terms of the transaction; the terms available to unrelated third parties or to employees generally; and
- any other matters the Audit Committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction. However, that member may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Related Party Transactions

The Audit Committee has reviewed and approved or ratified all of the following transactions which took place during 2016.

Company Aircraft. We impute as income the cost of personal travel using our corporate aircraft. We note that when a guest accompanies a member of our senior management on business travel and if required by applicable U.S. Internal Revenue Service regulations, we impute as income the cost of that additional travel to that executive. To calculate the amount of imputed income, we use the Internal Revenue Service's Standard Industry Fare Level, or SIFL, rates. In addition, in certain limited circumstances we impute as income the cost of personal travel to an executive to the extent that the personal use of the corporate aircraft is at the direction of the company and for the company's benefit in attracting and retaining a member of senior management. For 2016, no one had imputed income of $120,000 or more for personal use of the corporate aircraft.

APPROVE, ON AN ADVISORY BASIS, NAMED EXECUTIVE OFFICER COMPENSATION (ITEM 2)

Under the SEC's rules, we are required to provide you with the opportunity to cast a vote on the compensation for our named executive officers, which we refer to as NEOs, as defined in our Compensation Discussion and Analysis, or CD&A, below. This proposal is frequently referred to as a "say-on-pay" vote. This vote is on an advisory basis. Our executive compensation program is intended to attract, retain and motivate the executive talent required to achieve our corporate objectives and increase stockholder value.

As part of our efforts to satisfy the need to attract, retain and motivate the individuals who possess the skills necessary to grow our business, management and our Compensation Committee believe that our compensation programs should reflect our compensation philosophy. This philosophy includes the following core beliefs:

- Our executives are rewarded fairly and competitively based on the results they achieve.
- We pay above market total compensation for results that exceed expectations.
- Our short and long-term incentives set expectations, measure results, reward achievement and hold executives accountable for expected results.
- We reward executives who achieve results, while adhering to our corporate values.
- Our bonus program is linked to company performance and the achievement of annual goals.
- Our long-term incentive, or LTI, program is linked to company performance and the creation of long-term stockholder value.
- Stock ownership demonstrates an economic stake in our business that helps align executive's interests with those of our stockholders.
- Our executive compensation program is based heavily on creating long-term value.

Our executive compensation program is described in the CD&A, related compensation tables and other narrative executive compensation disclosures required by the disclosure rules of the SEC, all of which are found in this Proxy Statement. In particular, the CD&A, beginning on page 24 of this Proxy Statement, describes our executive compensation program in detail, and we encourage you to review it.

Since the vote on this proposal is advisory, it is not binding on us. Nonetheless, the Compensation Committee, which is responsible for approving the overall design and administering certain aspects of the executive compensation program, will take into account the outcome of the vote when making future executive compensation decisions. The Board of Directors recommends that you approve the following non-binding resolution that will be submitted for a vote at the 2017 Annual Meeting in support of our executive compensation program:

> RESOLVED, that the compensation paid to the company's named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in the Proxy Statement, is hereby APPROVED.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Committee Report

The Compensation Committee of the Board has reviewed this Compensation Discussion and Analysis and discussed the analysis with management. The Committee recommended to our Board that this Compensation Discussion and Analysis be included in Level 3's Form 10-K for the year ended December 31, 2016 and Level 3's Proxy Statement with respect to the 2017 Annual Meeting of Stockholders.

Compensation Committee
Michael J. Mahoney (Chairman)
Spencer B. Hays
Peter Seah Lim Huat
Peter van Oppen

Table of Contents

Topic	Page #
Executive Summary	24
Executive Compensation Aligned with Company Performance	25
Compensation Best Practices	26
Response to Advisory Say-on-Pay Vote	27
Executive Compensation Program Philosophy	27
How We Determine Executive Compensation	28
Role of the Compensation Committee	28
Role of Independent Consultant	29
Role of Management	29
Peer Group	30
Components of Executive Compensation	31
Base Salary	31
Bonus	31
Stock Based Awards	33
Benefits	36
Perquisites	37
Recent Developments	37
Post-Employment Compensation	39
Governance Features	40
Assessment of Risk	40
Stock Ownership Guidelines	40
No Employment Contracts	41
Prohibition on Hedging and Pledging	41
"Clawback" Provision	41
Section 162(m) of the Internal Revenue Code	41

Executive Summary

Level 3 is a premier provider of global communication services, creating solutions that strengthen the growth, efficiency and security of businesses around the world. Our vision is to be the trusted connection to the networked world. To fulfill that vision, we need to attract, motivate and inspire exceptional leaders to join Level 3 and grow with us.

We have designed our executive compensation program to reward outstanding leadership in our complex and global organization and the Committee supports a program that aligns executive pay with both our performance and the interests of our stockholders.

In this Compensation Discussion and Analysis, the individuals shown below are identified as our "Named Executive Officers," or NEOs. Please refer to the Summary Compensation Table and the additional tables that follow for detailed information on compensation paid to our NEOs.

Jeff K. Storey	President and Chief Executive Officer
Sunit S. Patel	Executive Vice President and Chief Financial Officer
Andrew E. Crouch(1)	Regional President—EMEA and Global Account Management Division
Laurinda Y. Pang	Regional President—North America and Asia Pacific
John M. Ryan	Executive Vice President, Chief Legal Officer and Secretary

(1) Mr. Crouch resigned from the Company on April 3, 2017.

Our executive compensation program appropriately balances the following fundamental compensation elements:

- competitive base salaries;
- short-term, performance-based bonuses that provide the opportunity to earn above-market cash compensation for strong performance against important financial and business goals;
- long-term compensation that is linked to our future performance and our common stock; and
- defined severance benefits in the event of a qualifying termination, as well as forward vesting of a portion of outstanding equity awards and payment of pro-rata bonus upon retirement.

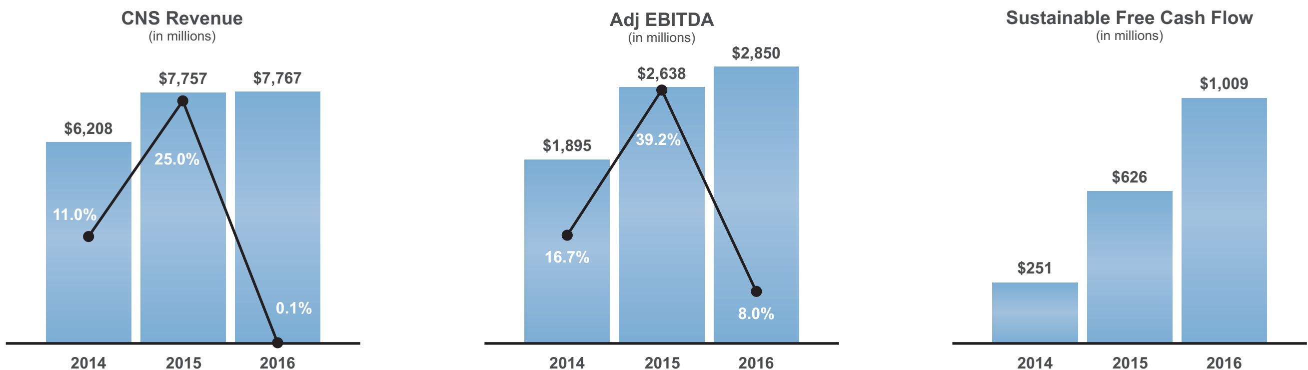
We believe that each of these compensation elements plays a meaningful role in a broad-based compensation program and work together to incent sustainable performance to create long-term value for our stockholders, while also supporting our recruiting and retention needs.

To stay aligned with the interests of our stockholders, management meets regularly with stockholders and collects information regarding their thoughts and concerns, including those relating to our compensation programs. The Committee reviews this feedback and considers it when making changes to our executive compensation programs. The Committee also uses a Peer Group analysis when evaluating total compensation, as discussed in the Peer Group section below.

Executive Compensation Aligned with Company Performance

In 2016, with our focus on profitable growth, we expanded margins and grew Adjusted EBITDA and Free Cash Flow. The compensation provided to our NEOs for 2016 reflects the performance achievements for the year.

Financial Performance. For the year ended December 31, 2016, the key financial measures we used to evaluate our performance were Core Network Services Revenue growth, Adjusted EBITDA and Sustainable Free Cash Flow (Sustainable Free Cash Flow is calculated as net cash provided by operating activities, less capital expenditures). Core Network Services revenue increased 0.1% in 2016 compared to 2015. Our full-year 2016 Adjusted EBITDA increased 8.0% over full-year 2015. Our full-year 2016 Sustainable Free Cash Flow was $1,009 million, an increase of $383 million over full-year 2015. Below are charts that show our growth in these three financial measures, over the last three years. Because tw telecom was acquired on October 31, 2014, our 2014 results included two months of tw telecom results and 2015 reflects the results of the combined companies for the entire year.



Stock Price Appreciation. In 2016, our year-end stock price increased from $54.36 as of December 31, 2015, to $56.36, an increase of 3.7% year-over-year. This followed the increases in 2015, 2014 and 2013 of 10.1%, 48.9%, and 43.5%, respectively.

Capital Markets Activities. In 2016, we refinanced $775 million in debt, resulting in annual cash interest savings of over $13.5 million. We also worked to improve Level 3's credit ratings, reaching two milestones in 2016: achieved "investment grade" rating from S&P of "BBB-" on the term loans, and reached Ba3/BB corporate credit ratings, the highest ratings in Level 3's history. We also decreased our weighted average cost of debt, excluding capitalized leases, to 4.7% from 4.8%. In addition, the weighted average maturity on Level 3's outstanding debt remained above 5 years.

Reconciliations to the closest GAAP measure and/or an explanation of how we calculate these measures are contained in Annex 1 to this proxy statement.

When determining the bonus payouts for the NEOs, the Committee considered our financial performance and customer experience. In connection with our financial performance, the Committee placed an emphasis on the "exit run rate" of the business, meaning the monthly recurring revenue we billed in December 2016.

Compensation Best Practices

Our executive compensation program incorporates and is administered according to what we believe are the following best practices.

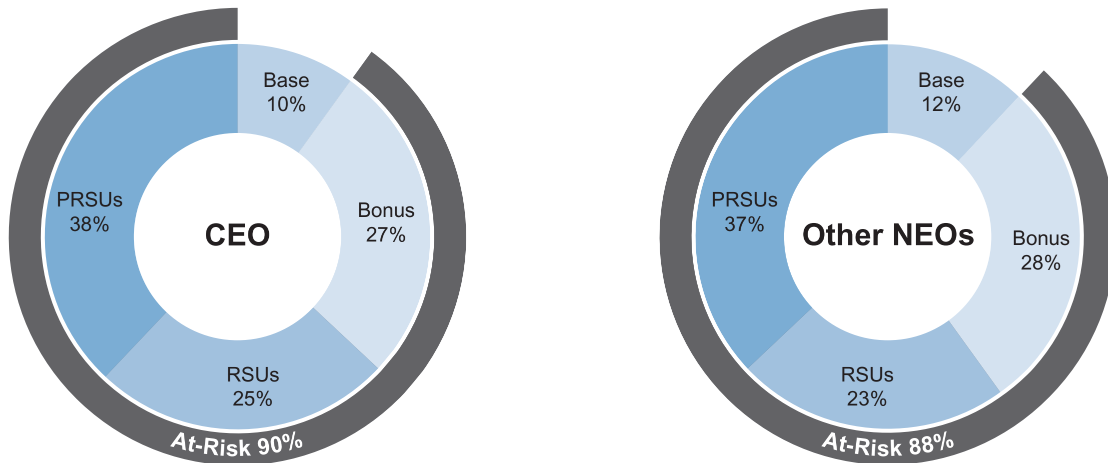
What We Do

- ✔ Perform annual "say-on-pay" advisory vote with stockholders
- ✔ Align more than 50% of executive compensation with Company performance
- ✔ Maintain a significant portion of executive compensation at-risk
- ✔ Include double trigger vesting provision in the event of a change in control for all equity awards granted after April 1, 2014
- ✔ Have significant stock ownership guidelines for our NEOs ranging from 3x to 8x base salary
- ✔ Have a clawback policy for misconduct resulting in a significant restatement of our financial results
- ✔ Utilize an independent compensation consultant for advice and competitive data

What We Don't Do

- ✗ No employment contracts
- ✗ No guaranteed annual salary increases
- ✗ No guaranteed bonuses
- ✗ No excessive perquisites
- ✗ No tax gross-ups for a change in control in our executive severance or equity plans
- ✗ No pledging shares of Level 3 common stock, trading options on Level 3 common stock and holding shares of Level 3 common stock in a margin account
- ✗ No repricing of stock options without stockholder approval

Pay Mix. The charts below show the percentage of pay that is at-risk compensation. We consider compensation to be "at-risk" if the award or vesting is subject to achievement of performance goals and/or the value received is dependent on our stock price.



Response to the Advisory Say-on-Pay Vote

Every year, our stockholders have the opportunity to cast an advisory vote on executive compensation, which is commonly referred to as a "say-on-pay" vote. At our 2016 Annual Meeting of Stockholders, approximately 98% of the votes cast on the say-on-pay proposal relating to 2015 compensation were voted in favor of the proposal. We also received a 98% approval rate on the say-on-pay vote at the 2015 and 2014 Annual Meeting of Stockholders.

To foster stockholder engagement on compensation related questions, when members of senior management meet one-on-one with stockholders, the discussion often includes a dialogue around the stockholder's views of our executive compensation programs and the stockholder's assessment of how closely the programs tie to performance.

In view of the strong stockholder support of our executive compensation at the 2014 through 2016 annual meetings, the Committee maintained the principal features and performance-based elements of the executive compensation program in 2016. To continually align our executive compensation program with stockholder interests, in 2016 we increased the percentage of performance based restricted stock units (which we call PRSUs) granted to our NEOs and other senior executives from 55% in 2015 to 60% of their total LTI value, with the remaining 40% granted in time-vested RSUs (time vesting occurs annually over a 4-year period). Refer to the section on Stock Based Awards, below, for details on our LTI program.

For the Annual Meeting, our stockholders will again have the opportunity to approve our executive compensation program through the advisory say-on-pay vote. We encourage our stockholders to review this Compensation Discussion and Analysis prior to casting their advisory votes on this year's proposal.

Executive Compensation Program Philosophy

Our success depends in large part on our ability to attract, retain and motivate qualified executives who possess the skills necessary to grow our business. The following core principles provide a framework for our executive compensation program:

- Our executives are rewarded fairly and competitively based on the results they achieve.
- We pay above market total compensation for results that exceed expectations.
- Our short and long-term incentives set expectations, measure results, reward achievement and hold executives accountable for expected results.
- We reward executives who achieve results while adhering to our corporate values.
- Our bonus program is linked to Company performance and the achievement of annual goals.

- Our LTI program is linked to Company performance and the creation of long-term stockholder value.
- We believe that stock ownership demonstrates an economic stake in our business that helps align executives' interests with those of our stockholders.
- Our executive compensation program is heavily based on creating long-term value.
- Our incentives should motivate executives to achieve superior results without encouraging excessive risk-taking.

	Base Salary	Annual Bonus	RSU	PRSU
Objective	Attract & retain talent	Drive achievement of annual business objectives and reward individual contributions	Attract and retain talent and align executive interests with stockholder interests	Align executive interests with stockholders and drive achievement of long-term business objectives
How Determined	Competitive market and individual performance	Competitive market tied to achievement of annual financial goals, customer experience and talent retention objectives	Competitive market for award level	Competitive market for award level. Achievement of two year performance metric
Time Horizon	On-going	Annual	4 year pro-rata vest	2 year performance measure, fully vested 3 years after the start of the performance period

How We Determine Executive Compensation

Role of the Compensation Committee

Compensation decisions for our NEOs generally take place on an annual basis in February. The Committee determines the following with respect to our NEOs, other than our CEO. The Committee makes a recommendation to the independent members of the full Board for their approval of the following with respect to our CEO:

- the bonuses for the prior year, if any;
- the base salaries for the current year;
- the LTI award levels for the current year; and
- the goals and objectives for the bonus and performance-based LTI programs for the current year.

In making its determinations on compensation for an NEO, the Committee considers, among other factors:

- the executive's experience, skills, job position and responsibilities;
- individual contribution to our success, including performance against goals;
- expected future performance;
- retention concerns;
- internal pay equity;
- competitive market data, including surveys and Peer Group data; and
- our CEO's recommendations (other than with respect to himself).

The determination of any bonus payout is at the full discretion of the Committee with respect to our NEOs, other than our CEO. The Committee makes a recommendation to the independent members of the full Board for their approval with respect to our CEO. In exercising this discretion, decisions are based on the

Committee's and Board's assessment of the individual performance of our NEOs (including consideration of achievement of individual performance goals) and each NEO's contribution to our meeting our overall corporate goals. Our Committee also considers our CEO's recommendations with respect to the other NEOs. Individual performance targets or performance measures are not set for our NEOs.

We do not set individual performance targets or performance measures for our NEOs to receive LTI awards. The determination of these awards is made by the Committee in their discretion, which is informed by, among other things:

- equity dilution metrics;
- the competitive market, including surveys and Peer Group data (see discussion in Peer Group section below); and
- our CEO's recommendations (other than with respect to himself).

The Committee uses Peer Group data as a guideline to inform its action, but does not benchmark compensation to any specific level of compensation of the members of our Peer Group.

The Committee can exercise its discretion to implement, reject or modify any recommendations provided by any member of management, including our CEO.

Role of Independent Consultant

The Committee retained Deloitte Consulting as its compensation consultant. Deloitte provided data and advice for the compensation determinations made by the Committee in February 2016 and February 2017.

The Committee uses a "Peer Group" as an additional source of information in reviewing compensation decisions and overall compensation program design for our senior executives, including the NEOs. Deloitte assisted the Committee by researching publicly traded companies in the same or similar industries, of similar size relative to revenue, market capitalization, enterprise value, EBITDA, and employee headcount. Deloitte recommended adding and deleting companies to the Peer Group based on changes in Level 3 and the current Peer Group companies as well as changes to companies considered within the industry. The Committee reviews the companies in the executive compensation peer group annually.

Deloitte provided the Committee with competitive information on compensation levels, programs and practices of our Peer Group. Deloitte Consulting and Deloitte Financial Advisory Services provide other non-compensation consulting services to Level 3. The consulting teams at Deloitte that provided these services did not consult with the team that provides services to the Committee.

For 2016, we paid Deloitte approximately $177,000 for services provided to the Committee and approximately $703,000 for the other consulting services. For these other consulting services, the decision to engage Deloitte was not made by the management team that supports the Committee. Level 3 management did not retain any other compensation consultants to address the 2016 compensation of our NEOs. During 2016, the Committee conducted an evaluation of Deloitte's independence after considering the relevant regulations of the Securities and Exchange Commission and the listing standards of the New York Stock Exchange. The Committee concluded that Deloitte was independent of management and that the other services performed by Deloitte raised no conflict of interests with respect to the advice provided to the Committee.

Role of Management

Our CEO provides recommendations for each NEO's base salary, bonus and LTI awards. He does not provide an assessment of the individual's performance using quantifiable individualized performance measures. He develops his recommendations based on his subjective view of:

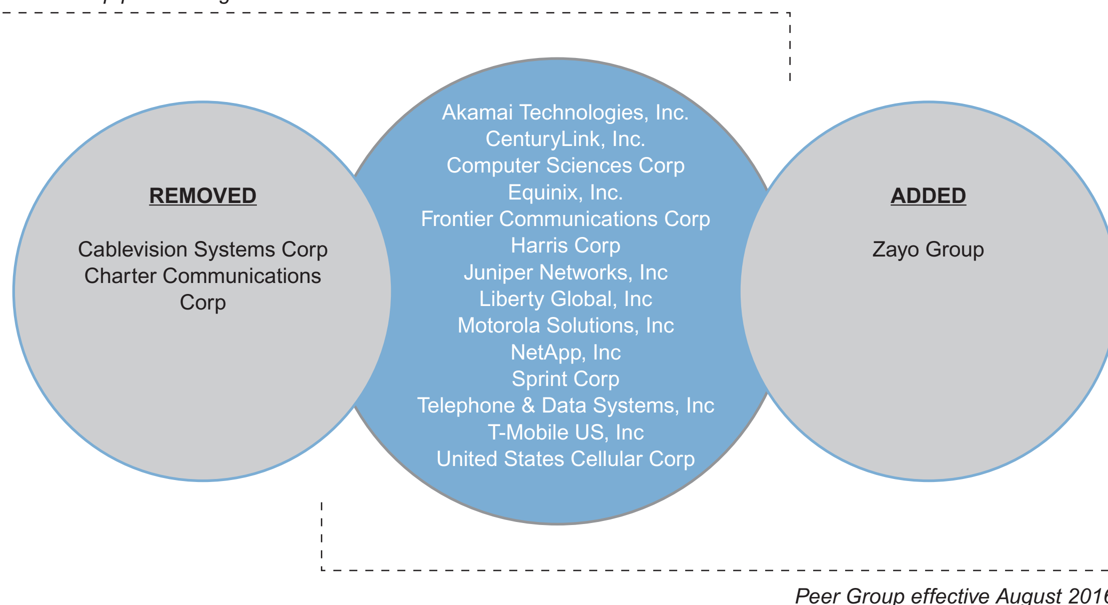
- our performance with respect to established goals;
- the individual's contribution to our performance, informed by the individual's performance relative to his or her individual objectives; and
- competitive market data, including surveys and Peer Group data.

Deloitte provided our CEO with the same information and analysis that it provided to the Committee, which in part informed his recommendations. With respect to 2016 compensation determinations, Mr. Storey was also provided with analyses by our Chief Legal Officer and our Senior Vice President responsible for compensation and benefits in our Human Resources Department.

Peer Group

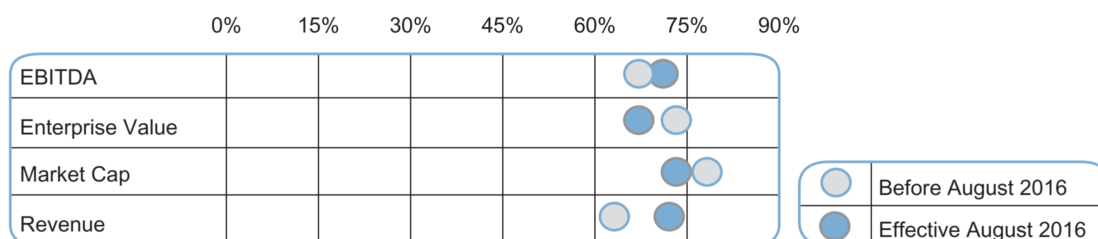
The Committee determines the Peer Group companies with assistance from the independent compensation consultant. The Committee first considers companies that are in our industry and lines of business, are competitors for our executive talent, and/or are considered as peers by proxy advisors. We then eliminate companies based on characteristics, such as revenue, market cap, number of employees and geography, which are not comparable with us.

In August 2016, the Committee, with assistance from Deloitte Consulting, added one new company to and removed two companies from the Peer Group.



The decision to remove Cablevision Systems Corp was made because it had recently been acquired by Netherlands-based Altice NV. Charter Communications Corp was removed because it had recently acquired Time Warner Cable with expected financials significantly larger than ours. Zayo Group was added because it is a direct competitor for both customers and employees.

To assess how closely we align to the Peer Group companies, the Committee compares several metrics and determines our relative position to the members of the Peer Group. For the Peer Group companies, we used available data for the most recent fiscal year. The percentile rankings shown below show the percentage of Peer Group companies that are the same or lower than us with respect to the particular metric. Level 3 is at the 67th percentile, on average, across the four metrics. In the future, the Committee may decide to make changes to the Peer Company so that Level 3 is closer to the 50th percentile rankings. For now, the Committee considers the percentile ranking when making executive compensation decisions.



While the Committee relies on the Peer Group analysis for market data comparisons, it does not consider the Peer Group analysis as a substitute for its collective business judgment.

Components of 2016 Executive Compensation

The principal components of our executive compensation program, along with the decisions made for each component relative to 2016 compensation, are shown below. We have also provided the metrics used for our performance-based compensation (bonus and PRSUs). Given the NEOs' roles in leading Level 3 during 2016, the Committee considers the total compensation provided to the NEOs as set forth below for 2016 to be appropriate given our financial, operational and strategic achievements. The Committee has also concluded that the total compensation paid to the NEOs for 2016 is consistent with our compensation philosophy of paying for performance and rewarding the creation of stockholder value.

Base Salary

Base salary levels for our NEOs are typically reviewed annually as part of our performance review process, as well as upon a promotion or other change in job responsibility.

Determination of 2016 Salaries: In February 2016, the Committee reviewed the base salaries for our NEOs with recommendations from Mr. Storey. In March 2016, Ms. Pang received a 13.9% salary increase to $550,000 as a result of her promotion to Regional President, North America and Asia based on market data and individual performance. Base salaries for the other NEOs were not increased during 2016.

Bonus

Our Corporate Discretionary Bonus Program is designed to reward our executives for performance against short-term financial and business goals. Our Committee does not establish performance targets that, if met in full or in part, automatically results in the payment of a bonus to any NEO. Instead, the Committee considers the performance against preset goals as one factor that influences the Committee's decision to pay a bonus. These goals are not intended as specific targets.

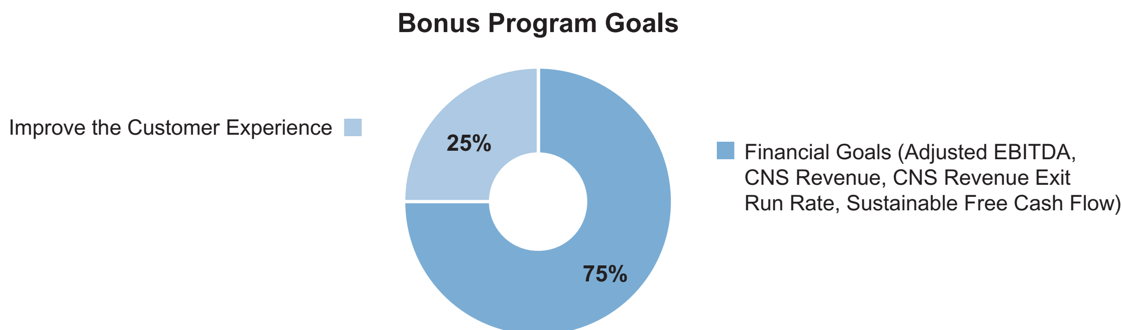
In February 2016, our Committee determined the 2016 financial and business goals for the Corporate Discretionary Bonus Program, of which all NEOs are participants. These bonuses for 2016 did not have a preset minimum or maximum payout.

In August of each year, the Committee reviews the goals for the Corporate Discretionary Bonus Program to confirm that they remain appropriate. The Committee reserves the right to make adjustments during the year to the goals or the relative weighting assigned to the goals. No changes were made during 2016 to the goals or weightings or to their relative weightings.

The Committee assesses these goals and objectives after the completion of the year and determines the percentage at which to fund the bonus pool for our full employee base. When performance is above the targeted level, the Committee may elect to pay a bonus above the range of targeted payouts. Performance goals are assigned a weighting, which is not absolute in its application, but serves as a guideline to inform the Committee's determination of the bonus payment level.

Determination of 2016 Bonuses:

The 2016 Corporate Discretionary Bonus Program goals were:



- Meet overall 2016 financial goals, with overweighting on achievement of budgeted revenue growth and Adjusted EBITDA.
  - Performance measured against the 2016 Board approved budget targets. The Committee assigned a 75% weighting for this goal.
  - All financial goals are calculated on a constant currency basis.
- Continued focus on improving the customer experience; maintain or improve 2015 scores.
  - Performance measured by customer satisfaction surveys. The Committee assigned a 25% weighting for this goal.

The Committee also takes into account additional factors such as mergers, acquisitions, divestitures, capital markets activities, prevailing market and economic conditions and the subjective assessment of individual performance. These factors have no predetermined weighting in the assessment.

In February 2017, when determining the 2016 bonuses for the NEOs, the Committee considered our performance against the objectives described above as well as each NEO's individual contributions in 2016. Our performance against objectives is covered in the following items.

2016 Financial Goals. The following table summarizes our Board-approved budget targets, which may differ from our publicly issued outlook, as well as our actual results for 2016, as adjusted for merger related costs, and foreign currency fluctuations that were not anticipated when the budget was initially set.

Metric ($ in Millions)	2016 Budget	2016 Actual Results	% to Budget
Core Network Services Revenue	$7,951	$7,802	98%
Adjusted EBITDA	$2,815	$2,832	101%
Core Network Services Run Rate	$ 679	$ 661	97%
Sustainable Free Cash Flow	$ 950	$1,024	108%

Reconciliations to the closest GAAP measure and/or an explanation of how we calculate these measures are contained in Annex 1 to this proxy statement.

Customer experience. During the course of the year, our performance against this goal was measured by various customer satisfaction surveys. Our surveys use an eleven point scale, with a score of ten (the "top box") representing very satisfied and a score of zero (the "bottom box") representing very dissatisfied. Customer satisfaction scores decreased globally in 2016 versus 2015 results.

Other Factors. The Committee also considered the capital markets activities completed during 2016, as discussed in more detail on in the Financial Performance section, above.

For the year ended December 31, 2016, the Committee and the full Board of Directors were pleased with Mr. Storey's leadership of Level 3 given:

- our financial results which, while not meeting our expectations with respect to CNS revenue growth, nevertheless produced strong growth in sustainable free cash flow and EBITDA, resulting in us generating more than $1 billion in free cash flow in 2016;
- success in our capital markets transactions, including execution of transactions to significantly lower our annual cash interest costs, extending maturities on our debt, and improving our credit ratings to their highest levels in our history; and
- the successful negotiation and execution of the merger agreement with CenturyLink in October 2016, where consideration to be paid by CenturyLink represented a significant premium to our then-current stock price.

The Committee's assessment of our performance against the objectives described above, with an emphasis on the financial results, informed the Committee's determination of the level at which to fund the bonus pool for the broad employee base.

Based on the performance described above and each NEO's individual contribution to this performance, the Committee approved the payment of cash bonuses as indicated in the table below. The Board approved the payment of Mr. Storey's bonus, based on a recommendation from the Committee:

Name	Bonus
Jeff K. Storey	$3,150,000
Sunit S. Patel	$1,132,950
Andrew E. Crouch	$1,488,040
Laurinda Y. Pang	$ 680,291
John M. Ryan	$ 755,945

Mr. Crouch's bonus opportunity includes a supplement that was offered to him as an incentive to assume his role as Regional President of our EMEA region and our Global Accounts Management division.

Stock Based Awards

A critical component of our executive compensation philosophy is providing appropriate incentives to executives through our LTI program. For 2016, our LTI program included two types of equity awards. The first is performance-based restricted stock units—or PRSUs—that are earned only if a specified performance metric is achieved. If the required level of performance is achieved, the PRSUs fully vest over a period of three years after the start of the performance period, subject to the participant's continued employment. The second type of equity award is restricted stock units—or RSUs—that generally vest over a period of 4 years, subject to the participant's continued employment and the terms of the specific grant. We believe these awards serve several purposes, including:

- encouraging key employees to focus on sustainable long-term performance,

- strengthening the relationship between compensation and stock price performance,
- aligning management's financial interests with those of our stockholders, and
- helping attract and retain talented people.

Individual LTI awards are made after the Committee has determined the total number of awards or "pool" that will be available for the annual grants. The Committee considers several factors to inform its determination of the total number of awards in the pool. These factors include the Shareholder Value Transfer methodology, the "run rate" (as defined below) and additional factors that the Committee determines are appropriate.

The Shareholder Value Transfer, or SVT, methodology informs the determination of the number of shares for the pool available for LTI awards for the year.

This approach limits the number of shares available for grant each year and can vary in value depending upon our common stock price on the date of grant. The SVT methodology analyzes, as of the date of its calculation, the aggregate fair value of the current year's LTI awards as a percent of our total market capitalization, and is calculated on a gross basis without taking into account cancellations and forfeitures of awards.

"Run rate" refers to a measure of the annual dilution to stockholders from our grant of common stock-based awards, and is defined as a fraction, the numerator of which is the shares issued pursuant to a plan and the denominator of which is the total shares outstanding.

RSUs. An RSU represents our agreement to issue to the employee shares of our common stock (or, in the Committee's discretion, cash) on the date of vesting, so long as the employee is employed on that date. RSUs are generally granted on July 1 of each year. RSU grants for new hires, retention and promotions are made on the first day of the quarter following the event. The restrictions on RSUs generally lapse in equal annual installments over four years, subject to the terms of the specific grant. On the vesting date, the employee is issued the number of shares of common stock equal to the number of RSUs vested. Shares may be sold to cover tax withholding requirements with net shares deposited in employee brokerage accounts.

PRSUs. A PRSU represents our agreement to issue to the employee shares of our common stock (or, in the Committee's discretion, cash) on the date that the PRSUs vest, so long as specific performance objectives are achieved. PRSUs are generally granted on April 1 of each year. The PRSUs issued in 2016 measure the performance period of January 1, 2016 through December 31, 2017, with the performance objective based on Adjusted EBITDA growth.

The Committee established threshold, target and maximum performance levels for Adjusted EBITDA growth. The 2017 full year Adjusted EBITDA determines the number of 2016 PRSUs earned, as shown below.

- If the threshold level of Adjusted EBITDA is not met, none of the 2016 PRSUs are earned.
- If the threshold level of Adjusted EBITDA is achieved, 50% of the 2016 PRSUs are earned.
- If target Adjusted EBITDA is achieved, 100% of the PRSUs are earned.
- If maximum Adjusted EBITDA is achieved, 200% of the 2016 PRSUs are earned.
- For performance between threshold and target and between target and maximum, the number of 2016 PRSUs earned is interpolated.

The Committee, however, has discretion to adjust the metric if events occur after the award date that are unrelated to our performance and result in a distortion of the metric. Events that could give rise to an adjustment include but are not limited to:

- restructurings, acquisitions, discontinued operations, extraordinary items or events, and other unusual or non-recurring charges;
- an event either not directly related to our operations or not within the reasonable control of management; and
- a change in tax law or accounting standards required by generally accepted accounting principles.

If any of the 2016 PRSUs are earned, 50% will vest on April 1, 2018, with the remaining 50% vesting on February 1, 2019, subject in each case to continuous employment by the recipient.

Retirement. Upon retirement, a portion of all outstanding RSUs and PRSUs become vested. Specifically, all RSUs that were granted prior to April 1, 2014 will vest, and any RSUs granted on or after April 1, 2014 that would normally vest over the two year period after retirement will also vest. In addition, the retiring employee is entitled to retain a number of PRSUs prorated based on the percentage of time worked during the applicable performance period. Our retirement eligibility criteria apply equally to all employees, and are based on a combination of age and years of service.

Change of Control. A “double trigger” is applied to all LTI awards made beginning April 1, 2014, including all PRSUs. Pursuant to the terms of the applicable award agreements, all equity awards granted before April 1, 2014, vest upon a change in control of Level 3 regardless of whether a termination occurs. All equity awards granted on April 1, 2014 or after vest upon a change in control and a termination or material change in employment terms. However, for the LTI awards granted to each executive officer in 2017, upon a qualifying termination of the Level 3 chief executive officer or members of his executive team, only 50% of the recipient’s then unvested Level 3 RSU award will vest.

The definition of what constitutes a “change of control” is set forth in our Level 3 Communications, Inc. Stock Incentive Plan.

We also have a requirement that, with respect to any amount payable pursuant to an outstanding award that constitutes a deferral of compensation subject to Section 409A of the Code, the change of control must also qualify as a “change in control event” as defined in Treasury Regulation 1.409A- 3(i)(5)(i), so that our RSUs will be compliant with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended. In the event that there is a change in control as defined by the Stock Incentive Plan that does not qualify as a change in control event under Section 409A, if the employee undergoes a separation from service on account of his or her termination of employment by us without cause following that change in control, we will, in our sole discretion, either (a) issue all unissued shares of our common stock issuable pursuant to the RSU award to the employee or (b) pay the employee in a combination of cash and stock the value of those shares of our common stock as provided for in the Stock Incentive Plan.

Modifications. From time to time, management and our Committee evaluate all elements of our LTI programs to determine whether these programs are accomplishing our goals in the most cost-effective manner. The Committee also considers the feedback management has received from our stockholders regarding our LTI programs. The Committee may make changes to any or all of the elements of these programs to reflect the changing needs related to attracting, retaining and motivating our NEOs. These changes may be based, in part, on market conditions and the LTI program of competitors.

Determination of 2015 PRSU Payout: In January 2017, the Committee determined that the maximum level of performance against the performance objective for the 2015 PRSU awards had been achieved. A payout was approved at 200% of target for the annual awards and 100% of target for the special incentive awards based on Adjusted EBITDA growth of 32%. The maximum payout for the special incentive award was 100% of target if target performance or greater was met. Performance below target would have resulted in 0% of

the PSRU vesting. The performance objective was two-year Adjusted EBITDA growth, for 2016 over 2014. The 2015 PRSU performance metrics were:

Threshold	13.4% Adjusted EBTIDA Growth	50% payout
Target	24.4% Adjusted EBITDA Growth	100% payout
Maximum	28.6% Adjusted EBITDA Growth	200% payout

Venezuela results were removed from the baseline Adjusted EBITDA for 2014 due to the deconsolidation of the business on October 1, 2015. The 2016 Adjusted EBITDA was adjusted to add back the CenturyLink/ Level 3 merger related costs incurred in the fourth quarter of 2016 and to neutralize the impact of the change in FX rates from 2014 to 2016. The 2015 PRSU award vest 50% on April 1, 2017 and 50% on February 1, 2018. Payouts for the NEOs are as follows:

Name	2015 PRSU Target Award	2015 PRSU Actual Award	2015 PRSU Special Incentive
Jeff K. Storey	75,900	151,800	—
Sunit S. Patel	33,970	67,940	46,328
Andrew E. Crouch	20,000	40,000	—
Laurinda Y. Pang	13,750	27,500	18,750
John M. Ryan	11,770	23,540	16,050

Determination of 2016 Long Term Incentive Awards: In February 2016, the Committee approved an SVT percent of 0.8% of our market capitalization for the 2016 annual LTI program award pool. For the Peer Group (see discussion in How We Determine Executive Compensation section, above), the 50th percentile SVT percent was 0.62% and the 75th percentile was 1.26%. The approved SVT percent resulted in a run rate of approximately 0.8% for LTI awards. For 2015, the stock awards attributable to the LTI program resulted in an SVT percent of 0.82%, which was less than the 1.0% authorized by the Committee.

Mr. Storey provided the Committee his recommendation for each NEO's LTI award level. He based his recommendations on his subjective assessment of the relative value of each of their roles and his review of competitive information from surveys and our Peer Group. Mr. Storey did not make recommendations by way of an assessment of the individual's performance using set individualized targets or performance measures. The Committee established the level of LTI awards for these individuals after taking into account this recommendation along with its own assessment of competitive information. The Committee made a recommendation to the full Board for Mr. Storey's 2016 LTI award level based on competitive information from surveys and our Peer Group, and its assessment of Mr. Storey's and our performance.

The approved LTI awards for the NEOs are shown below. All PRSU awards were granted on April 1, 2016 and are shown at target. All RSU awards were granted on July 1, 2016.

Name	RSUs	PRSUs
Jeff K. Storey	55,064	82,596
Sunit S. Patel	24,647	36,971
Andrew E. Crouch	20,000	20,000
Laurinda Y. Pang	16,427	24,641
John M. Ryan	8,539	12,808

Benefits

Our employees, including the NEOs, participate in a variety of health and welfare and paid-time-off benefits that enable us to attract and retain our employees in a competitive marketplace and help ensure that we have a productive and focused workforce.

Our Human Resources, Finance and Legal Departments handle the day-to-day design and administration of our benefits programs for our employees, including our NEOs. The Committee (and in certain cases the entire Board) remains responsible for certain fundamental changes to these plans and policies outside of the day-to-day administrative requirements.

Perquisites

We limit the perquisites that we make available to our NEOs. Other than the items described below, our NEOs are entitled to no benefits that are not otherwise available to all of our employees. We do not provide club memberships, financial consulting, pension arrangements, post-retirement health coverage or similar benefits for our NEOs.

We do provide our NEOs the opportunity for personal use of our corporate aircraft. We provide this perquisite because we believe that it generally affords us increased security and allows our executives to work more efficiently and productively when traveling for personal reasons. For NEOs other than Mr. Storey, any personal use of our corporate aircraft is pursuant to an Aircraft Time Sharing Agreement, under which the NEO must reimburse us for our incremental cost of providing his or her personal use of the corporate aircraft. For Mr. Storey, we impute as income the cost of his personal use of our aircraft. To calculate the amount of imputed income, we use the Internal Revenue Service's Standard Industry Fare Level, or SIFL, rates. For all NEOs, when a guest accompanies the executive on business travel and when required by applicable Internal Revenue Service regulations, we impute as income to that executive the cost of that additional traveler.

We also provide up to $2,500 for an Executive Physical for our NEOs who are located in the United States. We provide this perquisite because we believe it is in our best interest for our NEOs to remain healthy.

Utilization of Perquisites in 2016: For 2016, Mr. Storey had $30,323 of imputed income for the personal use of the corporate aircraft. This amount differs from the amount disclosed in the Summary Compensation Table below, which we have calculated as approximately $138,259. The amount included in the Summary Compensation Table represents our incremental cost to provide the benefit when it is used solely for personal reasons and not when a guest accompanies the executive on business travel.

Upon Mr. Crouch's appointment as Regional President—EMEA and Global Account Management, he was required to relocate from Level 3's headquarters in Colorado to the Level 3 office in London. To facilitate the move for Mr. Crouch and his family and allow him to maintain a similar standard of living in his new location, we provided compensation to Mr. Crouch designed to cover his expenses associated with moving and relocation, housing, dependent education, mortgage interest and temporary living expenses.

Recent Developments

As of October 31, 2016, the board of directors of CenturyLink, Inc. and the board of directors of Level 3 Communications, Inc. agreed to an acquisition of Level 3 by CenturyLink.

Retention Program: In order to promote retention and incentivize employees to consummate the combination, Level 3 retained the right to establish two retention programs under which Level 3's chief executive officer or the Committee may make cash awards to employees, including Level 3's executive officers. Pursuant to the first program (the "First Retention Program"), Level 3 has the right to grant retention awards of up to $10 million in the aggregate that will generally vest and settle as to 50% as of the earlier to occur of (x) the closing date of the combination and (y) the merger agreement termination date, and will vest and settle as to the remaining 50% on the 90th day following the first payment date. In addition, Level 3 has retained the right to establish a second retention program (the "Second Retention Program") to promote retention through and following the closing date of the combination, pursuant to which awards will be subject to an individual cap of one times the participant's base salary. Awards granted pursuant to the Second Retention Program will generally vest and settle as follows: (a) 34% as of the earlier to occur of (x) the closing date of the combination and (y) the merger agreement termination date, (b) 33% on the 180th day following the first payment date, and (c) 33% on the first anniversary of the first payment date. Notwithstanding the foregoing, all amounts payable pursuant to each of

the retention programs will accelerate and be settled in the event that a participant in either retention program experiences (a) a termination by Level 3 or CenturyLink, as applicable, without cause, (b) solely for participants in the KESP (see below), a resignation for good reason or (c) solely with respect to continuing employees with a title of Vice President and above (who do not participate in the KESP), a resignation due to a forced relocation of more than 50 miles. As of the date of this filing, no retention awards have yet been made with respect to the First Retention Program. Awards under the Second Retention Program have been made to employees designated by Level 3's management and the compensation committee, including to Level 3's executive officers.

The approved retention awards as of the date of this filing for the NEOs are shown below. Awards (other than to Mr. Storey) were made in January; Mr. Storey's award was authorized by the Board in February 2017 and was granted on March 1, 2017.

Name	Retention Amount
Jeff K. Storey	$1,200,000
Sunit S. Patel	$ 650,000
Andrew E. Crouch	$ 588,000
Laurinda Y. Pang	$ 550,000
John M. Ryan	$ 463,500

Additional information regarding the payments and benefits that the NEOs are eligible to receive in connection with the CenturyLink transactions are explained in more detail in the joint proxy statement/ prospectus of Level 3 and CenturyLink filed with the SEC on February 13, 2017 and the Level 3 Form 8-K filed with the SEC on March 1, 2017.

Annual Restricted Stock Unit Awards: In recent years, Level 3 has typically granted equity awards to executive officers and certain other employees on an annual basis in April and July of each year, in the form of performance-based PRSU and time-based RSU awards. With respect to the annual equity awards that would have been granted in the ordinary course consistent with past practice in April and July of 2017, these awards were granted on March 1, 2017. The equity awards granted to each executive officer in 2017 were solely in the form of time-based vesting Level 3 RSU awards and will be subject to a three year vesting schedule, provided, that, if a recipient experiences a qualifying termination following the consummation of the combination of Level 3 and CenturyLink, all of the then unvested Level 3 RSU awards held by such recipient will vest, except that upon a qualifying termination of the Level 3 chief executive officer or members of his executive team, only 50% of the recipient's then unvested Level 3 RSU award will vest. In addition, in recent years, Level 3 has typically granted equity awards to non-employee directors of the Level 3 Board on an annual basis in July of each year in the form of time-based vesting Level 3 RSU awards. Equity awards of the Level 3 Board will be granted to each non-employee director in 2017 in the ordinary course of business consistent with past practice and will be solely in the form of time-based vesting Level 3 RSU awards that will be subject to a one-year vesting schedule, provided that the Level 3 RSU awards granted to non-employee directors will immediately vest upon the consummation of the merger with CenturyLink.

The approved 2017 RSU awards for the NEOs are shown below. All were granted on March 1, 2017 with a three year vesting schedule. The number of shares were determined using the volume weighted average share price for the 30 days preceding the grant date of $58.238.

Name	RSU Value	RSU Shares
Jeff K. Storey	$6,704,040	115,115
Sunit S. Patel	$3,000,787	51,526
Andrew E. Crouch	$2,329,520	40,000
Laurinda Y. Pang	$2,000,000	34,342
John M. Ryan	$1,039,612	17,851

Post-Employment Compensation

Pension Benefits. We do not provide pension arrangements for our NEOs. Our NEOs are eligible to participate in our 401(k) plan. We provide a matching contribution to all participants in the 401(k) plan, including our participating NEOs, through units in the Level 3 Stock Fund. For 2016, we matched up to 100% of participants' contributions up to 4% of eligible earnings, or regulatory limits if lower. All of the NEOs have more than three years of service with us, and as a result, each of them is fully vested in the units of the Level 3 Stock Fund in his or her 401(k) plan account.

Retirement Benefits. If an NEO retires in accordance with our retirement program, restrictions on outstanding LTI become vested as described in the Stock Based Awards section, above. In addition, under our Corporate Discretionary Bonus Program, NEOs who are U.S. residents and retire from Level 3 are eligible for a prorated bonus based on the number of days worked during the year. The bonus payment is calculated by multiplying the NEO's individual bonus target first by the Corporate bonus pool funding percentage determined by the Committee and second by an assumed 100% performance rating for the individual.

Mr. Storey became eligible for retirement on December 8, 2015 and Mr. Patel on December 11, 2016. None of our other NEOs is currently eligible for retirement.

Nonqualified Deferred Compensation. We do not provide any nonqualified defined contribution or other deferred compensation plans.

Other Post-Employment Payments. At December 31, 2016, all of our NEOs were employees-at-will and as such did not have employment contracts with us. However, each of our NEOs participates in the Key Executive Severance Plan, or KESP, which provides for payments in certain circumstances upon termination.

The Committee adopted the KESP to provide severance and welfare benefits to each participant who has a qualifying termination, which is an involuntary termination from employment by us without "cause" or a voluntary termination by the participant for "good reason," each as defined in the plan. Participants in the KESP include senior members of management designated by the Committee.

An NEO in the KESP will be entitled to the following severance benefits upon a qualifying termination:

- a prorated bonus for the year of termination based on his or her most recent target annual bonus;
- a lump sum cash payment equal to two times the sum of his base salary and most recent target annual bonus for Messrs. Storey and Patel and one times the sum of his or her base salary and most recent target annual bonus for Mr. Crouch, Mr. Ryan and Ms. Pang;
- a lump sum cash payment equal to our paid portion of continued medical and dental insurance coverage to cover twenty-four months for Messrs. Storey and Patel and twelve months for Mr. Crouch, Mr. Ryan and Ms. Pang;
- reimbursement of up to $10,000 for the cost of outplacement services; and
- vesting of a portion of his or her equity-based awards as described below (in the absence of a change of control transaction).
  - Any RSUs that would vest during the twelve month period after the date of termination will have accelerated vesting.
  - A pro-rated portion of PRSUs will vest based on the time the executive worked during the performance period. The actual number of shares to be issued will be determined based on the performance achieved.

If an NEO is retirement-eligible and entitled to benefits from the KESP due to a qualifying termination, the executive will receive the benefits described above plus an additional twelve months of RSUs vesting, so

that any RSUs that would vest during the twenty-four months after the date of termination will have accelerated vesting. Mr. Storey and Mr. Patel are the only NEOs who are currently retirement eligible and covered by the KESP.

Participation in the KESP is conditioned upon the execution of and compliance with a restrictive covenant agreement containing customary covenants of non-competition (effective only if payments are received under the KESP), non-solicitation and non-disparagement (all of which are effective upon signing). All severance benefits under the KESP after a qualifying termination are conditioned upon the NEO's execution of a general release of claims against us.

We view the KESP as reasonable and in line with competitive practice.

The estimated liabilities for various termination scenarios, including after a change of control, are outlined below under *"Potential Payments Upon Termination or Change of Control"*.

Governance Features

Assessment of Risk

In structuring our executive compensation programs, the Committee seeks to discourage executives from engaging in risky behavior, or seeking short-term results that are detrimental to long-term performance. Our executive compensation programs balance the use of short-term cash compensation (base salary and bonus) with long-term stock compensation that rewards the creation of long-term stockholder value.

Our short-term bonus program does not encourage unnecessary or excessive risk-taking, since the payment of a bonus to any individual, including the NEOs, is entirely at the discretion of our Committee. The bonus program's full discretion component allows the Committee to make adjustments, up or down, to the extent that it believes business decisions were made that could have a positive or negative effect on the short- or long- term business results.

Our LTI program does not motivate participants to take unnecessary or excessive risks, since we make the LTI awards on a regular fixed schedule. Also, the LTI vesting schedules serve as an incentive for our NEOs and other recipients of these awards to remain with us long-term and to focus their efforts on all elements of our performance that create long-term value.

- RSUs have a four-year vesting schedule.
- PRSUs have a three-year vesting schedule.

Having regular fixed award dates that are coupled with vesting requirements over multiple years provides a recurring schedule of potential award payouts that encourages participants to avoid taking actions to generate short-term gains that are detrimental to our long-term success. Our NEOs are also subject to significant stock ownership requirements which we believe also mitigates excessive risk-taking.

In addition, all employees, including our NEOs, are subject to our Worldwide Business Code of Conduct and our policies, including penalties for violations.

Taken as a whole, we have concluded that our compensation structure, elements and incentives for 2016 appropriately balance incentives for risk taking and preservation of long-term stockholder value and are therefore not reasonably likely to have a future material adverse effect on Level 3.

Stock Ownership Guidelines

The Committee has adopted guidelines for ownership of our common stock for our senior executives and the members of our Board. The Committee reviews these guidelines at least annually, and may update or modify them based on a variety of factors including the composition of our senior management team and stock market conditions.

The current stock ownership guidelines require our CEO and each senior executive reporting directly to our CEO to hold stock that has a value that is equal to or greater than a multiple of his or her base salary, as follows:

Title	Base Salary Multiple
President and Chief Executive Officer	8
Chief Financial Officer	4
Other Senior Executives Reporting to CEO	3

For our senior executives, stock held by the individual, his or her spouse and minor children, along with shares of our common stock held in the individual's 401(k) Plan account and in trusts for the benefit of these individuals, will be included for purposes of determining the individual's satisfaction of the ownership guidelines. All NEOs are in compliance with the guidelines.

We do not provide grants of restricted stock or restricted stock units to assist our senior executives to meet our stock ownership guidelines. In addition, the Committee does not require private or open market purchases of our common stock to meet the ownership guidelines. Rather, the Committee has concluded that until the executive is in compliance with these guidelines, the executive should hold at least 50% of the stock issued upon any vesting of RSUs or PRSUs, after shares are sold to cover taxes. The failure of an executive to make a good faith effort to meet the guidelines in a timely manner and to maintain compliance with the guidelines will be a significant factor in the Committee's and senior management's determinations of the individual's future bonus payments and LTI compensation awards.

No Employment Contracts

None of our NEOs has an employment contract. Employment is not guaranteed, and either we or the NEO may terminate the employment relationship at any time. The NEOs are participants in the Key Executive Severance Plan (described above) to obtain non-solicitation, non-disclosure and non-disparagement agreements and to provide separation payments upon a qualifying termination to obtain non-compete agreements and a release of claims.

Prohibition on Hedging and Pledging

We have an insider trading policy that prohibits our employees including executives from pledging their shares of Level 3 common stock, trading options on Level 3 common stock, short sales of our securities, holding their shares of Level 3 common stock in a margin account and from hedging transactions.

"Clawback" Provision

If our Board determines that an executive officer has engaged in fraudulent or intentional misconduct, the Board would take action to remedy the misconduct, prevent its recurrence, and impose such discipline on the wrongdoer as would be appropriate. Discipline would vary depending on the facts and circumstances, and may include, without limit, termination of employment and initiating an action for breach of fiduciary duty. If the misconduct resulted in a significant restatement of our financial results, discipline may also include seeking reimbursement of any compensation paid or awarded to the executive that is greater than what would have been paid or awarded if calculated based on the restated financial results. These remedies would be in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities. We intend to review and update our clawback policy in order to comply with the Dodd-Frank provisions regarding clawbacks once the applicable rules are finalized by the SEC and the stock exchange adopts the final rule.

Section 162(m) of the Internal Revenue Code

The Committee takes into consideration the tax deductibility limitation of Section 162(m) of the Internal Revenue Code of 1986 when making compensation decisions for our NEOs. Generally, Section 162(m) limits the amount of compensation that a public Company can deduct for federal income tax purposes to the

extent that the compensation is greater than $1.0 million and does not fall within that section's exemptions. Our bonus program would not qualify for the exemptions contained in Section 162(m). The Committee does not believe it is advisable to adopt a strict policy against paying nondeductible compensation, and may pay nondeductible compensation in appropriate circumstances. While the Committee takes into consideration the tax deductibility limitation of Section 162(m), at the present time, the Committee's determination with respect to the payment of compensation to our NEOs is not affected by this tax deductibility limitation. This is due in part to our significant net operating loss carryforwards for U.S. federal income tax purposes, but may be affected for those states where we do not have net operating loss carryforwards available in the particular state.

Summary Compensation Table

On February 24, 2016, Mr. Storey took a medical leave of absence and, during his absence, the Board appointed Mr. Patel as interim Chief Executive Officer and interim principal executive officer. Mr. Patel continued to serve as Level 3's Executive Vice President and Chief Financial Officer during that time. In addition, effective February 17, 2016, Ms. Pang was named Regional President, North America and Asia Pacific and after that date no longer served as our Executive Vice President and Chief Administrative Officer.

Name and Principal Position	Year	Salary	Bonus[2]	Stock Awards[3]	Option Awards[3]	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Jeff K. Storey	2016	$1,200,000	$3,150,000	$7,200,444	$—	$—	$ 171,784[4]	$11,722,228
President and Chief	2015	$1,246,154[1]	$2,379,300	$7,357,263	$—	$—	$ 216,806	$11,199,523
Executive Officer	2014	$ 978,846	$3,000,000	$6,644,000	$—	$—	$ 228,015	$10,850,861
Sunit S. Patel	2016	$ 650,000	$1,132,950	$3,222,991	$—	$—	$ 10,942 [4]	$ 5,016,883
Executive Vice	2015	$ 675,000[1]	$1,288,788	$5,787,470	$—	$—	$ 33,165	$ 7,784,423
President and Chief	2014	$ 601,346	$1,119,574	$3,322,000	$—	$—	$ 26,071	$ 5,068,991
Financial Officer								
Andrew E. Crouch	2016	$ 637,998	$1,488,040	$2,086,800	$—	$—	$1,842,244[4]	$ 6,055,082
Regional President,	2015	$ 682,163[1]	$1,605,640	$2,130,200	$—	$—	$1,785,270	$ 6,203,273
EMEA and GAM	2014	$ 483,262	$ 903,563	$1,661,000	$—	$—	$ 26,964	$ 3,074,789
Laurinda Y. Pang	2016	$ 539,692	$ 680,291	$2,148,103	$—	$—	$ 28,171[4]	$ 3,396,257
Regional President,	2015	$ 495,385[1]	$ 708,774	$2,342,338	$—	$—	$ 30,802	$ 3,577,299
North America and	2014	$ 436,462	$ 609,591	$1,410,413	$—	$—	$ 24,922	$ 2,481,388
Asia Pacific								
John M. Ryan	2016	$ 463,500	$ 755,945	$1,116,576	$—	$—	$ 28,082[4]	$ 2,364,103
Executive Vice	2015	$ 477,692[1]	$ 621,073	$2,005,041	$—	$—	$ 12,293	$ 3,116,009
President, Chief Legal	2014	$ 430,692	$ 515,288	$1,245,750	$—	$—	$ 10,400	$ 2,202,130
Officer and Secretary								

(1) Salary amounts for 2015 reflect the occurrence of an extra salary pay period during 2015.

(2) All amounts in this column represent amounts paid under our Corporate Discretionary Bonus Program.

(3) For all of the years shown in this table, we award restricted stock units ("RSUs") and performance restricted stock units ("PRSUs"). RSUs and PRSUs are all part of our long term incentive program. These awards vest over a number of years. When an award is made, the fair value of all shares granted, regardless of vesting schedules, is determined in accordance with FASB ASC Topic 718. For RSUs, fair value is calculated using the closing price of our common stock on the day before the grant. For PRSUs, the fair value is calculated assuming performance is ultimately achieved at the probable performance level (or, the target level). For 2016, the PRSU value, based on achievement of the highest level of performance conditions under the plan, are as follows (representing 200% of the target payouts): Mr. Storey $8,730,397; Mr. Patel $3,907,835; Mr. Crouch $2,114,000; Ms. Pang $2,604,554; and Mr. Ryan $1,353,806. For 2015, the PRSU value, based on achievement of the highest level of performance conditions under the plan, are as follows (representing 200% of the target payouts): Mr. Storey $8,172,912; Mr. Patel $3,657,890; Mr. Crouch $2,153,600; Ms. Pang $1,480,600; and Mr. Ryan $1,267,394. For 2015, Mr. Patel, Ms. Pang and Mr. Ryan received a special PRSU award, and the value of this special PRSU award, based on achievement of the highest level of performance conditions (representing 100% of the target payouts), are as follows: Mr. Patel $2,494,300; Ms. Pang $1,009,500; and Mr. Ryan $864,132. For 2014, the PRSUs value, based on achievement of the highest level of performance conditions (representing 200% of the target payouts), are as follows: Mr. Storey $6,262,400; Mr. Patel $3,131,200; Mr. Crouch $1,565,600; Ms. Pang $1,283,976; and Mr. Ryan $1,174,200.

These columns represent the full grant date fair value of the RSUs and PRSUs awarded to the NEO in accordance with FASB ASC Topic 718, without any reduction in the grant date fair value of the awards for the possibility of service based forfeiture. For

additional information relating to the assumptions made by us in valuing these awards for 2016, refer to note 12 of our financial statements in our Form 10-K for the year ended December 31, 2016, as filed with the SEC.

(4) This column includes $10,600 of company matching contributions to each NEO's 401(k) plan account for 2016. These contributions were made in the form of units of the Level 3 Stock Fund.

For Mr. Storey, amounts in this column also include $138,259 related to his personal use of our aircraft in 2016, pursuant to the arrangement described above under the caption "Compensation Discussion and Analysis—Components of Executive Compensation—Perquisites." The calculation of the amounts set forth in the table for personal use of our aircraft by Mr. Storey is based on our incremental cost relating to his use of the aircraft, which includes only the variable costs incurred as a result of personal flight activity, including fuel, oil, lubricants, other additives, travel expenses of the crew, including food, lodging and ground transportation, hanger and tie down costs away from the aircraft's base of operations, insurance obtained for the specific flight, landing fees, airport and excise taxes and similar assessments, customs, foreign permit and similar fees directly related to the flight, in flight food and beverages, passenger ground transportation, and flight planning and weather contract services. It excludes non variable costs, such as exterior paint, interior refurbishment and regularly scheduled inspections, which would have been incurred regardless of whether there were any personal use of aircraft.

Amounts in this column include gross ups for taxes incurred by the NEOs primarily as a result of their participation as executive hosts for the 2016 award trip given to our top performing sales executives of $19,201 for Mr. Storey, $20,888 for Mr. Crouch, $15,150 for Ms. Pang and $15,109 for Mr. Ryan. In addition, the NEOs also received recreational benefits during that trip in the amount of $3,178 for Mr. Storey, $2,728 for Mr. Crouch, $2,421 for Ms. Pang, and $2,373 for Mr. Ryan. Mr. Storey and Mr. Patel also received a gross up for Medicare taxes incurred for expenses related to personal use of our aircraft in the amount of $546 for Mr. Storey and $342 for Mr. Patel. Mr. Crouch also received $105 for an employee recognition award and $7.88 for a gross up for taxes associated with that award.

For Mr. Crouch, amounts in this column also include tax gross-ups and expenses incurred in 2016 associated with his international assignment as Regional President, EMEA and Global Account Management in the United Kingdom. The calculation of these amounts is based on actual expenses incurred by Mr. Crouch. These expenses were incurred in local currency, and to the extent required, converted to U.S. dollars based on the prevailing exchange rate on the date that the expense was incurred. All tax gross-ups paid to Mr. Crouch and expenses incurred greater than $25,000 are as follows.

Expense Type	Expense Amount
Incremental Income Taxes	$982,761
Housing	$393,377
Medicare and State Tax Make-whole (gross-up)	$308,597
Dependent Education	$ 50,702
Foreign Property Tax Payments	$ 49,674

Grants of Plan Based Awards in 2016

This table provides information about equity awards granted to the NEOs in 2016.

Name	Grant Date	Estimated future payouts under equity incentive plan awards[(1)]			All Other Stock Awards: Number of Shares of Stock or Units[(2)]	Grant Date Fair Value of Stock and Option Awards[(3)]
		Threshold (#)	Target (#)	Maximum (#)		
Jeff K. Storey	4/1/2016	41,298	82,596	165,192		$4,365,199
	7/1/2016				55,064	$2,835,245
Sunit S. Patel	4/1/2016	18,486	36,971	73,942		$1,953,917
	7/1/2016				24,647	$1,269,074
Andrew E. Crouch	4/1/2016	10,000	20,000	40,000		$1,057,000
	7/1/2016				20,000	$1,029,800
Laurinda Y. Pang	4/1/2016	12,321	24,641	49,282		$1,302,277
	7/1/2016				16,427	$ 845,826
John M. Ryan	4/1/2016	6,404	12,808	25,616		$ 676,903
	7/1/2016				8,539	$ 439,673

(1) Represents the number of shares of common stock subject to PRSUs granted in 2016 that vest at target achievement and maximum achievement of the performance conditions applicable to such awards. The maximum number of shares subject to PRSUs that may vest and settle is equal to 200% of target and the threshold number of shares subject to PRSUs that may vest and settle is equal to 50% of target. PRSUs have a two year performance measurement period with specific performance criteria determined by the Compensation Committee for each annual award cycle. PRSUs vest 50% on the second anniversary of grant (after the relevant performance has been measured and determined to have been met) and the remaining 50% vest on February 1st of the following year, as a retention component.

(2) Represents the number of shares of common stock subject to RSUs granted in 2016. Each of these grants will vest and settle in shares in four equal installments on the first, second, third and fourth anniversaries of the date of grant.

(3) This column shows the full grant date fair value of RSUs and PRSUs awarded to the NEOs in 2016 without any reduction in the grant date fair value of the awards for the possibility of service based forfeiture. Generally, the full grant date fair value is the amount that we would expense in our financial statements over the award's vesting schedule.

For purposes of the RSUs, fair value is calculated using the closing price of our common stock the day before the grant date of $51.49 for the July 1, 2016 grant. For PRSUs, the fair value is calculated assuming probable performance (or, target level) is achieved and the closing stock price the day before the grant date of $52.85 for the April 1, 2016 grant. The PRSUs value, assuming the achievement of the highest level of performance conditions under the plan, are as follows (representing 200% of the target payouts): Mr. Storey $8,730,397; Mr. Patel $3,907,835; Mr. Crouch $2,114,000; Ms. Pang $2,604,554; and Mr. Ryan $1,353,806.

For additional information relating to the assumptions made by us in valuing these awards for 2016, refer to note 12 of our financial statements in our Form 10-K for the year ended December 31, 2016, as filed with the SEC.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards in 2016 Table

A critical component of our compensation philosophy is providing appropriate incentives to employees through our LTI program. For 2016, our LTI program provided for two types of equity awards. The first is performance based restricted stock units, or PRSUs, which have a two year performance measurement period with specific performance criteria determined by the Compensation Committee for each annual award cycle and are subject to three years of service based vesting, commencing as of the date of grant. Specifically, PRSUs vest 50% on the second anniversary of grant (after the relevant performance has been measured and determined to have been met) and the remaining 50% vest on February 1st of the following year, in each case, subject to the award holder's continued employment through the applicable vesting date, as a retention component. The second is restricted stock units—or RSUs—that vest over a period of years, depending on the participant's continued employment and the terms of the specific grant.

A PRSU represents our agreement to issue to the employee shares of our common stock (or, in the Compensation Committee's discretion, cash) on the date that the restrictions lapse, so long as specific performance objectives are achieved. PRSUs are generally granted on April 1 of each year. The performance period for PRSUs issued in 2016 ends on December 31, 2017, and the performance objective is based on a comparison of 2015 Adjusted EBITDA to 2017 Adjusted EBITDA. Accordingly, the 2016 PRSUs will vest 50% on April 1, 2018 and 50% on February 1, 2019.

An RSU represents our agreement to issue to the employee shares of our common stock (or, in the Compensation Committee's discretion in connection with a change in control, cash) on the date that the restrictions lapse, so long as the employee is employed on that date. RSUs are granted on a regular, fixed basis once per year. The restrictions on RSUs generally lapse in equal annual installments over three or four years, subject to the employee's continued employment and the terms of the specific grant. Upon retirement, all outstanding RSUs held by that person which were granted prior to April 1, 2014 lapse. Accelerated vesting of 24 months will occur upon retirement for RSUs granted on and after April 1, 2014. When the restrictions lapse, the employee is issued the number of shares of common stock equal to the number of RSUs for which the restrictions have lapsed on that date.

For additional information regarding the LTI program awards, please *see "Compensation Discussion and Analysis—Components of 2016 Executive Compensation—Stock Based Awards"* above.

Outstanding Equity Awards at 2016 Fiscal Year End

The following table provides information on the holdings of unvested RSUs and unvested PRSUs by the NEOs as of December 31, 2016. Each grant is shown separately for each NEO. The vesting schedule for each grant is shown following this table, based on the award grant date. For additional information about the RSU and PRSU awards, see the descriptions under the caption *“Compensation Discussion and Analysis—Components of 2016 Executive Compensation—Stock Based Awards”* above.

Name	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)(2)
Jeff K. Storey	7/1/2013	25,000(a)	$1,409,000		
	7/1/2014	40,000(b)	$2,254,400		
	7/1/2015	46,575(c)	$2,624,967		
	7/1/2016	55,064(d)	$3,103,407		
	4/1/2014	80,000(e)	$4,508,800		
	4/1/2015	151,800(f)	$8,555,448		
	4/1/2016			82,596(g)	$4,655,111
Sunit S. Patel	7/1/2013	12,500(a)	$ 704,500		
	7/1/2014	20,000(b)	$1,127,200		
	7/1/2015	20,850(c)	$1,175,106		
	7/1/2016	24,647(d)	$1,389,105		
	4/1/2014	40,000(e)	$2,254,400		
	4/1/2015	67,940(f)	$3,829,098		
	4/1/2015	46,328(f)	$2,611,046		
	4/1/2016			36,971(g)	$2,083,686
Andrew E. Crouch	1/1/2013	625(h)	$ 35,225		
	7/1/2013	6,250(a)	$ 352,250		
	7/1/2014	10,000(b)	$ 563,600		
	7/1/2015	15,000(c)	$ 845,400		
	7/1/2016	20,000(d)	$1,127,200		
	4/1/2014	20,000(e)	$1,127,200		
	4/1/2015	40,000(f)	$2,254,400		
	4/1/2016			20,000(g)	$1,127,200
Laurinda Y. Pang	7/1/2013	4,375(a)	$ 246,575		
	7/1/2014	8,750(b)	$ 493,150		
	7/1/2015	8,436(c)	$ 475,453		
	7/1/2016	16,427(d)	$ 925,826		
	4/1/2014	15,000(e)	$ 845,400		
	7/1/2014	1,250(e)	$ 70,450		
	4/1/2015	27,500(f)	$1,549,900		
	4/1/2015	18,750(f)	$1,056,750		
	4/1/2016			24,641(g)	$1,388,767
John M. Ryan	7/1/2013	4,375(a)	$ 246,575		
	7/1/2014	7,500(b)	$ 422,700		
	7/1/2015	7,221(c)	$ 406,976		
	7/1/2016	8,539(d)	$ 481,258		
	4/1/2014	15,000(e)	$ 845,400		
	4/1/2015	23,540(f)	$1,326,714		
	4/1/2015	16,050(f)	$ 904,578		
	4/1/2016			12,808(g)	$ 721,859

(1) Amounts in this column show the number of shares of our common stock underlying outstanding grants of RSUs and those PRSUs for which the performance-based vesting criteria has been met but that remain subject to service-based vesting criteria.

(2) The market value is based on the closing price of our common stock of $56.36 on December 30, 2016, the final business day of calendar year 2016.

(3) Amounts in this column show the number of shares of our common stock that would be paid out to the NEO pursuant to the PRSU award assuming target performance. For a detailed discussion of the terms and conditions of the PRSUs granted to the NEOs, including the vesting conditions, please see “Compensation Discussion and Analysis—Components of 2016 Executive Compensation—Stock Based Awards” above.

Vesting Information

RSUs and PRSUs. RSUs and PRSUs vest as follows:

(a) vests on July 1, 2017

(b) vests in equal installments on July 1, 2017 and 2018

(c) vests in equal installments on July 1, 2017, 2018 and 2019

(d) vests in equal installments on July 1, 2017, 2018, 2019 and 2020

(e) vests on February 1, 2017

(f) vests in equal installments on April 1, 2017 and February 1, 2018

(g) vests in equal installments on April 1, 2018 and February 1, 2019

(h) vests on January 1, 2017

Options Exercised and Stock Vested in 2016

The following table provides information for the NEOs relating to (1) OSO settlements during 2016, including the number of shares acquired upon settlement and the value realized including the value realized if no shares of our common stock were issued and (2) the number of shares acquired upon the lapsing of restrictions for RSUs and PRSUs, and the value realized, in each case before payment of any applicable withholding tax and broker commissions.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Jeff K. Storey	140,072	$7,213,467	159,275	$8,362,344
Sunit S. Patel	81,144	$4,201,143	81,950	$4,301,283
Andrew E. Crouch	40,573	$2,100,624	41,875	$2,198,900
Laurinda Y. Pang	28,402	$1,470,485	34,439	$1,812,407
John M. Ryan	28,402	$1,470,485	29,909	$1,570,273

Equity Compensation Plan Information

We have one equity compensation plan under which we may issue shares of our common stock to employees, officers, directors and consultants, which is called The Level 3 Communications, Inc. Stock Incentive Plan. In addition, in connection with our acquisition of Global Crossing, we assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan. Options outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at the closing of the acquisition were automatically exchanged for options to purchase shares of our common stock. Since this plan's term has expired, no shares remain for future issuances under this plan, but shares do remain for awards outstanding as of the expiration of the term. The following table provides information about the shares of our common stock that may be issued upon exercise of awards under the Level 3 Communications, Inc. Stock Incentive Plan (in the "Equity compensation plans approved by stockholders" category) and the 2003 Global Crossing Limited Stock Incentive Plan (in the "Equity compensation plans not approved by stockholders" category) as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	6,096,699(1)	$—(3)	13,659,866(1)
Equity compensation plans not approved by stockholders	85,523(2)	$—(3)	—

(1) Includes restricted stock units and performance restricted stock units (''PRSUs''). For purposes of this table, each PRSU was assumed to be included at the maximum possible issuance of our common stock (which would be maximum target performance) from the total number of shares reserved for issuance under the Level 3 Communications, Inc. Stock Incentive Plan.

(2) The 2003 Global Crossing Limited Stock Incentive Plan provided for the granting of (i) stock options, (ii) stock appreciation rights and (iii) other stock based awards, including, without limitation, restricted stock units, to eligible participants. Amounts shown indicate the number of awards outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at December 31, 2016.

(3) At December 31, 2016, there were no outstanding awards that included an ''exercise price''.

Potential Payments Upon Termination or Change of Control

As described in the Compensation Discussion and Analysis above, at December 31, 2016, the NEOs did not have employment agreements with us. However, each of our NEOs participates in the Key Executive Severance Plan, or KESP, which provides for payments in certain circumstances upon termination. For a detailed discussion of the terms and conditions of the KESP, including the amounts payable in connection with certain terminations, please see "Compensation Discussion and Analysis—Components of 2016 Executive Compensation—Post-Employment Compensation" above.

The information below describes and quantifies certain compensation that would become payable under existing plans and arrangements if the NEO's employment had terminated on December 31, 2016, given the NEO's compensation and, if applicable, based on our closing stock price on that date.

Due to the number of factors that affect the nature and amount of any benefits provided upon the occurrence of the events discussed below, any actual amounts paid or distributed may be different. Factors that could affect these amounts include the timing during the year of any such event, our common stock price and the executive's age.

Death, Disability and Retirement. Any remaining restrictions on awards of RSUs granted prior to April 1, 2014 would lapse immediately and remaining restrictions on awards of RSUs and PRSUs granted on or after April 1, 2014, would lapse in full on death or disability. For retirement, recipients of RSUs granted on or after April 1, 2014, would receive an incremental two years of vesting and recipients of PRSUs, would have restrictions lapse on a pro rata basis. For these purposes, "disability" generally means total disability, resulting in the grantee being unable to perform his or her job.

At December 31, 2016, Mr. Storey and Mr. Patel were the only NEOs who were eligible to retire pursuant to our retirement benefit opportunity.

Retirement

	As of December 31, 2016			
Name	Cash	RSUs	PRSUs	Total
Jeff K. Storey	$2,100,000	$6,965,082	$15,391,803	$24,456,885
Sunit S. Patel	$ 650,000	$3,309,656	$ 9,736,387	$13,696,043
Andrew E. Crouch	$ —	$ —	$ —	$ —
Laurinda Y. Pang	$ —	$ —	$ —	$ —
John M. Ryan	$ —	$ —	$ —	$ —

The following table includes calculations relating to death and disability. RSU value is determined based on the closing price of our common stock of $56.36 on December 30, 2016 and PRSU value is determined based on actual performance of 200% of target for the 2014 and 2015 awards and an assumption of target performance for those PRSUs for which the level of performance has not yet been determined.

Death and Disability

	As of December 31, 2016			
Name	Cash	RSUs	PRSUs	Total
Jeff K. Storey	$2,100,000	$9,391,774	$17,719,359	$29,211,133
Sunit S. Patel	$ 650,000	$4,395,911	$10,778,230	$15,824,141
Andrew E. Crouch	$1,588,000	$2,923,675	$ 4,508,800	$ 9,020,475
Laurinda Y. Pang	$ 550,000	$2,141,004	$ 4,911,267	$ 7,602,271
John M. Ryan	$ 347,625	$1,557,509	$ 3,798,551	$ 5,703,685

Involuntary Separation from Service. If one of the NEOs were to have his or her employment with the company involuntarily terminated other than for cause and not related to a change of control, or if the NEO were to terminate his or her employment with us for good reason as defined in the Key Executive Severance Plan, the restrictions on awards of RSUs would lapse with respect to that portion of his or her equity awards that would have vested during the twelve month period following termination; and the restrictions on awards of PRSUs would lapse on a pro rata basis. For retirement eligible recipients of RSUs granted on or after April 1, 2014, would receive an incremental two years of vesting.

The following table includes calculations relating to involuntary separation from service as described above. RSU value is determined based on the closing price of our common stock of $56.36 on December 30, 2016 and PRSU value is determined based on actual performance of 200% of target for the 2014 and 2015 awards and an assumption of target performance for those PRSUs for which the level of performance has not yet been determined. The information below reflects the results required under the Key Executive Severance Plan. The amount in the Cash column includes the payment of health and welfare benefits ranging from $14,420 to $31,192 for each of the NEOs.

Involuntary Separation from Service

	As of December 31, 2016			
Name	Cash	RSUs	PRSUs	Total
Jeff K. Storey	$8,741,192	$6,965,082	$15,391,803	$31,098,077
Sunit S. Patel	$3,291,192	$3,309,656	$ 9,736,387	$16,337,235
Andrew E. Crouch	$3,795,840	$1,232,875	$ 3,945,200	$ 8,973,915
Laurinda Y. Pang	$1,674,420	$ 883,091	$ 4,216,883	$ 6,774,394
John M. Ryan	$1,183,170	$ 713,898	$ 3,437,622	$ 5,334,690

Change of Control. As described above in the Compensation Discussion and Analysis, any remaining restrictions on RSUs granted prior to April 1, 2014 would lapse immediately and remaining restrictions on awards of RSUs and PRSUs granted on or after April 1, 2014, would lapse in full on a change of control if the NEO's employment with us is also terminated without cause or good reason. In this case we will, in our sole discretion, either (a) issue all unissued shares of our common stock issuable pursuant to the RSU and PRSU awards to the employee or (b) pay the employee in a combination of cash and stock the value of those shares of our common stock as provided for in the Level 3 Communications, Inc. Stock Incentive Plan.

Notwithstanding the foregoing, if the change of control does not qualify as a "change in control event" as defined in Treasury Regulation 1.409A-3(i)(5)(i) under Section 409A of the Internal Revenue Code of 1986, as amended, then the NEO must also undergo a separation from service on account of his or her termination of employment by us without cause following that change in control in order for the remaining restrictions on his or her RSUs granted prior to April 1, 2014, to lapse. In such case, the issuance of the shares or the payment of the cash would be delayed until the date six months and one day following his or her separation from service.

PRSU value is determined based on an assumption of target performance for those PRSUs for which the level of performance has not yet been determined.

The following tables summarize the dollar value, as of December 31, 2016, of cash payments that would be owed and these accelerations assuming that a change of control that qualifies as a change of control event of Level 3 Communications, Inc. had occurred on December 31, 2016 along with or without a termination of the NEOs having occurred on December 31, 2016. Amounts in the Cash column also include the cost of health and welfare benefits for each of the NEOs.

The following tables also reflect the results required under the Key Executive Severance Plan in the context of a change of control and a termination of employment that is effective December 31, 2016.

Change of Control Payments without Termination

	As of December 31, 2016			
Name	Cash	RSUs	PRSUs	Total
Jeff K. Storey	$—	$1,409,000	$—	$1,409,000
Sunit S. Patel	$—	$ 704,500	$—	$ 704,500
Andrew E. Crouch	$—	$ 387,475	$—	$ 387,475
Laurinda Y. Pang	$—	$ 246,575	$—	$ 246,575
John M. Ryan	$—	$ 246,575	$—	$ 246,575

Change of Control Payments with Termination

	As of December 31, 2016			
Name	Cash	RSUs	PRSUs	Total
Jeff K. Storey	$8,741,192	$9,391,774	$17,719,359	$35,852,325
Sunit S. Patel	$3,291,192	$4,395,911	$10,778,230	$18,465,333
Andrew E. Crouch	$3,795,840	$2,923,675	$ 4,508,800	$11,228,315
Laurinda Y. Pang	$1,674,420	$2,141,004	$ 4,911,267	$ 8,726,691
John M. Ryan	$1,183,170	$1,557,509	$ 3,798,551	$ 6,539,230

At December 31, 2016, our Current NEOs did not have non-compete agreements other than as described above in the Compensation Discussion and Analysis with respect to the NEOs participating in the Key Executive Severance Plan.

Information regarding the payments and benefits that the NEOs are eligible to receive in connection with the CenturyLink transactions are explained in detail in the joint proxy statement/prospectus of Level 3 and CenturyLink, filed with the SEC on February 13, 2017 and the Level 3 Form 8-K filed with the SEC on March 1, 2017.

FREQUENCY OF VOTE, ON ADVISORY BASIS, OF NAMED EXECUTIVE OFFICER COMPENSATION (ITEM 3)

As described in Item 2 above, under the rules of the SEC, we are required to provide you with a “say-on-pay” vote, which is an advisory vote on the executive compensation program for our Named Executive Officers. The rules of the SEC also require us to provide you with the opportunity to cast an advisory vote on whether the say-on-pay vote will occur every one, two or three years, or whether you wish to abstain from this vote. This frequency vote must be held at least once every six years.

Most elements of our executive compensation program are reviewed and determined annually, including base salary, short term bonus and awards under our long-term incentive plan. Holding annual say-on-pay advisory votes would more closely coincide with these decisions and provide valuable feedback to the Compensation Committee and the full Board on a more timely basis.

While this proposal is advisory and is not binding on us, the Board appreciates and values your views on this issue, and believes that an annual say-on-pay advisory vote provides the highest level of accountability. While the Board is recommending that you vote in favor of holding advisory say-on-pay votes every year, you are not voting to approve or disapprove the Board’s recommendation. The proxy card provides you with a choice of voting for our holding say-on-pay advisory votes every one, two or three years, or abstaining from voting on this proposal.

Vote Required

To be approved, this proposal of the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers will be determined by which choice, one year, two years or three years receives a plurality of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD UNANIMOUSLY ADOPTED A RESOLUTION SEEKING STOCKHOLDER APPROVAL OF, AND RECOMMENDS THAT YOU VOTE FOR, HOLDING ADVISORY SAY-ON-PAY VOTES EVERY ONE YEAR.

RATIFY THE APPOINTMENT OF INDEPENDENT AUDITOR (ITEM 4)

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm. The Audit Committee of the Board has appointed, and as a matter of good corporate governance, is requesting ratification by the stockholders of KPMG LLP or its international affiliates, which we refer to together as KPMG, as the independent registered public accounting firm to audit our consolidated financial statements for the year ending December 31, 2017. KPMG also served in this capacity for 2016. The Audit Committee and the Board believe that the retention of KPMG to serve as our independent external auditor is in the best interests of Level 3 and its stockholders.

If the stockholders do not ratify the selection of KPMG, the Audit Committee will review its future selection of an independent auditor in light of that result.

As part of its responsibilities, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to assure the public accountant's independence. The Audit Committee has adopted a pre-approval process with respect to the provision of audit and non-audit services to be performed by KPMG. This pre-approval process requires the Audit Committee to review and approve all audit services and permitted non-audit services to be performed by KPMG. The Audit Committee establishes pre-approval fee levels for all services to be provided by KPMG annually. Audit services are subject to specific pre-approval while audit-related services, tax services and all other services may be granted pre-approvals within specified categories. Any proposed services exceeding these levels require specific pre-approval by the Audit Committee. Additionally, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. A report, for informational purposes only, of any pre-approval decisions made by a single member of the Audit Committee is made to the full Audit Committee on at least a quarterly basis. One hundred percent of the services that required pre-approval by the Audit Committee received that approval.

Representatives of KPMG are expected to be present at the annual meeting, where they will respond to appropriate questions and, if they wish, make a statement.

For additional information concerning the Audit Committee and its activities with KPMG, see the "Audit Committee Report," below.

Vote Required

The affirmative vote a majority of the shares of our common stock present in person or represented by proxy at the Annual Meeting is required for approval of this proposal.

THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL.

AUDIT COMMITTEE REPORT

To the Board of Directors

The Audit Committee reviews Level 3 Communications, Inc.'s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The company's registered public accounting firm is responsible for expressing an opinion on the conformity of our audited financial statements to generally accepted accounting principles. We have reviewed and discussed with management the company's audited financial statements as of and for the year ended December 31, 2016.

The Audit Committee has reviewed and discussed the consolidated financial statements and internal control over financial reporting with management, internal audit and KPMG LLP, the company's independent registered public accounting firm. Management is responsible for the preparation, presentation and integrity of the company's financial statements; accounting and financial reporting principles; establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)); establishing and maintaining internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)); evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. KPMG LLP is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of internal control over financial reporting.

During the course of fiscal 2016, management completed the documentation, testing and evaluation of the company's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Audit Committee received periodic updates provided by management, internal audit and KPMG LLP at each regularly scheduled Audit Committee meeting. The Audit Committee reviewed the report of management contained in the company's Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission, as well as KPMG LLP's Report of Independent Registered Public Accounting Firm included in the company's Form 10-K related to its audit of (i) the consolidated financial statements and (ii) the effectiveness of internal control over financial reporting. The Audit Committee continues to oversee the company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2017.

The Audit Committee has discussed with KPMG LLP the matters required to be discussed pursuant to the applicable Public Company Accounting Oversight Board (PCAOB) standards and KPMG has discussed with us their independence and provided to us the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the financial statements referred to above be included in the company's annual report on Form 10-K for the year ended December 31, 2016.

The Audit Committee has also considered whether the provision of services by KPMG LLP and its international affiliates not related to the audit of the financial statements referred to above and to the reviews of the interim financial statements included in the company's Forms 10-Q for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016, respectively, is compatible with maintaining KPMG LLP's independence.

The following table presents fees for professional audit services rendered by KPMG LLP and its international affiliates for the audit of the Level 3 annual financial statements for the years ended December 31, 2016, and 2015 and fees billed for other services rendered by KPMG LLP and its international affiliates during those periods, which have been approved by the Audit Committee.

	2016	2015
Audit Fees[(1)]	$5,278,444	$5,489,834
Audit-Related Fees[(2)]	385,603	183,614
Tax Fees[(3)]	8,000	0
All Other Fees	0	0
Total Fees	$5,672,047	$5,673,448

(1) Audit fees consisted principally of fees for the audit of financial statements, including statutory audits of foreign subsidiaries, audit of internal control over financial reporting, and fees relating to comfort letters and registration statements.

(2) Audit related fees consisted principally of fees for audits of employee benefit plans, agreed-upon procedures reports, due diligence activities, and other audits not required by statute or regulation.

(3) Tax fees consisted principally of fees for tax consultation and tax compliance activities.

The Audit Committee:
Peter van Oppen, Chairman
Irene M. Esteves
T. Michael Glenn
Kevin W. Mooney

For the year ended December 31, 2016

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock, as of April 4, 2017, by Level 3's directors, the NEOs, and the directors and executive officers as a group, and each person known by us to beneficially own more than five percent of our outstanding common stock.

Name	Number of Shares of Common Stock	Percent of Common Stock Beneficially Owned(%)
Jeff K. Storey	552,813	*
Sunit S. Patel[1]	443,460	*
Andrew E. Crouch	91,897	*
Laurinda Y. Pang	106,557	*
John M. Ryan	105,435	*
James O. Ellis, Jr.	60,053	*
Kevin P. Chilton	19,334	*
Steven T. Clontz	60,834	*
Irene M. Esteves	7,871	*
T. Michael Glenn	26,698	*
Spencer B. Hays	80,059	*
Michael J. Mahoney	59,066	*
Kevin W. Mooney	42,417	*
Peter Seah Lim Huat	64,030	*
Peter van Oppen	29,897	*
Directors and Executive Officers as a Group (17 persons)	1,913,576	*
STT Stockholder Group[2]	65,031,667	18.10
Southeastern Asset Management, Inc.[3]	27,955,852	7.80
The Vanguard Group[4]	27,563,483	7.65

* Less than 1%.

(1) Includes 1,000 shares of our common stock held in an individual retirement account.

(2) Based on information provided in an amendment to Schedule 13D filed by this stockholder on November 1, 2016. STT Crossing Ltd. ("STT Crossing") is an indirect subsidiary of Temasek Holdings (Private) Limited ("Temasek"), its ultimate parent entity, and is located at Les Cascades Building, Edith Cavell Street, Port Louis Mauritius. Temasek, through its ultimate ownership of STT Crossing, may be deemed to have voting and dispositive power over all these shares; however, pursuant to Rule 13d-4 under the Exchange Act, Temasek expressly disclaims beneficial ownership of these shares. Percentage of our outstanding common stock is as reported in their amended Schedule 13D.

(3) Address for Southeastern Asset Management, Inc. and Mr. O. Mason Hawkins is 6410 Poplar Avenue, Suite 900, Memphis, Tennessee 38119. The following information is based solely on Southeastern Asset Management, Inc.'s Schedule 13G filed with the SEC on February 14, 2017. Percentage of our outstanding common stock is as reported in their Schedule 13G.

Information in the table is presented by Southeastern Asset Management, Inc. as a registered investment adviser. All of the securities reported by Southeastern Asset Management are owned legally by Southeastern Asset Management, Inc.'s investment advisory clients and none are owned directly or indirectly by Southeastern Asset Management, Inc. Southeastern Asset Management, Inc. exercises sole dispositive power with respect to 15,971,360 shares of our common stock beneficially owned by discretionary managed accounts, 11,984,492 shares of our common stock beneficially owned by discretionary managed accounts for which Southeastern Asset Management has shared or no dispositive power. Also includes 14,456,964 shares of our common

stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has sole voting power, 11,984,492 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has shared voting power and 1,514,396 shares of our common stock held by discretionary managed accounts for which Southeastern Asset Management, Inc. has no voting power.

Mr. O Mason Hawkins, Chairman of the Board and C.E.O. of Southeastern Asset Management, Inc., may be deemed to beneficially own the Level 3 common stock held by Southeastern Asset Management, Inc. Mr. Hawkins disclaims beneficial ownership of such common stock.

(4) Address for The Vanguard Group is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355. The following information is based solely on The Vanguard Group's Schedule 13G filed with the SEC on February 10, 2017. Percentage of our outstanding common stock is as reported in their Schedule 13G.

Information in the table is presented by The Vanguard Group as a registered investment adviser. All of the securities reported by The Vanguard Group are owned legally by The Vanguard Group's investment advisory clients and none are owned directly or indirectly by The Vanguard Group. The Vanguard Group exercises sole dispositive power with respect to 27,050,159 shares of our common stock, 513,324 shares of our common stock for which The Vanguard Group has shared dispositive power. Also includes 466,124 shares of our common stock for which The Vanguard Group has sole voting power and 56,862 shares of our common stock for which The Vanguard Group has shared voting power.

OTHER MATTERS

It is not anticipated that any matters other than those described in this Proxy Statement will be brought before the Annual Meeting. If any other matters are presented, however, it is the intention of the persons named in the proxy to vote the proxy in accordance with their discretion.

FUTURE STOCKHOLDER PROPOSALS

A stockholder who would like to have a proposal considered for inclusion (other than director nominations pursuant to proxy access) in our 2018 Proxy Statement must submit the proposal so that it is received by us no later than December 8, 2017. SEC rules set standards for eligibility and specify the types of stockholder proposals that may be excluded from a proxy statement. Stockholder proposals should be addressed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

If a stockholder does not submit a proposal for inclusion in our 2018 Proxy Statement, but instead wishes to present it directly at the 2018 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before February 24, 2018, but no earlier than January 25, 2018, for the proposal to be included in our proxy material relating to that meeting. Proposals received after February 24, 2018 will not be voted on at the 2018 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2018 Annual Meeting, the stockholder's name and record address, the number of shares of our common stock that are owned beneficially or of record by such stockholder, a description of any arrangements or understandings between the stockholder and any other person in connection with such proposal and any material interest of such stockholder in such proposal, a representation that the stockholder intends to appear in person or by proxy at the 2018 Annual Meeting, certain other information required under our By-laws and any information relating to the stockholder that would be required to be disclosed in a Proxy Statement filing. If the stockholder wishes to nominate one or more persons for election as a director (and not in reliance on proxy access), such stockholder's notice must comply with additional provisions as set forth in our By-laws, including certain information with respect to the persons nominated for election as directors. Any such proposals should be directed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

In addition, our By-laws provide that under certain circumstances, a stockholder or group of stockholders may include director candidates that they have nominated in our annual meeting proxy statement. These proxy access provisions of our By-laws provide, among other things, that a stockholder or group of up to twenty stockholders seeking to include director candidates in our annual meeting proxy statement must own 3% or more of our outstanding common stock continuously for at least the previous three years. The number of stockholder-nominated candidates appearing in any annual meeting proxy statement cannot exceed 20% of the number of directors then serving on the Board. If 20% is not a whole number, the maximum number of stockholder-nominated candidates would be the closest whole number below 20%. Based on the current Board size of 11 directors, the maximum number of proxy access candidates that we would be required to include in our proxy materials for an annual meeting is two. Nominees submitted under the proxy access procedures that are later withdrawn or are included in the proxy materials as Board-nominated candidates will be counted in determining whether the 20% maximum has been reached. If the number of stockholder-nominated candidates exceeds 20%, each nominating stockholder or group of stockholders may select one nominee for inclusion in our proxy materials until the maximum number is reached. The order of selection would be determined by the amount (largest to smallest) of shares of our common stock held by each nominating stockholder or group of stockholders. The nominating stockholder or group of stockholders also must deliver the information required by our By-laws, and each nominee must meet the qualifications required by our By-laws. Requests to include stockholder-nominated candidates in our proxy materials for next year's annual meeting must be received by the Corporate Secretary not earlier than November 8, 2017 and not later than December 8, 2017.

FREQUENTLY ASKED QUESTIONS

Why am I receiving these materials?

Our Board of Directors has made these materials available to you in connection with the Board's solicitation of proxies for use at the Annual Meeting, which will take place on May 25, 2017. Our stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this Proxy Statement.

What is included in these materials?

These materials include:

- Our Proxy Statement for the Annual Meeting; and
- Our 2016 Annual Report to Stockholders, which includes our audited consolidated financial statements.

If you received printed versions of these materials by mail, these materials also include the proxy card for the Annual Meeting. These materials can also be viewed online at http://www.proxyvote.com.

How can I get electronic access to the proxy materials?

The Notice of Internet Availability of Proxy Materials (the "Notice") provides you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and is more environmentally friendly. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Where will the Annual Meeting be held?

The Annual Meeting will be held at our headquarters, 1025 Eldorado Boulevard, Broomfield, Colorado 80021 at 9:00 a.m. on May 25, 2017. If you would like directions to the Annual Meeting, please see our website at http://investors.level3.com/2017annualmeeting.

Will senior management be making a presentation at the Annual Meeting?

No. Members of our senior management will not be making a presentation at the 2017 Annual Meeting.

What items will be voted on at the Annual Meeting?

The following are the items that will be voted on at the Annual Meeting:

1. To elect to our Board of Directors 11 directors, each for a one-year term until the 2018 Annual Meeting of Stockholders or until their successors have been elected and qualified; and
2. To approve, on an advisory basis, the named executive officer executive compensation; and
3. To approve approval of a proposal of the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers; and
4. To ratify the appointment of our independent auditor; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of that meeting.

What are our Board of Directors' voting recommendations?

Our Board of Directors recommends that you vote **for** the 11 nominees for director, each for a one-year term until the 2018 Annual Meeting of Stockholders.

Our Board of Directors also recommends that you vote:

- **for approval**, on an advisory basis, of the named executive officer compensation;

- **for approval**, of holding advisory say-on-pay votes every one year; and
- **to ratify** the appointment of our independent auditor.

Where are Level 3's principal executive offices located, and what is Level 3's main telephone number?

Level 3's principal executive offices are located at 1025 Eldorado Boulevard, Broomfield, Colorado 80021. Our main telephone number is (720) 888-1000.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

Pursuant to the rules adopted by the SEC, we are required to provide access to our proxy materials over the Internet. Accordingly, we have sent the Notice to our stockholders of record and beneficial owners as well as to employees who participate in the Level 3 Communications 401(k) Plan and hold units in the Level 3 Stock Fund. You will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found on the Notice. In addition, you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Choosing to receive your proxy materials by email saves us the cost of printing and mailing documents to you and is more environmentally friendly.

Who may vote at the Annual Meeting?

If you owned our common stock at the close of business on March 31, 2017 (the "Record Date"), then you may attend and vote at the meeting. At the close of business on the Record Date, we had 361,345,200 shares of common stock issued and outstanding, all of which were entitled to one vote on the matters to be considered at the meeting.

What shares are represented by the proxy card that was delivered?

If we delivered a proxy card to you, the proxy represents all the shares registered in your name with our transfer agent, Wells Fargo Shareowner Services. A proxy that is delivered by your broker, bank or other nominee represents the shares held by you in an account at that institution.

If you are an employee who participates in the Level 3 Communications, Inc. 401(k) Plan, the proxy card that we delivered to you also will include the shares of our common stock that are attributable to the units that you hold in the Level 3 Stock Fund as part of the 401(k) Plan.

What is the difference between holding shares as a stockholder of record and as a beneficial owner of shares held in street name?

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Wells Fargo Shareowner Services, you are considered the stockholder of record with respect to those shares, and the Notice was sent directly to you by Level 3.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in "street name," and the Notice was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account.

What is the quorum requirement for the Annual Meeting?

A majority of Level 3's outstanding common stock on the Record Date must be present at the meeting in order to hold the meeting and conduct business. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, against, withheld or abstained, or broker non-votes, if you:

- Are present and vote in person at the meeting; or

- Have voted on the Internet, by telephone or by properly submitting a proxy card or voting instruction form by mail.

If I am a stockholder of record of Level 3's shares, how do I vote?

If you are a stockholder of record, you may vote in person at the Annual Meeting. We will give you a ballot when you arrive.

If you do not wish to vote in person or if you will not be attending the Annual Meeting, you may vote by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice, or, if you request printed copies of the proxy materials by mail, you can also vote by mail, by telephone or over the Internet as instructed on the proxy card that you received.

If I am a beneficial owner of shares held in street name, how do I vote?

If you are a beneficial owner of shares held in street name and you wish to vote in person at the Annual Meeting, you must obtain a valid legal proxy from the organization that holds your shares.

If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote by proxy. You may vote by proxy over the Internet, or if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone by following the instructions provided in the Notice.

If you are a "street name" holder and fail to instruct the broker, bank, trust company or other nominee that is the stockholder of record how you want to vote your shares on a particular proposal, those shares are considered to be "uninstructed." Stockholders of record have the discretion to vote uninstructed shares on specified routine matters, but do not have the authority to vote uninstructed shares on non-routine matters.

What will happen if I return my proxy card without indicating how to vote?

Stockholders of Record. If you are a stockholder of record and you submit your proxy by internet, telephone or mail but do not specify how you want to vote your shares on a particular proposal, then the proxy holders will vote your shares in the manner recommended by our Board on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the meeting.

Beneficial Owners of Shares Held in Street Name. If you are a "street name" holder and fail to instruct the broker, bank, trust company or other nominee that is the stockholder of record how you want to vote your shares on a particular proposal, those shares are considered to be "uninstructed," and the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters, including Item 1 (the Election of Directors), Item 2 (the "say-on-pay") and Item 3 (Frequency of Vote, on Advisory Basis, of Named Executive Officer Compensation).

If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform our Inspector of Election that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a "broker non-vote." When our Inspector of Election tabulates the votes for any particular matter, broker non-votes will be counted for purposes of determining whether a quorum is present, but will not otherwise be counted. We encourage you to provide voting instructions to the organization that holds your shares by carefully following the instructions provided in the Notice.

How are the shares of our common stock that are attributable to the units held in the Level 3 Stock Fund that is a part of our 401(k) Plan voted?

If you are an employee who participates in the Level 3 Communications, Inc. 401(k) Plan, your voting instructions will also instruct the trustee of the plan how to vote the shares allocated to your 401(k) Plan account. If you do not vote your proxy (or you submit it with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account in proportion to the way the other 401(k) Plan participants vote their shares. Votes under the Level 3 Communications, Inc. 401(k) Plan receive the same confidentiality as all other votes.

How are abstentions treated?

Abstentions are counted for purposes of determining whether a quorum is present. For the purpose of determining whether the stockholders have approved a matter, abstentions are not treated as votes cast affirmatively or negatively, and therefore do not have any effect on the outcome of a matter to be voted on at the Annual Meeting that requires an affirmative vote of a majority of the votes cast by holders of our common stock present in person or represented by proxy at the Annual Meeting.

Abstentions only have an effect on the outcome of any matter being voted on at the Annual Meeting that requires the approval based on our total shares of common stock outstanding. In this instance, where a majority of the total shares outstanding is required to approve a proposal, an abstention is equivalent to a vote against the proposal.

What is the voting requirement to approve each of the proposals?

The following table sets forth the voting requirement with respect to each of the proposals:

Item 1—Election of directors	Each of the 11 nominees for director will be elected by a majority of the votes cast with respect to that nominee by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting. For this election, a "majority of votes cast" means that the number of votes "For" a nominee's election needs to be greater than the number of votes cast as "Against" that nominee's election, otherwise the director will be required to tender a resignation for the Board to consider whether to accept it.
Item 2—The approval, on an advisory basis, of the named executive officer compensation	To be approved by our stockholders, this proposal requires the affirmative vote of a majority of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.
Item 3—Frequency of Vote, on Advisory Basis, of Named Executive Officer Compensation	To be approved, the proposal of the frequency in which our stockholders will conduct an advisory vote on the executive compensation program for our named executive officers will be determined by which choice, one year, two years or three years receives a plurality of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.
Item 4—To ratify the appointment of our independent auditor	To be approved by our stockholders, this proposal requires the affirmative vote of a majority of the votes cast by holders of our common stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the meeting. You may vote again on a later date on the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the meeting will be counted), or by signing and returning a new proxy card with a later date, or by attending the meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the meeting or specifically request in writing that your prior proxy be revoked. Other than as described here, there are no limitations on your ability to revoke or change your vote. If you hold your shares in street name, you should consult your broker for information regarding how to revoke or change your vote.

Is cumulative voting permitted for the election of directors?

No.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Level 3 or to third parties, except:

- As necessary to meet applicable legal requirements;
- To allow for the tabulation and certification of votes; and
- To facilitate a successful proxy solicitation.

Occasionally, stockholders provide written comments on their proxy cards, which may be forwarded to management and our Board of Directors.

Who will tabulate the vote?

Broadridge Financial Solutions, Inc. will tally the vote, which will be certified by an Inspector of Election who is a Level 3 employee.

Where can I find the voting results of the Annual Meeting?

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be tallied by the Inspector of Election and will be reported by us through the filing of a Form 8-K, which we expect to file with the U.S. Securities and Exchange Commission, or SEC, on or before May 31, 2017.

Am I entitled to appraisal rights?

The Board has not proposed for consideration at the Annual Meeting any transaction for which the laws of the State of Delaware entitle stockholders to appraisal rights.

Who is paying for the cost of this proxy solicitation?

Level 3 is paying the costs of the solicitation of proxies. We must pay brokerage firms and other persons representing beneficial owners of shares held in street name certain fees associated with:

- Forwarding the Notice to beneficial owners;
- Forwarding printed proxy materials by mail to beneficial owners who specifically request them; and
- Obtaining beneficial owners’ voting instructions.

In addition to soliciting proxies by mail, our board members, officers and employees may solicit proxies on our behalf, without additional compensation, personally or by telephone. We will also solicit proxies by email from stockholders who are our employees or who previously requested to receive proxy materials electronically.

What is householding of Proxy Materials?

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of this proxy statement or our annual report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you write or call us at the following address or phone number: Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021, (720) 888-1000. If you want to receive separate copies of our annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

What is the deadline to propose actions for consideration at the 2018 Annual Meeting of Stockholders or to nominate individuals to serve as directors?

You may submit proposals, including director nominations, for consideration at future annual meetings of stockholders.

A stockholder who would like to have a proposal considered for inclusion (other than director nominations pursuant to proxy access) in our 2018 Proxy Statement must submit the proposal so that it is received by us no later than December 8, 2017. SEC rules set standards for eligibility and specify the types of stockholder proposals that may be excluded from a proxy statement. Stockholder proposals should be addressed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

If a stockholder does not submit a proposal for inclusion in our 2018 Proxy Statement, but instead wishes to present it directly at the 2018 Annual Meeting of Stockholders, our By-laws require that the stockholder notify us in writing on or before February 24, 2018, but no earlier than January 25, 2018, for the proposal to be included in our proxy material relating to that meeting. Proposals received after February 24, 2018 will not be voted on at the 2018 Annual Meeting. In addition, such proposal must also include a brief description of the business to be brought before the 2018 Annual Meeting, the stockholder's name and record address, the number of shares of our common stock that are owned beneficially or of record by such stockholder, a description of any arrangements or understandings between the stockholder and any other person in connection with such proposal and any material interest of such stockholder in such proposal, a representation that the stockholder intends to appear in person or by proxy at the 2018 Annual Meeting, certain other information required under our By-laws and any information relating to the stockholder that would be required to be disclosed in a Proxy Statement filing. If the stockholder wishes to nominate one or more persons for election as a director (and not in reliance on proxy access), such stockholder's notice must comply with additional provisions as set forth in our By-laws, including certain information with respect to the persons nominated for election as directors. Any such proposals should be directed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

In addition, our By-laws provide that under certain circumstances, a stockholder or group of stockholders may include director candidates that they have nominated in our annual meeting proxy statement. These proxy access provisions of our By-laws provide, among other things, that a stockholder or group of up to twenty stockholders seeking to include director candidates in our annual meeting proxy statement must own 3% or more of our outstanding common stock continuously for at least the previous three years. The number of stockholder-nominated candidates appearing in any annual meeting proxy statement cannot exceed 20% of the number of directors then serving on the Board. If 20% is not a whole number, the maximum number of stockholder-nominated candidates would be the closest whole number below 20%. Based on the current Board size of 11 directors, the maximum number of proxy access candidates that we would be required to include in our proxy materials for an annual meeting is two. Nominees submitted under the proxy access procedures that are later withdrawn or are included in the proxy materials as Board-nominated candidates will be counted in determining whether the 20% maximum has been reached. If the number of stockholder-nominated candidates exceeds 20%, each nominating stockholder or group of stockholders may select one nominee for inclusion in our proxy materials until the maximum number is reached. The order of selection would be determined by the amount (largest to smallest) of shares of our common stock held by each nominating stockholder or group of stockholders. The nominating stockholder or group of stockholders also must deliver the information required by our By-laws, and each nominee must meet the qualifications required by our By-laws. Requests to include stockholder-nominated candidates in our proxy materials for next year's annual meeting must be received by the Corporate Secretary not earlier than November 8, 2017 and not later than December 8, 2017.

You may contact the Secretary at our principal executive offices for a copy of the relevant By-laws provisions regarding the requirements for making stockholder proposals and nominating.

All proposals must be directed to the Secretary, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, Colorado 80021.

What information needs to be included in a stockholder notice regarding nominating an individual for election as a director?

The stockholder's notice must provide as to each person whom the stockholder proposes to nominate for election the information required by our By-laws, which includes:

- the name, age, business address and residence address of the person;
- the principal occupation or employment of the person;
- A) the class or series and number of shares of our capital stock which are owned beneficially or of record by such person or any affiliates or associates of such person, (B) the name of each nominee holder of shares of all Level 3 stock owned beneficially but not of record by such person or any affiliates or associates of such person, and the number of shares of Level 3 stock held by each such nominee holder and (C) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, swaps, options, warrants, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such person or any affiliates or associates of such person, the effect or intent of which is to mitigate loss, manage risk or benefit from share price change for, or maintain, increase or decrease the voting power or pecuniary or economic interest of, such person or such affiliates or associates of such person with respect to shares of Level 3 stock;
- any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
- any additional information as necessary to permit the Board to determine if each stockholder nominee is independent under the rules and listing standards of the New York Stock Exchange, any rules of the U.S. Securities and Exchange Commission and any publicly disclosed standards used by the Board in determining and disclosing the independence of our directors.

In addition, as to the stockholder giving the notice, and the beneficial owners, if any, on whose behalf the nomination is being submitted and, if such stockholder or beneficial owner is an entity, as to each control person the notice must contain the information required by our By-laws, which includes:

- the name and record address of such stockholder or such beneficial owners or control persons;
- information with respect to such stockholder or such beneficial owners or control persons as would be provided pursuant to items listed above with respect to the class of or series of our capital stock owned;
- a description of all arrangements or understandings (whether written or oral) between such stockholder and each proposed nominee and any other person or persons (including their names and addresses) pursuant to which the nominations(s) are to be made by such stockholder;
- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice;
- a representation that such stockholder will comply with the provisions to provide updates to this information as required by the By-laws; and
- any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder.

Note that a stockholder nominating an individual for election as a director pursuant to proxy access provisions of the By-laws must also comply with and provide additional information as required by Section 3.16 of the By-laws.

How can I communicate with the independent directors on Level 3's Board?

If you wish to communicate directly with the Board, a committee of the Board or with an individual director, regarding matters related to Level 3, you should send the communication to:

Level 3 Communications, Inc.
Board of Directors [or committee name or
director's name, as appropriate]
1025 Eldorado Boulevard
Broomfield, Colorado 80021

We will forward all stockholder correspondence about Level 3 to the Board, committee or individual director, as appropriate. Please note that we will not forward communications that are spam, junk mail and mass mailings, service complaints, service inquiries, new service suggestions, resumes and other forms of job inquiries, surveys, and business solicitations or advertisements.

NON-GAAP RECONCILIATIONS

Core Network Services (CNS) Revenue consists of revenue from colocation and data center services; transport and fiber; IP and data services; and local and enterprise voice services. For purposes of comparing actual performance against 2016 Financial Goals, CNS revenue at 2016 Budget Targets is adjusted to reflect the foreign exchange rates which were assumed in the preparation of the Board of Directors-approved budget targets.

Adjusted EBITDA, as defined by the Company, is net income from the Consolidated Statements of Income before income taxes, total other income (expense), non-cash impairment charges, depreciation and amortization and non-cash stock compensation expense.

The following information provides a reconciliation of Net Income to Adjusted EBITDA as defined by the Company:

(dollars in millions)	Year Ended December 31, 2016
Net Income	$ 677
Income Tax Expense	165
Total Other Expense	602
Depreciation and Amortization Expense	1,250
Non-Cash Compensation Expense	156
Adjusted EBITDA	$2,850

(dollars in millions)	Year Ended December 31, 2015
Net Income	$ 3,433
Income Tax Benefit	(3,150)
Total Other Expense	1,048
Depreciation and Amortization Expense	1,166
Non-Cash Compensation Expense	141
Adjusted EBITDA	$ 2,638

(dollars in millions)	Year Ended December 31, 2014
Net Income	$ 314
Income Tax Benefit	(76)
Total Other Expense	775
Depreciation and Amortization Expense	808
Non-Cash Compensation Expense	73
Non-Cash Impairment	1
Adjusted EBITDA	$1,895

For purposes of comparing actual performance against 2016 Financial Goals, Adjusted EBITDA at 2016 Budget Targets was adjusted to exclude unanticipated merger related expenses and to reflect the foreign exchange rates that were assumed in the preparation of the Board of Directors-approved budget targets. The following information provides a reconciliation of Net Income to Adjusted EBITDA at 2016 Budget Targets as defined by the Company:

(dollars in millions)	Year Ended December 31, 2016
Net Income	$ 677
Income Tax Benefit	165
Total Other Expense	602
Depreciation and Amortization Expense	1,250
Non-Cash Compensation Expense	156
Adjustment for Budgeted Foreign Currency Exchange Rates and Exclusion of Merger Related Expenses	(18)
Adjusted EBITDA at 2016 Budget Targets	$2,832

CNS Run Rate is defined as the amount of monthly recurring core network services revenue. For purposes of comparing actual performance against 2016 Financial Goals, CNS Run Rate at 2016 Budget Targets is adjusted to reflect the foreign exchange rates assumed in the preparation of the Board of Directors-approved budget targets.

Sustainable Free Cash Flow is defined as Net Cash Provided by Operating Activities, less capital expenditures.

Sustainable Free Cash Flow is calculated as follows:

(dollars in millions)	Year Ended December 31, 2016
Net Cash Provided by Operating Activities	$ 2,343
Capital Expenditures	(1,334)
Sustainable Free Cash Flow	$ 1,009

(dollars in millions)	Year Ended December 31, 2015
Net Cash Provided by Operating Activities	$ 1,855
Capital Expenditures	(1,229)
Sustainable Free Cash Flow	$ 626

(dollars in millions)	Year Ended December 31, 2014
Net Cash Provided by Operating Activities	$1,161
Capital Expenditures	(910)
Sustainable Free Cash Flow	$ 251

For purposes of comparing actual performance against 2016 Financial Goals, Sustainable Free Cash Flow for the year ended December 31, 2016 also excludes merger related expenses that were not assumed in the preparation of the Board of Directors-approved budget targets, and is calculated as follows:

(dollars in millions)	Year Ended December 31, 2016
Net Cash Provided by Operating Activities, Excluding Merger Related Expenses	$ 2,358
Capital Expenditures	(1,334)
Sustainable Free Cash Flow	$ 1,024

2016 Annual Report to Stockholders

TABLE OF CONTENTS

SELECTED FINANCIAL DATA	1
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	4
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	27
CONTROLS AND PROCEDURES	28
SEC FILINGS	29
MARKET FOR REGISTRATN'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	29
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

SELECTED FINANCIAL DATA

The Selected Financial Data of Level 3 Communications, Inc. and its subsidiaries appear below.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in millions, except per share amounts)				
Results of Operations:					
Revenue (1)	$ 8,172	$ 8,229	$ 6,777	$ 6,313	$ 6,376
Net Income (Loss) (2)	677	3,433	314	(109)	(422)
Per Common Share:					
Net Income (Loss) - Basic (2)	1.89	9.71	1.23	(0.49)	(1.96)
Net Income (Loss) - Diluted (2)	1.87	9.58	1.21	(0.49)	(1.96)
Dividends declared (3)	—	—	—	—	—
Financial Position:					
Total Assets (6)	$ 24,888	$ 24,017	$ 20,802	$ 12,754	$ 13,174
Current portion of long-term debt (4)	7	15	349	31	216
Long-Term Debt, less current portion (4) (6)	10,877	10,866	10,839	8,211	8,383
Stockholders' Equity (5)	10,917	10,126	6,363	1,411	1,171

(1) On October 31, 2014, we completed the acquisition of tw telecom inc. ("tw telecom"). During 2014, we recorded revenue attributable to tw telecom of approximately $285 million.

(2) In 2012, we recognized a $160 million loss on modification and extinguishment of debt as a result of the refinancing of the $650 million Tranche B II Term Loan and $550 million Tranche B III Term Loan in October 2012, the refinancing of the $1.4 billion Tranche A Term Loan in August 2012 and the repayment of existing vendor financing obligations, the redemption of the 8.75% Senior Notes due 2017 in August 2012, the redemption of the 9.25% Senior Notes due 2014 in February 2012 and the exchange of a portion of the 15% Convertible Senior Notes due 2013 in March 2012. We also recognized $34 million of restructuring charges. We completed an updated analysis and revised our estimated future cash flows of our asset retirement obligations as a result of a strategic review of our real estate portfolio in the fourth quarter of 2012. As a result, we reduced our asset retirement obligations liability by $73 million with an offsetting reduction to property, plant and equipment of $24 million, selling, general and administrative expenses of $47 million and depreciation and amortization of $2 million. In addition, as a result of the refinancing of the Tranche A Term Loan in 2012, two interest rate swap agreements maturing in early 2014 that had effectively hedged changes in the interest rate on a portion of the Tranche A Term Loan were deemed "ineffective" under GAAP. We recognized a non-cash loss on the agreements of approximately $60 million (excluding accrued interest), which represented the cumulative loss recorded in Accumulated Other Comprehensive Income (Loss) ("AOCI") at the date the instruments ceased to qualify as hedges.

In 2013, we recognized an $84 million loss on modification and extinguishment of debt as a result of refinancing our $815 million Tranche B 2019 Term Loan and $595.5 million Tranche B 2016 Term Loan in August 2013, our $1.2 billion Tranche B-II 2019 Term Loan in October 2013 and our $640 million 10% Senior Notes due 2018 and $300 million Floating Rate Senior Notes due 2015 in December 2013. Additionally, we incurred $47 million of restructuring charges.

In 2014, we issued $600 million aggregate principal amount of our 5.75% Senior Notes due 2022. The net proceeds from the offering of the notes, together with cash on hand, were used to redeem the $605 million aggregate principal amount outstanding of our 11.875% Senior Notes due 2019. We recognized a debt extinguishment loss of $53 million associated with this transaction during the fourth quarter of 2014.

In 2014, we also recognized a $100 million income tax benefit primarily related to the release of a foreign deferred tax valuation allowance.

In 2015, we redeemed Level 3 Financing's 9.375% Senior Notes due 2019 together with cash on hand, from the issuance on January 29, 2015 of its 5.625% Senior Notes due 2023. We recognized a loss on extinguishment of debt of $36 million associated with this transaction in the second quarter of 2015. Level 3 Financing also issued $700 million aggregate principal amount of its 5.125% Senior Notes due 2023 and $800 million aggregate principal amount of its 5.375% Senior Notes due 2025. The net proceeds from the offering of these notes together with cash on hand, were used to redeem all $1.2 billion aggregate principal amount of Level 3 Financing's 8.125% Senior Notes due 2019 and all $300 million aggregate principal amount of our 8.875% Senior Notes due 2019. In the second quarter 2015, we recognized a loss on extinguishment of debt of $100 million as a result of these redemptions. Level 3 Financing completed the refinancing of its $2 billion senior secured Tranche B Term Loan due 2022 with an aggregate $2 billion principal amount of a new senior secured Tranche B-II 2022 Term Loan. In the second quarter of 2015, we recognized a loss on modification and extinguishment of debt of $27 million as a result of this refinancing. In the fourth quarter 2015, Level 3 Financing issued $900 million aggregate principal amount of its 5.375% Senior Notes due 2024. The net proceeds from the offering of the 5.375% Senior Notes due 2024, together with cash on hand, were used to redeem all $900 million aggregate principal amount of our 8.625% Senior Notes due 2020. We recognized a loss on modification and extinguishment of debt of approximately $55 million associated with this transaction during the fourth quarter of 2015.

Effective September 30, 2015, we deconsolidated our Venezuelan subsidiary from our consolidated financial statements. This change resulted in a one-time charge of $171 million, which includes $83 million of bolivar denominated cash and $40 million of intercompany receivables from our Venezuelan subsidiary during the third quarter 2015.

In the fourth quarter of 2015, with the continued expectation of generating income before taxes in the United States, we released a significant portion of our valuation allowance against our net U.S. federal and state deferred tax asset position. The release of the valuation allowance benefited income tax expense and net income by approximately $3.3 billion.

On April 21, 2016, all of the outstanding principal amount of the 7% Senior Notes Due 2020 was redeemed at a redemption price equal to 104.138% of the principal amount, along with accrued and unpaid interest to but excluding the redemption date. To fund the redemption of these notes, Level 3 Financing used the net proceeds, along with cash on hand, from the March 22, 2016, issuance of its 5.25% Senior Notes due 2026. We recognized a loss on modification and extinguishment of debt of approximately $40 million in Other Expense in the second quarter of 2016 as a result of the redemption of the 7% Senior Notes due 2020.

In 2016, we recognized a $22 million income tax benefit from the vesting of stock based compensation due to the adoption of ASU 2016-09*, Improvements to Employee Share-Based Payment Accounting.*

In 2016, we recognized an estimated one-time $110 million income tax benefit related to the issuance of new regulations under Internal Revenue Code Section 987 addressing the taxation of foreign currency translation gains and losses arising from foreign branches.

In 2016, we recognized an $82 million income tax benefit related to the release of deferred tax valuation allowances primarily in Germany, Brazil, and Mexico.

In 2016 we recognized a $24 million income tax expense related to income tax rate changes.

(3) Our current dividend policy, in effect since April 1998, is to retain future earnings for use in our business. As a result, management does not anticipate paying cash dividends on shares of common stock in the foreseeable future. In addition, we are restricted under certain debt-related covenants from paying cash dividends on shares of our common stock. We would also need to address any restrictions contained in the CenturyLink Merger agreement or obtain a waiver of those restrictions.

(4) In 2012, we refinanced our existing $650 million Tranche B II Term Loan and $550 million Tranche B III Term Loan under our existing senior secured credit facility through the creation of a new term loan in the aggregate principal amount of $1.2 billion (the "Tranche B-II 2019 Term Loan") along with cash on hand. We also fully repaid the outstanding principal amount of our Commercial Mortgage due 2015 along with accrued interest which was approximately $63 million. Also in 2012, we completed the offering of $300 million aggregate principal amount of our 8.875% Senior Notes due 2019 in a private offering. The net proceeds from that offering were used for general corporate purposes, including the repurchase, redemption, repayment or refinancing of our and our subsidiaries' existing indebtedness. Additionally in 2012, we completed the offering of $775 million aggregate principal amount of our 7% Senior Notes due 2020 in a private offering. The net proceeds from the offering of the notes, along with cash on hand, were used to redeem all of our outstanding 8.75% Senior Notes due 2017, including the payment of accrued and unpaid interest and applicable premiums. We refinanced our existing $1.4 billion Tranche A Term Loan under our existing senior secured credit facility through the creation of new term loans in the aggregate principal amount of $1.415 billion (the "New Term Loans") along with cash on hand and used the remaining net proceeds to repay $15 million in principal amount plus a premium for existing vendor financing obligations. Further in 2012, we exchanged approximately $100 million aggregate principal amount of our outstanding 15% Convertible Senior Notes due 2013 for approximately 5.4 million shares of our common stock, including an inducement premium. Also in 2012, We issued $900 million aggregate principal amount of our 8.625% Senior Notes due 2020. A portion of the net proceeds from the offering were used to redeem all of our outstanding 9.25% Senior Notes due 2014 in aggregate principal amount of $807 million.

In 2013, we repaid at maturity approximately $172 million of our 15% Convertible Senior Notes due 2013. We also refinanced our existing $815 million Tranche B 2019 Term Loan through the creation of the $815 million Tranche B-III 2019 Term loan. We also refinanced our $595.5 million Tranche B 2016 Term Loan and $1.2 billion Tranche B-II 2019 Term Loan through the creation of a new term loan in the aggregate principal amount of $1.796 billion (the "Tranche B 2020 Term Loan"). Additionally, we completed the offering of $640 million aggregate principal amount of our 6.125% Senior Notes due 2021. The proceeds from the offering, together with cash on hand, were used to redeem all of the outstanding 10% Senior Notes due 2018. Also in 2013, we completed the offering of $300 million aggregate principal amount of our Floating Rate Senior Notes due 2018. The net proceeds of these notes, together with cash on hand, were used to redeem all of the outstanding Floating Rate Notes due 2015. Finally in 2013, the holders of approximately $200 million aggregate principal amount of our outstanding 6.5% Convertible Senior Notes due 2016 converted these notes for approximately 10.8 million shares of our common stock. The remaining $1 million principal amount of our 6.5% Convertible Senior Notes due 2016 was redeemed with cash on hand.

In 2014, Level 3 Escrow II, Inc. issued $1.0 billion in aggregate principal amount of its 5.375% Senior Notes due 2022 (the “5.375% Senior Notes due 2022”). The 5.375% Senior Notes due 2022 were assumed by Level 3 Financing, Inc., our direct wholly owned subsidiary, and the proceeds were used to refinance certain existing indebtedness of tw telecom. Additionally, we entered into a ninth amendment agreement to the Existing Credit Agreement to incur $2.0 billion in aggregate

borrowings under the Existing Credit Agreement through the creation of a new Tranche B 2022 Term Loan (the "Tranche B 2022 Term Loan"). The net proceeds from both the 5.375% Senior Notes due 2022 and the Tranche B 2022 Term Loan were used to finance the cash portion of the consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the tw telecom acquisition. Further, in 2014, we issued a total of $600 million aggregate principal amount of our 5.75% Senior Notes due 2022 (the “5.75% Senior Notes”). The net proceeds from the offering of the 5.75% Senior Notes, together with cash on hand were used to redeem all of our outstanding 11.875% Senior Notes due 2019. In 2014, we issued approximately 5 million shares of common stock when holders of approximately $142 million of our 7% Convertible Senior Notes due 2015 converted these notes.

Refer to Note 10 - Long-Term Debt in the notes to the Consolidated Financial Statements for our offerings and refinancings in 2016 and 2015.

Long-term debt, less current portion includes capital lease obligations. Refer to "Contractual Obligations" within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of our total obligations.

(5) In 2012, we issued approximately 5.4 million shares of common stock, including an inducement premium, in exchange for approximately $100 million aggregate principal amount of our outstanding 15% Convertible Senior Notes due 2013.

In 2013, we issued approximately 10.8 million shares of common stock when holders of approximately $200 million of our 6.5% Convertible Senior Notes due 2016 converted these notes.

In 2014, we issued approximately 5 million shares of common stock when holders of approximately $142 million of our 7% Convertible Senior Notes due 2015 converted these notes.

In 2014, as a result of the tw telecom acquisition, we issued approximately 96.9 million shares of our common stock to former holders of tw telecom common shares, stock options, restricted stock unit awards and restricted stock units.

In 2015, we issued approximately 12 million shares of common stock when holders of the remaining $333 million of our 7% Convertible Senior Notes due 2015 converted these notes.

In 2016, we adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which required adjustments to be reflected as of January 1, 2016. Upon adoption, we recognized previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of $42 million recorded to accumulated deficit as of January 1, 2016.

(6) Reflects retrospective application of the requirements of ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs”.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements (including the notes thereto) included elsewhere herein and the description of our business in Item 1, "Business".

Executive Summary

Overview

We are a facilities-based provider of a broad range of communications services. Revenue for communications services is generally recognized on a monthly basis as these services are provided. For contracts involving private line, wavelength and dark fiber services, we may receive upfront payments for services to be delivered for a period of generally up to 25 years. In these situations, we defer the revenue and amortize it on a straight-line basis to earnings over the term of the contract. At December 31, 2016, for contracts where upfront payments were received for services to be delivered in the future, our weighted average remaining contract period was approximately 12 years.

On October 31, 2016, we entered into an agreement and plan of merger (the "Merger Agreement") with CenturyLink, Inc., a Louisiana corporation ("CenturyLink"), Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 1"), and WWG Merger Sub LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 2"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, we will be acquired by CenturyLink in a cash and stock transaction, including the assumption of our debt (the "CenturyLink Merger").

As of September 30, 2015, we deconsolidated our Venezuelan subsidiary and began accounting for our investment in that subsidiary using the cost method of accounting in the fourth quarter of 2015. This change resulted in a one-time charge of $171 million to adjust the Venezuelan subsidiary's assets and liabilities to estimated fair value in the third quarter of 2015. Our financial results do not include the operating results of our Venezuelan subsidiary subsequent to September 30, 2015. Any dividends from our Venezuelan subsidiary are recorded as other income upon receipt of the cash. Please see Note 1 to the accompanying Consolidated Financial Statements and additional discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations under "Venezuela Effects" in Results of Operations.

On October 31, 2014, we completed the acquisition of tw telecom inc. (“tw telecom”) and tw telecom became our indirect, wholly owned subsidiary through a tax-free, stock and cash reorganization.

We pursue the strategies discussed in Item 1. Business, "Business Overview and Strategy." In particular, with respect to strategic financial objectives, we focus our attention on the following:

- growing revenue by increasing sales generated by our Core Network Services;
- focusing on our Enterprise customers, as this customer group has the largest potential for growth;
- continually improving the customer experience to increase customer retention and reduce customer churn;
- launching new products and services to meet customer needs, in particular for enterprise customers;
- improving profitability by reducing network costs and operating expenses;
- achieving and maintaining sustainable generation of positive cash flows from operations;
- continuing to show improvement in Adjusted EBITDA (as defined in this Item below) as a percentage of revenue;

- localizing certain decision-making and interaction with our mid-market enterprise customers, including leveraging our existing network assets;

- concentrating our capital expenditures on those technologies and assets that enable us to develop our Core Network Services;

- managing Wholesale Voice Services for profit contribution; and

- refinancing our future debt maturities.

Our management continues to review all existing lines of business and service offerings to determine how they enhance our focus on the delivery of communications services and meeting our financial objectives. To the extent that certain lines of business or service offerings are not considered to be compatible with the delivery of our services or with meeting our financial objectives, we may exit those lines of business or stop offering those services in part or in whole.

We have also been focused on improving our liquidity and financial condition, and extending the maturity dates of certain debt. See Note 10 - Long-Term Debt in the notes to the Consolidated Financial Statements.

We will continue to look for opportunities to improve our financial position and focus our resources on growing revenue and managing costs for the business.

Our management reporting structure reflects the way in which we allocate resources and assess performance. Our reportable segments consist of: 1) North America; 2) EMEA; and 3) Latin America.

Total Revenue consists of:

- Core Network Services revenue from Internet Protocol ("IP") and data services; transport and fiber; local and enterprise voice services; colocation and data center services; and security services.

- Wholesale Voice Services revenue from sales of long distance voice services to wholesale customers.

Core Network Services revenue represents higher profit services and Wholesale Voice Services revenue represents lower profit services. Core Network Services revenue requires different levels of investment and focus and provides different contributions to our operating results than Wholesale Voice Services revenue. Management believes that growth in revenue from our Core Network Services is critical to the long-term success of our business. We also believe we must continue to effectively manage the profitability of the Wholesale Voice Services revenue. We believe performance in our communications business is best gauged by analyzing revenue changes in Core Network Services.

Core Network Services

IP and data services primarily include our Internet services, Virtual Private Network ("VPN"), Content Delivery Network ("CDN"), media delivery, Vyvx broadcast and Managed Services. Our IP and high speed IP service is high quality and is offered in a variety of capacities. Our VPN service permits businesses of any size to replace multiple networks with a single, cost-effective solution that greatly simplifies the converged transmission of voice, video, and data. This convergence to a single platform can be obtained without sacrificing the quality of service or security levels of traditional ATM and frame relay offerings. VPN service also permits customers to prioritize network application traffic so that high priority applications, such as voice and video, are not compromised in performance by the flow of low priority applications such as email.

Growth in transport (such as private line and wavelengths) and fiber revenue is largely dependent on increased demand for bandwidth services and available capital of companies requiring communications capacity for their own use or in providing capacity as a service provider to their customers. These expenditures may be in the form of monthly payments or, in the case of private line, wavelength or dark fiber services, either monthly payments or upfront payments. We are focused on providing end-to-end transport and fiber services to our customers to directly connect customer locations with a private network.

Voice services comprise a broad range of local and enterprise voice services using Voice over Internet Protocol ("VoIP") and traditional circuit-switch based technologies, including VoIP enhanced local service, SIP Trunking, local inbound service, Primary Rate Interface service, long distance service and toll-free service. Our voice services also include our comprehensive suite of audio, Web and video collaboration services.

Colocation and data center services allow customers to place their network equipment and servers in suitable environments maintained by us with high-speed links providing on-net access to more than 60 countries. These services are secure, redundant and flexible to fit the varying needs of our customers. Services, which vary by location, include hosting network equipment used to transport high speed data and voice over our global network; providing managed IT services, installation, maintenance, storage and monitoring of enterprise services; and providing comprehensive IT outsource solutions.

Security Services can be used to enable customers to address the growing threat of cyber-attack and allow customers to create a secure network, safeguard brand value, enable business continuity, and avoid complexity and cost. Our Security Services include: Secure Access which provides secure and encrypted connectivity for mobile users or remote offices; Cloud and Premises based Managed Firewall and Unified Threat Management Services including Intrusion Prevention and Detection service and Web Content filtering; network-based Distributed Denial of Service (DDoS) Mitigation, which protects against Internet based DDoS attacks; and Security Consulting services for Governance, Risk Management and Compliance. Security Services are sold stand-alone or in conjunction with Data Services.

We believe a source of future incremental demand for our Core Network Services will be from customers that are seeking to distribute their feature rich content or video over the Internet. Revenue growth in this area is dependent on the continued increase in demand from customers and the pricing environment. An increase in the reliability and security of information transmitted over the Internet and declines in the cost to transmit data have resulted in increased utilization of e-commerce or Web-based services by businesses. Although the pricing for data services is currently relatively stable, the IP market is generally characterized by price compression and high unit growth rates depending upon the type of service. We have continued to experience price compression in the high-speed IP and voice services markets.

The following provides a discussion of our Core Network Services revenue in terms of the enterprise and wholesale channels.

- The enterprise channel includes large, multi-national enterprises requiring large amounts of bandwidth to support their business operations, such as financial services companies, healthcare companies, content providers, and portal and search engine companies. It also includes medium-sized enterprises, regional service providers, as well as government markets, the U.S. federal government, the systems integrators supporting the U.S. federal government, U.S. state and local governments, academic consortia, and certain academic institutions.

- The wholesale channel includes revenue from incumbent and alternative carriers in each of the regions, global carriers, wireless carriers, cable companies, satellite companies and voice service providers.

We believe the alignment of Core Network Services around channels should allow us to drive growth while enabling us to better focus on the needs of our customers. Each of these channels is supported by dedicated employees in sales. Each of these channels is also supported by non-dedicated, centralized service delivery and management, product management and development, corporate marketing, global network services, engineering, information technology, and corporate functions, including legal, finance, strategy and human resources.

Wholesale Voice Services

We offer wholesale voice services that target large and existing markets. The revenue potential for wholesale voice services is large; however, pricing is expected to continue to decline over time as a result of the new low-cost IP and optical-based technologies. In addition, the market for wholesale voice services is being targeted by many competitors, several of which are larger and have more financial resources than us.

Seasonality and Fluctuations

We continue to expect business fluctuations to affect sequential quarterly trends in revenue, costs and cash flow. This includes the timing, as well as any seasonality of sales and service installations, usage, rate changes and repricing for contract renewals. Historically, our revenue and expense in the first quarter has been affected by the slowing of our customers' purchasing activities during the holidays and the resetting of payroll taxes in the new year. We conduct a portion of our business in currencies other than the U.S. dollar, the currency in which our Consolidated Financial Statements are reported. Accordingly, our operating results could also be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar. Our historical experience with quarterly fluctuations may not necessarily be indicative of future results.

Because revenue subject to billing disputes where collection is uncertain is not recognized until the dispute is resolved, the timing of dispute resolutions and settlements may positively or negatively affect our revenue in a particular quarter. The timing of disconnection may also affect our results in a particular quarter, with disconnection early in the quarter generally having a greater effect. The timing of capital and other expenditures may affect our costs or cash flow. The convergence of any of these or other factors such as fluctuations in usage, increases or decreases in certain taxes and fees or pricing declines upon contract renewals in a particular quarter may result in our revenue growing more or less than previous trends, may affect our profitability and other financial results and may not be indicative of future financial performance. We also establish appropriate reserves for disputes of incorrect network access cost billings from our suppliers of network services, which may include disputes for circuits that are not disconnected by the supplier on a timely basis, charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. The network access cost reserves for disputed supplier billings are based on an analysis of our historical experience in resolving disputes with our suppliers and regulatory analysis regarding certain specific supplier billing matters. The timing and ultimate outcome of the dispute resolution process could differ from our initial estimates and these differences could be material.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, equity, revenue, expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent

from other sources. We evaluate these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

While we have other accounting policies that involve estimates such as the allowance for doubtful accounts and unfavorable contracts recognized in acquisition accounting, management has identified the policies below, which require the most significant judgments and estimates to be made in the preparation of the Consolidated Financial Statements, as critical to our business operations and the understanding of our results of operations.

Revenue

Revenue is recognized monthly as the services are provided based on contractual amounts expected to be collected. Communications services are provided either on a usage basis, which can vary period to period, or at a contractually committed amount.

For certain sale and long-term indefeasible right of use ("IRU") contracts involving private line, wavelengths and dark fiber services, we may receive upfront payments for services to be delivered for a period of up to 25 years. In these situations, we defer the revenue and amortize it on a straight-line basis to earnings over the term of the contract.

Termination revenue is recognized when a customer disconnects service prior to the end of the contract period and for which we had previously received consideration and for which revenue recognition was deferred. Termination revenue is also recognized when customers make termination penalty payments to us to settle contractually committed purchase amounts that the customer no longer expects to meet or when a customer renegotiates a contract with us under which we are no longer obligated to provide product or services for consideration previously received and for which revenue recognition has been deferred. Termination revenue is reported in the same manner as the original product or service provided.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which amended the existing accounting standards for revenue recognition and requires an entity to recognize the amount of revenue it expects to be entitled to for the transfer of promised goods or services to customers. The ASU and subsequent amendments have been codified as ASC 606, *Revenue from Contracts with Customers* (“ASC 606”). In July 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017, and interim reporting periods within those periods. Early adoption is permitted using the original effective date of annual reporting periods beginning after December 15, 2016, and interim reporting periods within those periods. The new guidance may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of initial adoption. We will not adopt ASC 606 early.

We are performing a comprehensive analysis of our revenue streams and contractual arrangements to identify the effects of ASC 606 on our consolidated financial statements and are developing new accounting and reporting policies, business and internal control processes and procedures to facilitate adoption of the standard. Because we currently have service contracts that contain a significant financing component that are not currently separately accounted for, we will be required to estimate and record incremental revenue and interest cost associated with these contractual terms. In addition, we will be required to capitalize, and subsequently amortize, commission costs associated with obtaining or fulfilling our customer contracts, which we do not currently defer and amortize. We will also have to comply with new revenue disclosure requirements. We are continuing to review and evaluate underlying contract information that will be used to support new accounting and disclosure requirements under ASC 606 and evaluate other matters that may result from adoption of the standard. We have not yet selected a transition method, as our method of transition may be affected by the CenturyLink Merger, which we

expect will be completed in the third quarter of 2017, and subsequent integration activities completed prior to the January 1, 2018 ASC 606 adoption date.

Revenue Reserves

We establish appropriate revenue reserves at the time services are rendered based on an analysis of historical credit activity to address, where significant, situations in which collection is not reasonably assured as a result of credit risk, potential billing disputes or other reasons. Our significant estimates are based on assumptions and other considerations, including payment history, credit ratings, customer financial performance and history of billing disputes.

Network Access Cost Reserves

We dispute incorrect billings from our suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis, charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. We establish appropriate network access cost reserves for disputed supplier billings based on an analysis of our historical experience in resolving disputes with our suppliers and regulatory analysis regarding certain supplier billing matters. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

Valuation of Long-Lived Assets

We perform an assessment of our long-lived assets, including finite-lived intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of assets or asset groupings may not be recoverable. This review requires the identification of the lowest level of identifiable cash flows for purposes of grouping assets subject to review. The estimate of undiscounted cash flows includes long-term forecasts of revenue growth and operating expenses. All of these items require significant judgment and assumptions. An impairment loss may exist when the estimated undiscounted cash flows attributable to the assets are less than their carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the long-lived asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

We conducted a long-lived asset impairment analysis in the fourth quarter of 2016 and 2015 and in each case concluded that our long-lived assets, including our finite-lived intangible assets, were not impaired. To the extent that future changes in assumptions and estimates cause a change in estimates of future cash flows that indicate the carrying amount of our long-lived assets, including finite-lived intangible assets, may not be recoverable, we may incur impairment charges in the future to write-down the carrying amount of our long-lived assets to their estimated fair value.

Useful Lives of Long-Lived Assets

We perform internal reviews to evaluate the depreciable lives of our property, plant and equipment annually or more frequently if new facts and circumstances arise that may affect management's original estimates. Due to the rapid changes in technology and the competitive environment, selecting the estimated economic life of telecommunications property, plant, and equipment requires a significant amount of judgment. Our internal reviews take into account input from our global engineering and network services personnel, actual usage, the physical condition of our property, plant, and equipment, industry data, and other relevant factors.

Goodwill and Indefinite-Lived Intangible Assets

We perform an annual impairment assessment of our goodwill and intangible assets with indefinite useful lives during the fourth quarter, or more frequently if we determine that indicators of impairment exist. Our impairment review process considers the fair value of each reporting unit relative to its carrying value. We assess the fair value of each of our reporting units using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes cash flow projections discounted using an appropriate Weighted Average Cost of Capital (WACC) rate for each reporting unit. The market multiple approach uses a multiple of a company's Earnings Before Interest, Taxes, and Depreciation and Amortization expenses (EBITDA).

If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting guidance, prior to performing the two step evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, we are not required to complete the two step goodwill impairment evaluation. The selection and assessment of qualitative factors used to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value involves significant judgment.

In 2016, our reporting units consisted of our three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. Goodwill assigned to the North America, EMEA and Latin America reporting units at December 31, 2016 totaled $7.729 billion and was $7.024 billion, $109 million and $596 million, respectively. Goodwill assigned to the North America, EMEA and Latin America reporting units at December 31, 2015 totaled $7.749 billion and was $7.024 billion, $129 million and $596 million, respectively.

In 2016, we conducted our qualitative goodwill impairment analysis and determined that it was more likely than not that the fair value of our reporting units exceeded the carrying value and concluded that goodwill was not impaired. As a result, we did not perform the two step goodwill impairment evaluation. In 2015, as a result of the deconsolidation of our Venezuelan subsidiary, we completed an assessment of the Latin American and other reporting units' goodwill as of September 30, 2015 and concluded there was no impairment in 2015.

To the extent that future changes in our assumptions and estimates cause a change in the related fair value estimates that indicate the carrying amount of our goodwill may exceed its fair value, we may incur impairment charges in the future to write-down the carrying amount of our goodwill to its estimated fair value.

Our indefinite-lived intangible assets impairment review process compares the estimated fair value of the indefinite-lived intangible assets to their respective carrying values. If the fair value of the indefinite-lived intangible assets exceeds their carrying values, then the indefinite-lived intangible assets are not impaired. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting standards, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value exceeds the carrying value prior to performing the evaluation. If it is determined that it is unlikely the carrying value exceeds the fair value, then the entity is not required to perform the indefinite-lived intangible assets impairment evaluation.

During the fourth quarter of 2016 and 2015, we conducted our indefinite-lived intangible assets impairment analysis and concluded that there was no impairment in 2016 and 2015.

Assessment of Loss Contingencies

We have legal, tax and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. We have provided for losses in situations where we have concluded that it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. Further, with respect to loss contingencies, where it is probable that a liability has been incurred and there is a range in the expected loss and no amount in the range is more likely than any other amount, we accrue at the low end of the range. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in predicting the likelihood of future events and estimating the financial impact of such events. Accordingly, it is possible that upon the further development or resolution of a contingent matter, a significant charge could be recorded in a future period related to an existing contingent matter. For additional information, see Note 15 - Commitments, Contingencies And Other Items in the notes to the Consolidated Financial Statements.

Business Combinations

The accounting guidance for business combinations requires an acquiring entity to recognize all of the assets acquired and liabilities assumed at the acquisition date fair value. The allocation of the purchase price to the assets acquired and liabilities assumed from an acquisition, and the related estimated lives of depreciable and amortizable tangible and identifiable intangible assets, require a significant amount of judgment and is considered a critical estimate. Such allocation of certain aspects of the purchase price to items that are more complex to value is performed by management, taking into consideration information provided to management by an independent valuation firm.

Income Taxes

We recognize deferred tax assets and liabilities for our United States and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns, and future profitability by tax jurisdiction. We have historically provided a valuation allowance to reduce our U.S. federal, state and non-U.S. deferred tax assets to the amount that is more likely than not to be realized; however, in the fourth quarter 2015, we released the majority of our valuation allowance against our U.S. federal and state deferred tax assets, resulting in a non-cash benefit to income tax expense of approximately $3.3 billion, $3.1 billion of which was related to future taxable earnings.

Given our current level of pre-tax income, and assuming we maintain into the future this current level of pre-tax income at a minimum, we expect to generate income before taxes in the United States in future periods at a level that would fully utilize our U.S. federal and the majority of our state net operating loss carryforward balances. We continue to maintain a valuation allowance of approximately $0.9 billion as of December 31, 2016, against net deferred tax assets, primarily in non-U.S. and certain of our state jurisdictions where we do not currently believe the realization of our deferred tax assets is more likely than not.

We evaluate our deferred tax assets quarterly to determine whether adjustments to the valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in expected

future pre-tax earnings, tax law, interactions with taxing authorities and developments in case law. In making this evaluation, we rely on our recent history of pre-tax earnings. Our material assumptions are our forecasts of future pre-tax earnings and the nature and timing of future deductions and income represented by the deferred tax assets and liabilities, all of which involve the exercise of significant judgment.

We had a valuation allowance on many of our non-U.S. jurisdictions as of December 31, 2016. We monitor our cumulative loss position in these non-U.S. jurisdictions and other evidence each quarter to determine the appropriateness of our valuation allowance. In 2016 we had an $82 million income tax benefit related to the release of deferred tax valuation allowances primarily in Germany, Brazil, and Mexico. The determinations to release the foreign valuation allowances were driven by our projection of future profitability for each legal entity due to the recapitalization of our German subsidiary, the planned action to restructure our Brazilian business, and the merger of our Mexican subsidiaries.

With respect to our foreign branches, we had historically established deferred tax liabilities for foreign branches with an overall cumulative translation gain, but had not established deferred tax assets for those with an overall translation loss as we had no plans to trigger realization of the losses in the foreseeable future. On December 7, 2016, the Internal Revenue Service issued new regulations under Internal Revenue Code Section 987 addressing the taxation of foreign currency translation gains and losses arising from foreign branches. The new regulations require a “fresh start” recalculation of the unrealized gains and losses as of the adoption date. The regulations provide that the tax bases of specified assets, such as fixed assets, will be translated at historic foreign exchange rates. As a result, the deferred taxes related to such foreign currency translation are expected to reverse through the operations of the branch thereby allowing the recognition of deferred tax assets arising from translation losses as well. The issuance of the regulations resulted in us recognizing an estimated one-time income tax benefit of $110 million during the fourth quarter 2016.

Although we believe our estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance, as well as the effect of recently issued tax regulations addressing the complex area of foreign currency translation involves significant judgment.

Results of Operations 2016 vs. 2015 and 2015 vs. 2014

Year Ended December 31, (dollars in millions)	2016	2015	2014
Revenue	$ 8,172	$ 8,229	$ 6,777
Network access costs	2,725	2,833	2,529
Network related expenses	1,346	1,432	1,246
Depreciation and amortization	1,250	1,166	808
Selling, general and administrative expenses	1,407	1,467	1,181
Total Costs and Expenses	6,728	6,898	5,764
Operating Income	1,444	1,331	1,013
Other Income (Expense):			
Interest income	4	1	1
Interest expense	(546)	(642)	(654)
Loss on modification and extinguishment of debt	(40)	(218)	(53)
Venezuela deconsolidation charge	—	(171)	—
Other, net	(20)	(18)	(69)
Total Other Expense	(602)	(1,048)	(775)
Income Before Income Taxes	842	283	238
Income Tax (Expense) Benefit	(165)	3,150	76
Net Income	$ 677	$ 3,433	$ 314

Discussion of all significant variances:

Revenue by Channel:

Year Ended December 31, (dollars in millions)	2016	2015	2014
Core Network Services Revenue:			
North America - Wholesale Channel	$ 1,694	$ 1,746	$ 1,472
North America - Enterprise Channel	4,668	4,461	3,048
EMEA - Wholesale Channel	247	278	334
EMEA - Enterprise Channel	497	557	570
Latin America - Wholesale Channel	147	182	217
Latin America - Enterprise Channel	514	533	567
Total Core Network Services Revenue	7,767	7,757	6,208
Wholesale Voice Services	405	472	569
Total Revenue	$ 8,172	$ 8,229	$ 6,777

Revenue by Service Offering:

Year Ended December 31, (dollars in millions)	2016	2015	2014
Core Network Services Revenue:			
Colocation and Datacenter Services	$ 604	$ 606	$ 590
Transport and Fiber	2,308	2,350	2,087
IP and Data Services	3,659	3,589	2,530
Voice Services (Local and Enterprise)	1,196	1,212	988
Total Core Network Services Revenue	7,767	7,757	6,195
Wholesale Voice Services	405	472	582
Total Revenue	$ 8,172	$ 8,229	$ 6,777

Revenue decreased 1% in 2016 compared to 2015 and increased 21% in 2015 compared to 2014. Core Network Services revenue remained essentially flat at $7.767 billion in 2016 compared to $7.757 billion in 2015, although enterprise channel revenue increased $128 million, partially offset by a $118 million decrease in wholesale channel revenue.

Enterprise channel revenue increased $207 million in North America in 2016 compared to 2015, primarily due to growth in VPN services and wavelengths services provided to enterprise customers. This growth was partially offset by Latin America, where enterprise channel revenue declined $19 million, primarily due to the effect of the September 30, 2015 deconsolidation of our Venezuelan subsidiary with $57 million of enterprise channel revenue and the strengthening of the U.S. dollar against Latin American currencies in 2016 compared to the exchange rates in 2015, partially offset by an increase in enterprise channel revenue of $37 million, due largely to growth in IP, wavelengths, and VPN services to enterprise customers. Enterprise channel revenue in EMEA decreased $60 million compared to 2015, primarily due to the effect of the stronger U.S. dollar against European currencies and decreased U.K. Government revenue.

Wholesale channel revenue decreased $52 million in North America in 2016 compared to 2015 primarily due to a decline in private line and IP services, partially offset by VPN, dark fiber and wavelengths services growth. Latin America wholesale channel revenue decreased $35 million in 2016, primarily due to the effect of the September 30, 2015 deconsolidation of our Venezuelan subsidiary of $15 million, in addition to a decrease in IP and data services, VPN, and private line services. EMEA wholesale channel revenue decreased $31 million primarily due to certain large disconnects and the strengthening of the U.S. dollar against local currencies in 2016 compared to exchange rates in 2015. Wholesale channel revenue continued to be affected by industry consolidation across all regions.

From a service and product offering perspective, we continued to grow our IP and data services by $70 million in 2016 compared to 2015, driven primarily by an increase in VPN services of $118 million, CDN services of $18 million and managed services of $13 million. These increases were partially offset by the effect of the September 30, 2015 deconsolidation of our Venezuelan subsidiary of $47 million and the strengthening of the U.S. dollar against local currencies in 2016 compared to the exchange rates in 2015 of $34 million. Transport and fiber decreased by $42 million, primarily due to a decrease in private line of $123 million, the effect of the September 30, 2015 deconsolidation of our Venezuelan subsidiary of $14 million, and the strengthening of the U.S. dollar against local currencies in 2016 compared to the exchange rates in 2015 of $12 million, partially offset by increases in wavelengths services of $76 million and dark fiber services of $30 million. Voice services decreased by $16 million, primarily due to the decrease of intercarrier compensation for voice services of $14 million, the strengthening of the U.S. dollar against local currencies in 2016 compared to the exchange rates in 2015 of $11 million, the

decrease of collaboration services of $7 million, partially offset by the increase in voice services by $16 million. Colocation and datacenter services decreased by $2 million, primarily due to the effect of the September 30, 2015 deconsolidation of our Venezuelan subsidiary of $11 million and the strengthening of the U.S. dollar against local currencies in 2016 compared to the exchange rates in 2015 of $8 million, partially offset by growth in managed security services, data center, and colocation services.

Wholesale Voice Services revenue decreased in all regions in 2016 compared to 2015, primarily due to competitive pressures caused by industry consolidation and our focus on maintaining or growing Wholesale Voice Services profitability.

The increase in total revenue in 2015 compared to 2014 was primarily driven by a full year of additional revenue in 2015 associated with acquisition of tw telecom in the fourth quarter of 2014, compared to $285 million representing two months of revenue from the tw telecom acquisition included in the 2014 results. Assuming the tw telecom revenue was included for the full year of 2014, the total revenue would have increased from $8.123 billion in 2014 to $8.229 billion in 2015, or a 1% increase (see Note 3 - Events Associated with the Acquisition of tw telecom inc. in the Notes to the Consolidated Financial Statements). This increase was primarily driven by enterprise channel growth of $313 million in North America, offset by declines in Latin America revenue of $69 million and EMEA revenue of $69 million primarily due to the strengthening of the U.S. dollar against local currencies in 2015, declines of $99 million in Wholesale Voice Services revenue and the effect of the deconsolidation of our Venezuelan subsidiary as of September 30, 2015.

We experienced continued growth in our IP and data services of $1.056 billion, transport and fiber services of $258 million and voice services of $233 million during 2015 compared to 2014 driven primarily by the acquisition of tw telecom and end user customer demand for VPN and bandwidth in the enterprise channel. The increase in IP and data services was predominantly driven by our VPN and managed services and revenue from the tw telecom acquisition. We also experienced increases in transport and fiber driven by dark fiber, wavelengths and professional services and in colocation and datacenter services and voice services, which also benefited from the tw telecom acquisition, offset by the adverse effect of weakening currencies in EMEA and Latin America against the U.S. dollar.

Core Network Services revenue increased in the North America region in 2015 compared to 2014 as a result of the full year of results from the tw telecom acquisition and growth in services provided to the existing enterprise customer base. These increases were partially offset by decreases in EMEA and Latin America for 2015 due to the appreciation of the U.S. dollar against currencies in EMEA and Latin America.

Wholesale Voice Services revenue decreased in all regions in 2015 compared to 2014. In 2015 compared to 2014, Wholesales Voice Services revenue decreased in North America and EMEA and remained flat in Latin America. The changes during the periods are primarily due to competitive pressures and our focus on maintaining Wholesale Voice Services profitability.

Network Access Costs include leased capacity, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from our network, but excludes Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

Network Access Costs as a percentage of total revenue was 33% in 2016 compared to 34% in 2015 and 37% in 2014. The decrease is primarily due to an improving mix of higher profit on-net Core Network Services and a decline in lower profit Wholesale Voice Services. Additionally, we continue to implement initiatives to reduce both fixed and variable network access costs, which resulted in a decrease in Network Access Costs.

Network Related Expenses include certain expenses associated with the delivery of services to customers and the operation and maintenance of our network, such as facility rent, utilities, maintenance and other costs, each related to the operation of our communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services, operation and maintenance of our communications network, and accretion expense on asset retirement obligations, but excludes depreciation and amortization.

Network Related Expenses decreased 6% in 2016 from 2015 and increased 15% in 2015 from 2014. The decrease in 2016 compared to 2015 was primarily related to decreased employee related expense of $46 million and a decrease in facilities and network based expenses of $27 million as we continued to optimize our workforce and facilities. Additionally, in the third quarter of 2015, we implemented certain workforce reductions, resulting in approximately $8 million of restructuring charges recorded in Network Related Expenses.

The increase in 2015 compared to 2014 was primarily related to an increase in employee related expense of $106 million and an increase in facilities and rent expense of $62 million resulting from the acquisition of tw telecom. Additionally, in the third quarter of 2015, we implemented certain workforce reductions, resulting in approximately $8 million of restructuring charges recorded in Network Related Expenses.

Depreciation and Amortization expense increased 7% in 2016 from 2015 and increased 44% in 2015 from 2014. The increase in 2016 compared to 2015 is primarily related to $101 million of depreciation and amortization charges associated with additional capital expenditures, net of fully depreciated assets, partially offset by $17 million of foreign currency exchange rate changes in EMEA and Latin America. The increase in 2015 compared to 2014 is primarily attributable to $312 million of depreciation and amortization charges associated with the assets acquired from tw telecom and increased capital expenditures, partially offset by the impact of foreign currency exchange rate changes in EMEA and Latin America of $17 million.

Selling, General and Administrative Expenses ("SG&A Expenses") includes the salaries, wages and related benefits (including non-cash stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising, and other administrative expenses.

SG&A Expenses decreased 4% in 2016 compared to 2015 and increased 24% in 2015 compared to 2014. The decrease in 2016 was primarily related to decreased employee-related expenses of $24 million as we continued to drive greater operational efficiencies, as well as lower other tax of $7 million and a decrease in bad debt expense of $5 million. In 2016 we also released an accrual for an assessment of $12 million and associated interest of $14 million corresponding to certain Peruvian tax litigation. See Note 15 — Commitments, Contingencies and Other Items in the notes to Consolidated Financial Statements for additional information. Additionally, in the third quarter of 2015, we implemented certain workforce reductions, resulting in approximately $16 million of restructuring charges recorded in SG&A expenses. These decreases were partially offset by an increase in non-cash stock-based compensation of $13 million in 2016 compared to 2015. The increase in 2015 compared to 2014 was primarily related to $199 million of additional employee related expenses and an increase in professional services and non-network rent of $51 million, primarily associated with the acquisition of tw telecom, partially offset by a decrease of $18 million in restructuring charges from $34 million in 2014. We incurred $32 million and $81 million in expenses related to the acquisition of tw telecom in 2015 and 2014, respectively.

Non-cash, stock-based compensation expense of $156 million, $141 million and $73 million was recorded in 2016, 2015 and 2014, respectively, related to outperform stock appreciation rights, performance restricted stock units ("PRSUs"), restricted stock units, incentive and retention plans and shares issued for our matching contribution to the 401(k) plan. Approximately $134 million, $121 million

and $64 million of non-cash stock-based compensation expense was recorded in SG&A Expenses in 2016, 2015 and 2014, respectively, and $22 million, $20 million and $9 million was recorded in Network Related Expenses in 2016, 2015 and 2014, respectively. The increase in 2016 compared to 2015 was primarily due to additional grants of restricted stock units and performance stock units, partially offset by decreased expense due to a 2015 change in retirement eligibility, which accelerated the expensing of awards for certain retirement eligible personnel in 2015, and outperform stock appreciation right awards reaching full amortization by the third quarter of 2016. The increase in 2015 compared to 2014 was primarily related to additional grants of restricted stock units, PRSUs, and increased matching contributions for our 401(k) plan due to the additional headcount from the tw telecom acquisition.

Adjusted EBITDA, as defined by us, is net income (loss) from the Consolidated Statements of Income before (1) income tax benefit (expense), (2) total other income (expense), (3) non-cash impairment charges included within selling, general and administrative expenses and network related expenses, (4) depreciation and amortization expense and (5) non-cash stock-based compensation expense included within selling, general and administrative expenses and network related expenses and (6) discontinued operations.

Adjusted EBITDA is not a measurement under generally accepted accounting principles ("GAAP") and may not be used in the same way by other companies. We believe that Adjusted EBITDA is an important part of our internal reporting and is a key measure used by us to evaluate our profitability and operating performance and to make resource allocation decisions. We believe such measurement is especially important in a capital-intensive industry such as telecommunications. We also use Adjusted EBITDA to compare our performance to that of our competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period our ability to fund capital expenditures, fund growth, service debt and determine bonuses.

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock-based compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income tax benefit (expense) because these items are associated with our capitalization and tax structures. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses reflect the effect of capital investments which we believe are better evaluated through cash flow measures. Adjusted EBITDA excludes net other income (expense) because these items are not related to our primary operations.

There are limitations to using non-GAAP financial measures such as Adjusted EBITDA, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from our calculations. Additionally, this financial measure does not include certain significant items such as interest income, interest expense, income tax benefit (expense), depreciation and amortization expense, non-cash impairment charges, non-cash stock-based compensation expense and net other income (expense). Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

The following information provides a reconciliation of Net Income to Adjusted EBITDA as defined by us along with Adjusted EBITDA by reportable segment:

	Year Ended December 31,		
(dollars in millions)	2016	2015	2014
Net Income	$ 677	$ 3,433	$ 314
Income Tax Expense (Benefit)	165	(3,150)	(76)
Total Other Expense	602	1,048	775
Depreciation and amortization	1,250	1,166	808
Non-Cash Stock Compensation Attributable to Stock Awards	156	141	73
Non-Cash Impairment	—	—	1
Adjusted EBITDA	$ 2,850	$ 2,638	$ 1,895
North America	$ 3,220	$ 3,048	$ 2,065
EMEA	215	235	214
Latin America	293	302	348
Unallocated Corporate Expenses	(878)	(947)	(732)
Adjusted EBITDA	$ 2,850	$ 2,638	$ 1,895

Adjusted EBITDA was $2.850 billion in 2016 compared with $2.638 billion in 2015 and $1.895 billion in 2014. The increase in Adjusted EBITDA is attributable to growth in our higher incremental profit Core Network Services revenue and continued improvements in network access costs as a percentage of revenue and lower network related and SG&A Expenses, partially offset by lower wholesale voice revenue and the September 30, 2015 deconsolidation of our Venezuelan subsidiary, which had Adjusted EBITDA of $46 million for the nine months ended September 30, 2015. See Note 14 — Segment Information in the notes to Consolidated Financial Statements for additional information on Adjusted EBITDA by region.

Adjusted EBITDA increased $172 million in the North America region in 2016 compared to 2015, primarily due to increased Core Network Services revenue of $155 million partially offset by Wholesale Voice Services revenue, as discussed further above, and initiatives resulting in reduced fixed and variable network access costs. Network access costs decreased $53 million in 2016 compared to 2015.

Adjusted EBITDA decreased $20 million in the EMEA region in 2016 compared to 2015 as a result of the $91 million decrease in Core Network Services revenue in 2016, partially offset by reduced employee related expenses of $7 million and a $25 million reduction in network related expenses, as discussed further above. EMEA Adjusted EBITDA was favorably affected by initiatives that reduced fixed and variable network access costs. Network access costs in EMEA decreased $39 million in 2016 compared to 2015.

Adjusted EBITDA decreased $9 million in the Latin American region in 2016 compared to 2015, primarily as a result of the $46 million decrease from the deconsolidation of our Venezuelan subsidiary on September 30, 2015, partially offset by reduced employee related expenses and other SG&A expenses of $29 million, reduced network access costs of $4 million, and reduced network related expenses of $4 million, as discussed further above. Adjusted EBITDA was favorably affected by initiatives that reduced fixed and variable network access costs.

Adjusted EBITDA increased in the North America region in 2015 compared to 2014 primarily as a result of the tw telecom acquisition, growth in Core Network Services revenue and initiatives resulting in reduced network access costs.

Adjusted EBITDA increased in the EMEA region in 2015 compared to 2014 as a result of initiatives that reduced network access costs, which were partially offset by the effect of the stronger U.S. dollar against European currencies. Adjusted EBITDA for 2015 was negatively affected by approximately 1% versus the comparable prior period as a result of the changes in foreign currency rates.

Adjusted EBITDA decreased in the Latin American region in 2015 compared to 2014 primarily as a result of the effect of the stronger U.S. dollar against Latin American currencies. Adjusted EBITDA for 2015 was negatively affected by approximately 2% versus the comparable prior period, as a result of the changes in foreign currency rates. The decrease was partially offset by initiatives resulting in reduced network access costs.

Interest Expense decreased $96 million in 2016 from 2015 and decreased $12 million in 2015 from 2014. The decrease in 2016 compared to 2015 is due to a lower weighted average interest cost of debt of 4.7% at December 31, 2016 compared to 4.9% at December 31, 2015 due to refinancing activities. Interest expense decreased in 2015 compared to 2014 by $72 million due to a lower weighted average interest cost of debt of 4.9% at December 31, 2015 compared to 5.9% at December 31, 2014 due to refinancing activities and a $30 million reduction in interest expense as a result of the conversion of the 7% Convertible Senior Notes due 2015 and 7% Convertible Senior Notes due 2015, Series B into common stock, partially offset by $89 million of interest expense on additional borrowings used to fund the tw telecom acquisition.

Approximately 55% of our long-term debt is subject to variable interest rates and therefore subject to market risks arising from changes in interest rates. As of December 31, 2016 we expect annual interest expense in 2017 to approximate $570 million based on current interest rates on our debt outstanding as of December 31, 2016. See Note 10 - Long-Term Debt in the notes to Consolidated Financial Statements for additional information on our financing activities.

Loss on Modification and Extinguishment of Debt was $40 million in 2016 compared to a loss of $218 million in 2015 and a loss of $53 million in 2014. See Note 10 - Long-Term Debt in the notes to the Consolidated Financial Statements for more details regarding our financing activities.

In the second quarter of 2016, we recorded a charge of approximately $40 million related to the April 2016 redemption of the 7% Senior Notes due 2020.

The loss recorded during 2015 was related to a charge of approximately $36 million related to the redemption of the 9.375% Senior Notes due 2019 in April 2015, $100 million related to the redemptions of the 8.125% Senior Notes due 2019 and 8.875% Senior Notes due 2019 in April 2015, $27 million related to the refinancing of the $2 billion senior secured Tranche B Team Loan due 2022 in May 2015 and $55 million related to the redemption of the 8.625% Senior Notes due 2020.

The loss recorded during 2014 was related to the refinancing of the 11.875% Senior Notes due 2019.

Other, net is primarily comprised of gains and losses on the sale of non-operating assets, foreign currency gains and losses and other income and expense.

(dollars in millions)	Year Ended December 31, 2016	2015	2014
(Gain) Loss on Sale of Property, Plant, and Equipment and Other Assets	$ (2)	$ 1	$ (3)
Foreign Currency Loss related to Venezuela	—	11	43
Other Foreign Currency Loss	31	18	18
Impairment	—	—	17
Other Income	(9)	(12)	(6)
Other, net	$ 20	$ 18	$ 69

The Other, net expense in 2016 and 2015 was incurred primarily due to foreign currency losses attributable to the appreciation of the U.S. dollar for certain intercompany balances denominated in the local currency of foreign subsidiaries in North America, EMEA and Latin America that are not considered to be long-term in nature.

Other, net expense in 2014 is primarily due to foreign currency fluctuations of local currencies relative to the U.S. dollar, including foreign currency losses attributable to the devaluation of the Venezuelan bolivar as discussed below, and the partial impairment of our indefinite-lived intangible asset, partially offset by net foreign currency gains.

During the first quarter of 2014, the Venezuelan government enacted additional changes to the country's foreign exchange system. The government expanded the types of transactions that may be allowed via the weekly auctions under the Complementary System of Foreign Currency Acquirement ("SICAD 1"). The Venezuelan government also announced the replacement of its existing foreign currency administration with the National Center for Foreign Commerce ("CENCOEX"). At that time, entities could seek approval to transact through CENCOEX at the official rate of 6.30 Venezuelan bolivars to the U.S. dollar; however, certain transactions could be approved at the latest SICAD 1 rate, depending on the entity's facts and circumstances.

During the second quarter of 2014, based on additional experience with the new foreign exchange mechanisms, we concluded that the most appropriate rate was SICAD 1. Accordingly, we recognized a loss of approximately $34 million in 2014, resulting from the devaluation of Venezuelan bolivar denominated monetary assets and liabilities from the official rate of 6.3 to the SICAD 1 rate. Based upon the further deterioration of the SICAD rate from 10.6 as of June 30, 2014 to 12.0 as of September 30, 2014, we recognized an additional loss of approximately $7 million in the third quarter of 2014. As of December 31, 2014, SICAD 1 was 12.0 Venezuelan bolivars to the U.S. dollar.

During the second quarter of 2015, we recognized a charge of $6 million related to the devaluation of the Venezuelan SICAD I exchange rate from 12.0 bolivars to the U.S. dollar to 12.8 bolivars to the U.S. dollar at June 30, 2015.

During the third quarter of 2015 prior to deconsolidation, we recognized a charge of $5 million related to the devaluation of the Venezuelan SICAD I exchange rate from 12.8 bolivars to the U.S. dollar to 13.5 bolivars to the U.S. dollar effective September 1, 2015.

Income Tax (Expense) Benefit was $165 million of expense in 2016 compared to $3.150 billion of benefit in 2015 and $76 million of benefit in 2014. Income tax expense for the year ended December 31, 2016 includes an estimated one-time $110 million income tax benefit related to the issuance of new regulations under Internal Revenue Code Section 987 addressing the taxation of foreign currency

translation gains and losses arising from foreign branches, an $82 million income tax benefit related to the release of deferred tax valuation allowances primarily in Germany, Brazil, and Mexico, and a $22 million benefit from the vesting of stock based compensation due to the adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, offset by income tax expense associated with current year taxable earnings and $24 million income tax expense related to income tax rate changes. The determinations to release the foreign valuation allowances were driven by our projection of future profitability for each legal entity due to the recapitalization of our German subsidiary, the planned action to restructure our Brazilian business, and the merger of our Mexican subsidiaries. Our effective tax rate is lower than the statutory rate primarily due to the benefit related to the issuance of new regulations under Internal Revenue Code Section 987, the income tax benefit on the foreign valuation allowance releases, and the adoption of ASU 2016-09, partially offset by limitations on certain deductions, the inability to recognize tax benefits on losses incurred in certain jurisdictions due to maintenance of valuation allowances against deferred taxes in those jurisdictions, as well as, other discrete items such as enacted tax rate changes.

During the fourth quarter of 2015, we released approximately $3.3 billion of our deferred tax valuation allowance related to our business in the United States. Income tax expense in prior periods was primarily related to taxes in foreign jurisdictions. In making the determination to release the valuation allowance against U.S. federal and state deferred tax assets, we took into consideration our movement into a cumulative income position for the most recent three-year period, including pro forma adjustments for acquired entities, our eight out of nine consecutive quarters of pre-tax operating income, and forecasts of future earnings for our U.S. business. The release was reflected as an income tax benefit in 2015.

During the fourth quarter of 2014, we released approximately $100 million of deferred tax valuation allowance primarily related to our business in the United Kingdom due to a recapitalization and consolidation of legal entities whereby one U.K. entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets, as we had an expectation of future taxable income for the combined entities. The release was reflected as an income tax benefit in 2014.

We incur tax expense attributable to income in the U.S. and in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. We also recognize accrued interest and penalties in income tax expense related to uncertain tax benefits. Our tax rate is volatile and may move up or down with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, changes in tax laws, our deferred tax valuation allowance, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

Venezuela Effects

Effective September 30, 2015, we deconsolidated our Venezuelan subsidiary from our consolidated financial statements. Despite the deconsolidation of our Venezuelan subsidiary, we continue to wholly own our Venezuelan subsidiary, operate in the region and remain committed to serving our Venezuelan customers. We deem it appropriate to continue to deconsolidate Venezuela.

There are a number of currency and other operating controls and restrictions in Venezuela, which have evolved over time and may continue to evolve in the future. These evolving conditions have resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted our Venezuelan operations' ability to pay dividends and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of our Venezuelan operations and access the resulting liquidity provided by those earnings in U.S. dollars. We expect that this condition will continue for the foreseeable future. Additionally, government regulations affecting our ability to manage our Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an

acute degradation in the ability to make key operational decisions. This lack of exchangeability and degradation in our ability to control key operational decisions has resulted in a lack of control over our Venezuelan subsidiary for U.S. accounting purposes. Therefore, we concluded we no longer met the accounting criteria for consolidation and deconsolidated our Venezuelan subsidiary effective as of September 30, 2015 and began accounting for the investment in our Venezuelan subsidiary using the cost method of accounting. This change resulted in a one-time charge of $171 million, which includes $83 million of bolivar denominated cash and $40 million of intercompany receivables from our Venezuelan subsidiary. The factors that led to the deconsolidation of our Venezuelan subsidiary at the end of the third quarter of 2015 continued to exist through the end of 2016. Any dividends from our Venezuelan subsidiaries will be recorded as other income upon receipt of the cash in U.S. dollars. While we do not expect to enter into material transactions with our subsidiary in Venezuela that would result in the creation of additional intercompany receivable balances, if any such transactions were completed, we would evaluate collectability of the intercompany receivable balance at that time which could result in a charge negatively affecting our results of operations. Please see Note 1 to the accompanying unaudited Consolidated Financial Statements. Prior to the deconsolidation, our operations in Venezuela accounted for approximately 1% of consolidated total revenue for the nine months ended September 30, 2015 and for the twelve months ended December 31, 2014, and approximately 3% and 4% of consolidated operating income for the same periods, respectively.

Financial Condition—December 31, 2016

Cash flows provided by operating activities, investing activities and financing activities for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Year Ended December 31,		
(dollars in millions)	2016	2015	Change
Net Cash Provided by Operating Activities	$ 2,343	$ 1,855	$ 488
Net Cash Used in Investing Activities	(1,319)	(1,344)	25
Net Cash Used in Financing Activities	(56)	(219)	163
Effect of Exchange Rates on Cash and Cash Equivalents	(3)	(18)	15
Net Change in Cash and Cash Equivalents	$ 965	$ 274	$ 691

Operating Activities

Cash provided by operating activities increased to $2.343 billion in 2016 compared to $1.855 billion in 2015. The increase in cash provided by operating activities was primarily due to growth in earnings before income tax driven by continued optimization of Network Access Costs, and an increase in cash provided by working capital. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable, bonuses and capital expenditures.

Investing Activities

Cash used in investing activities decreased to $1.319 billion in 2016 compared to $1.344 billion in 2015, primarily as a result of an $83 million write-down in 2015 of our Venezuelan bolivar denominated cash balance, which was deconsolidated as of September 30, 2015. This decrease was partially offset by an increase in capital expenditures, which totaled $1.334 billion in 2016 and $1.229 billion in 2015.

Financing Activities

Cash used in financing activities of $56 million in 2016 decreased compared to $219 million used in financing activities in 2015. See Note 10 - Long-Term Debt in the notes to the Consolidated Financial Statements for more details regarding our debt transactions during 2016 and 2015.

Effect of Exchange Rates on Cash and Cash Equivalents

The effect of exchange rates on cash and cash equivalents in 2016 and 2015 was a reduction in cash of $3 million and $18 million, respectively, and was primarily due to the fluctuations of the U.S. dollar against currencies in EMEA and Latin America, including Venezuela prior to its deconsolidation.

Liquidity and Capital Resources

We had $1.819 billion of cash and cash equivalents on hand at December 31, 2016. We also had $38 million of current and non-current restricted cash and securities used to collateralize outstanding letters of credit and certain performance and operating obligations and other deposits at December 31, 2016.

Free Cash Flow is defined by us as net cash provided by (used in) operating activities less capital expenditures as disclosed in the Consolidated Statements of Cash Flows. Management believes that Free Cash Flow is a relevant metric to provide to investors, as it is an indicator of our ability to generate cash to service our debt. Free Cash Flow excludes cash used for acquisitions, principal repayments and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Free Cash Flow to measure our performance as it excludes certain material items such as principal payments on and repurchases of long-term debt and cash used to fund acquisitions. Comparisons of our Free Cash Flow to that of some of our competitors may be of limited usefulness since we do not currently pay a significant amount of income taxes due to net operating losses, and therefore, generate higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to interest expense, accounts receivable and accounts payable and capital expenditures. Free Cash Flow should not be used as a substitute for net change in cash and cash equivalents on the Consolidated Statements of Cash Flows.

The following information provides a reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow as defined by us:

	Year Ended December 31,		
(dollars in millions)	**2016**	**2015**	**2014**
Net Cash Provided by Operating Activities	$ 2,343	$ 1,855	$ 1,161
Capital Expenditures	(1,334)	(1,229)	(910)
Free Cash Flow	$ 1,009	$ 626	$ 251

Free Cash Flow was $1.009 billion in 2016 compared to $626 million in 2015, reflecting a $383 million improvement driven by $488 million of higher cash provided by operating activities offset by $105 million of higher spending on capital expenditures in 2016. For the full year 2017, we expect to generate Free Cash Flow of $1.10 to $1.16 billion excluding any CenturyLink merger related expenses.

Capital expenditures for 2017 are expected to be approximately 16% of revenue, consistent with 16% of revenue in 2016 as we invest in base capital expenditures (estimated capital required to keep the network operating efficiently and support new service development) with the remaining capital

expenditures expected to be partly success-based, which is tied to a specific customer revenue opportunity, and partly project-based where capital is used to expand the network based on our expectation that the project will eventually lead to incremental revenue.

Net cash interest payments are expected to increase to approximately $520 million in 2017 from $508 million in 2016 based on forecasted interest rates on our variable rate debt outstanding as of December 31, 2016. As of December 31, 2016, we had contractual debt obligations, including capital lease obligations, but excluding interest and discounts on debt issuance, of $7 million that mature in 2017, $306 million in 2018, and $822 million in 2019.

We currently have the ability to repatriate cash and cash equivalents into the United States without paying or accruing U.S. taxes. We do not currently intend to repatriate to the United States any of our foreign cash and cash equivalents from operating entities outside of Latin America. We have no material restrictions on our ability to repatriate to the United States foreign cash and cash equivalents. We had approximately $49 million of non-U.S. denominated cash and cash equivalents at December 31, 2016.

We believe our current liquidity and anticipated future cash flows from operations will be sufficient to fund our business for at least the next twelve months.

We may need to refinance all or a portion of our indebtedness at or before maturity and cannot provide assurances that we will be able to refinance any such indebtedness on commercially reasonable terms or at all. In addition, we may elect to secure additional capital in the future, at acceptable terms, to improve our liquidity or fund acquisitions. In addition, in an effort to reduce future cash interest payments as well as future amounts due at maturity or to extend debt maturities, we may, from time to time, issue new debt, enter into debt for debt, debt for equity or cash transactions to purchase our outstanding debt securities in the open market or through privately negotiated transactions. In addition, we may consider other uses of capital or opportunities to return cash to stockholders. We will evaluate any such transactions in light of the existing market conditions and the possible dilutive effect to stockholders. The amounts involved in any such transaction, individually or in the aggregate, may be material.

In addition to raising capital through the debt and equity markets, we may sell or dispose of existing businesses, investments or other non-core assets.

Consolidation of the communications industry may continue. We will continue to evaluate consolidation opportunities and could make additional acquisitions in the future.

In pursuing any of these various actions, we would also need to address any restrictions contained in the CenturyLink Merger agreement or obtain a waiver of those restrictions.

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet arrangements.

Contractual Obligations

The following table summarizes our contractual obligations and other commercial commitments at December 31, 2016, as further described in the Notes to Consolidated Financial Statements.

Payments Due by Period

(dollars in millions)	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Contractual Obligations					
Long-Term Debt, including current portion	$ 11,009	$ 7	$ 1,128	$ 2,454	$ 7,420
Interest Obligations	2,990	523	1,013	796	658
Asset Retirement Obligations	89	13	10	3	63
Operating Leases	1,537	282	466	288	501
Right of Way Agreements	743	162	151	105	325
Purchase and Other Obligations	1,276	941	212	51	72
Other Commercial Commitments					
Letters of Credit	39	5	4	1	29

Our debt instruments contain certain covenants which, among other things, limit additional indebtedness, dividend payments, certain investments and transactions with affiliates. If we should fail to comply with these covenants, amounts due under the instruments may be accelerated at the debt holder's discretion after the declaration of an event of default. Our debt instruments do not have covenants that require us or our subsidiaries to maintain certain levels of financial performance or other financial measures such as total leverage or minimum revenue. These types of covenants are commonly referred to as "maintenance covenants."

Interest obligations assume interest rates on $4.9 billion of variable rate debt do not change from December 31, 2016. In addition, interest is calculated based on debt outstanding as of December 31, 2016.

Our asset retirement obligations consist of legal requirements to remove certain of our network infrastructure at the expiration of the underlying right-of-way ("ROW") term and restoration requirements for leased facilities. The initial and subsequent measurement of our asset retirement obligations require us to make estimates regarding the eventual costs and probability or likelihood that we will be required to remove certain of our network infrastructure and restore certain of our leased properties.

Certain right of way agreements include provisions for increases in payments in future periods based on the rate of inflation as measured by various price indexes. We have not included estimates for these increases in future periods in the amounts included above.

Certain non-cancelable right of way agreements provide for automatic renewal on a periodic basis. We include payments due during these automatic renewal periods given the significant cost to relocate our network and other facilities.

Certain other right of way agreements are currently cancelable or can be terminated under certain conditions by us. We include the payments under such cancelable right of way agreements in the table

above for a period of 1 year from January 1, 2017, if we do not consider it likely that we will cancel the right of way agreement within the next year.

Purchase and other obligations represent all our outstanding purchase order amounts as of December 31, 2016 ($616 million), contractual commitments with third parties to purchase network access services ($425 million) and fixed maintenance payments for portions of our network ($235 million).

The table above does not include other long-term liabilities, such as liabilities recorded for legal matters that are not contractual obligations by nature. We cannot determine with any degree of certainty the years in which these liabilities might ultimately be paid.

Due to uncertainty regarding the completion of tax audits and possible outcomes, the remaining estimate of the timing of payments related to uncertain tax positions and interest cannot be made. See Note 13 - Income Taxes and Note 15 - Commitments, Contingencies and Other Items in the notes to Consolidated Financial Statements for additional information regarding our uncertain tax positions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are subject to market risks arising from changes in interest rates. As of December 31, 2016, Level 3 Financing had borrowed a total of approximately $4.9 billion primarily under term loans pursuant to a senior secured credit facility (excluding discounts) and Floating Rate Senior Notes due 2018 that bear interest at LIBOR rates plus an applicable margin. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the debt instruments, unless LIBOR rates are below the minimum LIBOR rate for a particular Senior Secured Term Loan. The weighted average interest rate on these variable rate instruments at December 31, 2016, was approximately 3.8%.

At December 31, 2016, the senior secured credit facility's variable interest rate is based on a fixed rate of 3.0% plus LIBOR, with a fixed minimum LIBOR rate of 1.0% for both the $815 million Tranche B-III 2019 and the $1.796 billion Tranche B 2020 Term Loans and the interest rate is based on a fixed rate of 2.75% plus LIBOR, with a minimum fixed LIBOR of 0.75% for the $2 billion Tranche B-II 2022 Term Loan. The effective market LIBOR rate for the senior secured credit facility was approximately 0.68% for the Tranche B-II 2022 Term Loan, and 0.85% for the Tranche B-III 2019 Term Loan and the Tranche B 2020 Term Loan at December 31, 2016, respectively, which were below the fixed minimum rate. Declines in LIBOR below the fixed minimum rate or increases up to the fixed minimum rate do not affect our annual interest expense. A hypothetical increase in LIBOR by 1% point would increase our annual interest expense on all of our variable rate instruments by approximately $44 million as of December 31, 2016.

At December 31, 2016, we had $6.1 billion (excluding discounts) of fixed rate debt bearing a weighted average interest rate of 5.5%. A decline in interest rates in the future will not generally benefit us with respect to the fixed rate debt due to the terms and conditions of the indentures relating to that debt that would require us to repurchase the debt at specified premiums if redeemed early. Indicated changes in interest rates are based on hypothetical movements and are not necessarily indicative of the actual results that may occur.

Foreign Currency Exchange Rate Risk

We conduct a portion of our business in currencies other than the U.S. dollar, the currency in which our Consolidated Financial Statements are reported. Accordingly, our operating results could be adversely affected by foreign currency exchange rate volatility relative to the U.S. dollar. Our European subsidiaries and certain Latin American subsidiaries use the local currency as their functional currency, as the majority of their revenue and purchases are transacted in their local currencies. Certain Latin American countries

previously designated as highly inflationary economies use the U.S. dollar as their functional currency. Although we continue to evaluate strategies to mitigate risks related to the effect of fluctuations in currency exchange rates, we will likely recognize gains or losses from international transactions. Changes in foreign currency rates could adversely affect our operating results.

Please see Venezuela Effects in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-K.

Future earnings and losses will be affected by actual fluctuations in interest rates and foreign currency rates.

CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2016. Based upon such review, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, management assessed the effectiveness of internal controls over financial reporting as of December 31, 2016 based on the guidelines established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2016. That report appears on page F-3.

SEC FILINGS

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the Internet at the SEC's website at *www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC's public reference room, located at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. Our Form 10-K and all other reports and amendments filed with or furnished to the SEC are publicly available free of charge on the investor relations section of our website as soon as reasonably practicable after we file such materials with, or furnish them to, the SEC. Our website is *www.level3.com*. We caution you that the information on our website is not part of this or any other report we file with, or furnish to, the SEC.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information.

Our common stock is traded on the New York Stock Exchange under the symbol "LVLT." As of February 22, 2017, there were approximately 5,373 holders of record of our common stock, par value $.01 per share. The table below sets forth, for the calendar quarters indicated, the high and low per share closing sales prices of our common stock as reported by the NYSE Composite Tape for the quarters and the years indicated.

Year Ended December 31, 2016	High	Low
First Quarter	$ 53.74	$ 42.74
Second Quarter	54.21	47.43
Third Quarter	57.18	46.38
Fourth Quarter	57.20	45.09

Year Ended December 31, 2015	High	Low
First Quarter	$ 55.46	$ 47.02
Second Quarter	56.90	52.11
Third Quarter	54.16	41.57
Fourth Quarter	54.45	43.00

Equity Compensation Plan Information.

We have one equity compensation plan under which we may issue shares of our common stock to employees, officers, directors and consultants, which is called The Level 3 Communications, Inc. Stock Incentive Plan. In addition, in connection with our acquisition of Global Crossing, we assumed sponsorship of the 2003 Global Crossing Limited Stock Incentive Plan. Options outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at the closing of the acquisition were automatically exchanged for options to purchase shares of our common stock. Since this plan's term has expired, no shares remain for future issuances under this plan, but shares do remain for awards outstanding as of the expiration of the term. The following table provides information about the shares of our common stock that may be issued

upon exercise of awards under the Level 3 Communications, Inc. Stock Incentive Plan (in the "Equity compensation plans approved by stockholders" category) and the 2003 Global Crossing Limited Stock Incentive Plan (in the "Equity compensation plans not approved by stockholders" category) as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by stockholders	6,096,699	(1)	$ —	(3)	13,659,866	(1)
Equity compensation plans not approved by stockholders	85,523	(2)	$ —	(3)	—	

(1) Includes restricted stock units and performance restricted stock units ("PRSUs"). For purposes of this table, each PRSU was assumed to be included at the maximum possible issuance of our common stock (which would be maximum target performance) from the total number of shares reserved for issuance under the Level 3 Communications, Inc. Stock Incentive Plan.

(2) The 2003 Global Crossing Limited Stock Incentive Plan provided for the granting of (i) stock options, (ii) stock appreciation rights and (iii) other stock based awards, including, without limitation, restricted stock units, to eligible participants. Amounts shown indicate the number of awards outstanding under the 2003 Global Crossing Limited Stock Incentive Plan at December 31, 2016.

(3) At December 31, 2016, there were no outstanding awards that included an "exercise price".

Dividend Policy.

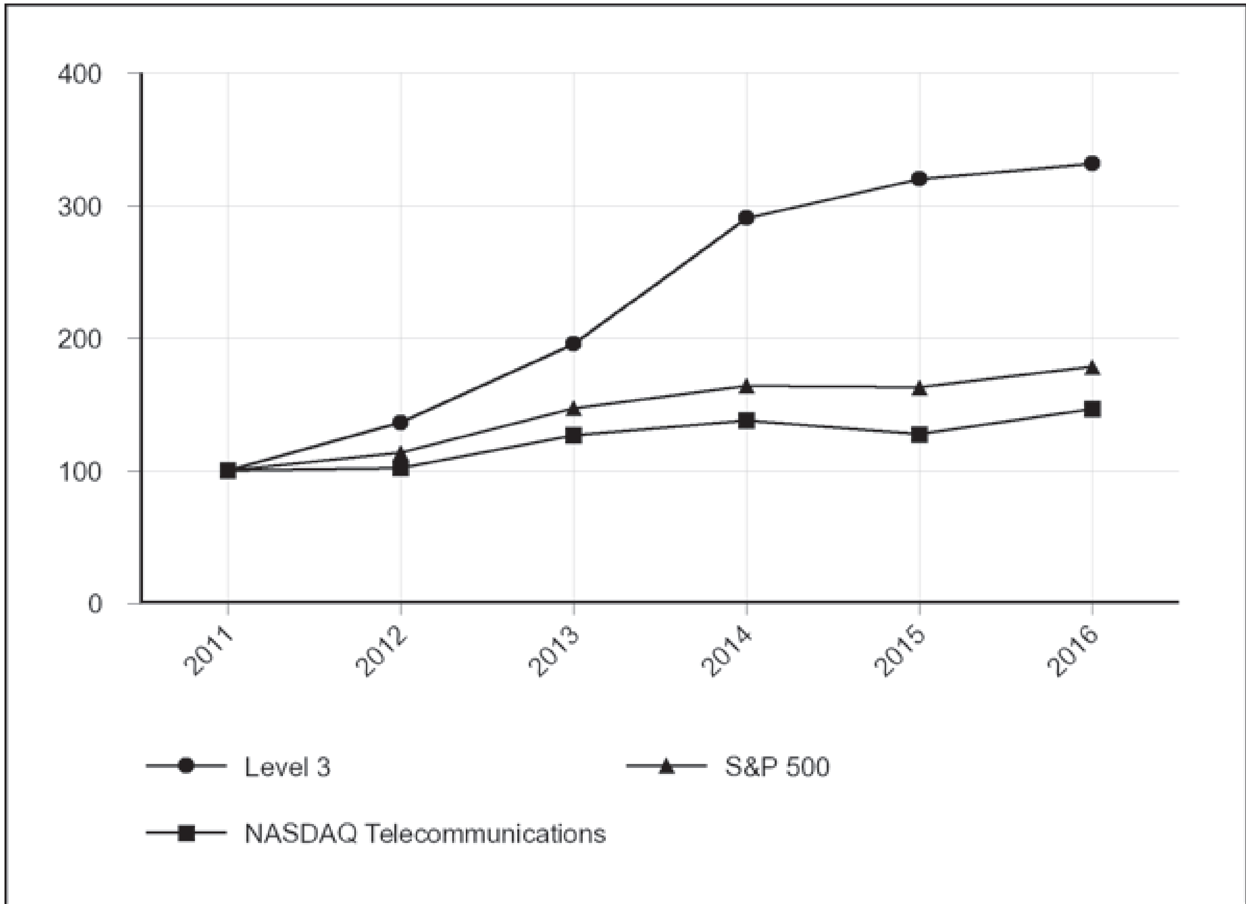
Our current dividend policy, in effect since April 1, 1998, is to retain future earnings for use in our business. As a result, our directors and management do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. In addition, under certain of our debt covenants we may be restricted from paying cash dividends on shares of our common stock. We would also need to address any restrictions contained in the CenturyLink Merger agreement or obtain a waiver.

Performance Graph.

The following performance graph shall not be deemed to be incorporated by reference by means of any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such acts.

The performance graph compares the cumulative total return of our common stock for the five year period from 2012 through 2016 with the S&P® 500 Index and the Nasdaq Telecommunications Index. The performance graph assumes that the value of the investment was $100 on December 31, 2011, and that all dividends and other distributions were reinvested.

**Comparison of Five Year Cumulative Total Return
Among Our Common Stock, the S&P® 500 Index
and the Nasdaq Telecommunications Index**



	12/11	12/12	12/13	12/14	12/15	12/16
Level 3 common stock	$ 100.00	$ 136.02	$ 195.23	$ 290.64	$ 319.95	$ 331.72
S&P 500® Index	100.00	113.41	146.98	163.72	162.53	178.02
NASDAQ Telecommunications	100.00	102.00	126.50	137.77	127.44	146.39

[THIS PAGE INTENTIONALLY LEFT BLANK]

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Reports of Independent Registered Public Accounting Firm	F-2
Financial Statements as of December 31, 2016 and 2015 and for each of the three years ended December 31, 2016, 2015 and 2014:	
Consolidated Statements of Income	F-5
Consolidated Statements of Comprehensive Income	F-6
Consolidated Balance Sheets	F-7
Consolidated Statements of Cash Flows	F-8
Consolidated Statements of Changes in Stockholders' Equity	F-9
Notes to Consolidated Financial Statements	F-10

Schedules not indicated above have been omitted because of the absence of the condition under which they are required or because the information called for is shown in the Consolidated Financial Statements or in the notes hereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Level 3 Communications, Inc.:

We have audited the accompanying consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Level 3 Communications, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado
February 24, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Level 3 Communications, Inc.:

We have audited Level 3 Communications, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Level 3 Communications, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Level 3 Communications, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Level 3 Communications, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity, for each of the years in the three-year period ended December 31, 2016, and our report dated February 24, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado
February 24, 2017

[This Page Intentionally Left Blank]

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For each of the three years ended December 31,

(dollars in millions, except per share data)	2016	2015	2014
Revenue	$ 8,172	$ 8,229	$ 6,777
Costs and Expenses:			
Network access costs	2,725	2,833	2,529
Network related expenses	1,346	1,432	1,246
Depreciation and amortization	1,250	1,166	808
Selling, general and administrative expenses	1,407	1,467	1,181
Total Costs and Expenses	6,728	6,898	5,764
Operating Income	1,444	1,331	1,013
Other Income (Expense):			
Interest income	4	1	1
Interest expense	(546)	(642)	(654)
Loss on modification and extinguishment of debt	(40)	(218)	(53)
Venezuela deconsolidation charge	—	(171)	—
Other, net	(20)	(18)	(69)
Total Other Expense	(602)	(1,048)	(775)
Income Before Income Taxes	842	283	238
Income Tax (Expense) Benefit	(165)	3,150	76
Net Income	$ 677	$ 3,433	$ 314
Basic Earnings per Common Share			
Net Income Per Share	$ 1.89	$ 9.71	$ 1.23
Weighted-Average Shares Outstanding (in thousands)	358,559	353,385	254,428
Diluted Earnings per Common Share			
Net Income Per Share	$ 1.87	$ 9.58	$ 1.21
Weighted-Average Shares Outstanding (in thousands)	361,472	358,593	258,483

See accompanying notes to Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For each of the three years ended December 31,

(dollars in millions)	2016	2015	2014
Net Income	$ 677	$ 3,433	$ 314
Other Comprehensive Loss net of Tax:			
Foreign currency translation adjustments, net of tax effect of $39, $13, and $0	(80)	(162)	(178)
Defined benefit pension plan adjustments, net of tax effect of $4, ($2), and $0	(6)	8	(5)
Other Comprehensive Loss, net of Tax	(86)	(154)	(183)
Comprehensive Income	$ 591	$ 3,279	$ 131

See accompanying notes to Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,

(dollars in millions, except share data)	2016	2015
Assets:		
Current Assets:		
Cash and cash equivalents	$ 1,819	$ 854
Restricted cash and securities	7	8
Receivables, less allowances for doubtful accounts of $29 and $32, respectively	712	757
Other	115	111
Total Current Assets	2,653	1,730
Property, Plant and Equipment, net of accumulated depreciation of $11,249 and $10,365, respectively	10,139	9,878
Restricted Cash and Securities	31	42
Goodwill	7,729	7,749
Other Intangibles, net	915	1,127
Deferred Tax Assets	3,370	3,441
Other Assets, net	51	50
Total Assets	$ 24,888	$ 24,017
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 706	$ 629
Current portion of long-term debt	7	15
Accrued payroll and employee benefits	195	218
Accrued interest	129	108
Current portion of deferred revenue	266	267
Other	168	179
Total Current Liabilities	1,471	1,416
Long-Term Debt, less current portion	10,877	10,866
Deferred Revenue, less current portion	1,001	977
Other Liabilities	622	632
Total Liabilities	13,971	13,891
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, $.01 par value, authorized 10,000,000 shares: no shares issued or outstanding	—	—
Common stock, $.01 par value, authorized 433,333,333 shares in both periods; 360,021,098 shares issued and outstanding at December 31, 2016 and 356,374,473 shares issued and outstanding at December 31, 2015	4	4
Additional paid-in capital	19,800	19,642
Accumulated other comprehensive loss	(387)	(301)
Accumulated deficit	(8,500)	(9,219)
Total Stockholders' Equity	10,917	10,126
Total Liabilities and Stockholders' Equity	$ 24,888	$ 24,017

See accompanying notes to Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For each of the three years ended December 31,

(dollars in millions)	2016	2015	2014
Cash Flows from Operating Activities:			
Net income	$ 677	$ 3,433	$ 314
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,250	1,166	808
Loss on impairment	—	—	18
Non-cash compensation expense attributable to stock awards	156	141	73
Loss on modification and extinguishment of debt	40	218	53
Venezuela deconsolidation charge	—	171	—
Accretion of debt discount and amortization of debt issuance costs	21	24	36
Accrued interest on long-term debt, net	21	(57)	12
Non-cash tax adjustments	—	—	(7)
Deferred income taxes	123	(3,202)	(116)
(Gain) loss on sale of property, plant, and equipment and other assets	(2)	1	(3)
Other, net	(10)	35	(8)
Changes in working capital items:			
Receivables	31	(87)	9
Other current assets	(36)	(11)	2
Accounts payables	83	4	(77)
Deferred revenue	18	88	6
Other current liabilities	(29)	(69)	41
Net Cash Provided by Operating Activities	2,343	1,855	1,161
Cash Flows from Investing Activities:			
Capital expenditures	(1,334)	(1,229)	(910)
Cash related to deconsolidated Venezuela operations	—	(83)	—
Change in restricted cash and securities, net	12	(22)	(10)
Proceeds from sale of property, plant and equipment and other assets	3	4	3
Investment in tw telecom, net of cash acquired	—	—	(167)
Other	—	(14)	(2)
Net Cash Used in Investing Activities	(1,319)	(1,344)	(1,086)
Cash Flows from Financing Activities:			
Long-term debt borrowings, net of issuance costs	764	4,832	589
Payments on and repurchases of long-term debt and capital leases	(820)	(5,051)	(671)
Net Cash Used in Financing Activities	(56)	(219)	(82)
Effect of Exchange Rates on Cash and Cash Equivalents	(3)	(18)	(44)
Net Change in Cash and Cash Equivalents	965	274	(51)
Cash and Cash Equivalents at Beginning of Year	854	580	631
Cash and Cash Equivalents at End of Year	$ 1,819	$ 854	$ 580
Supplemental Disclosure of Cash Flow Information:			
Cash interest paid	$ 508	$ 668	$ 598
Income taxes paid, net of refunds	$ 35	$ 50	$ 44
Non-cash Investing and Financing Activities:			
Capital lease obligations incurred	$ 1	$ 6	$ 2
Long-term debt conversion into equity	$ —	$ 333	$ 142
Accrued interest conversion into equity	$ —	$ 10	$ 2
Long-term debt issued and proceeds placed in escrow	$ —	$ —	$ 3,000
Escrowed securities used in the acquisition of tw telecom	$ —	$ —	$ 3,014

See accompanying notes to Consolidated Financial Statements.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For each of the three years ended December 31,

(dollars in millions, except share data)	Common Stock Shares	Common Stock $	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at January 1, 2014	234,688,063	$ 2	$ 14,339	$ 36	$ (12,966)	$ 1,411
Common stock:						
Common stock issued under employee stock benefit plans and other	4,528,559	—	78	—	—	78
Stock-based compensation	—	—	55	—	—	55
tw telecom acquisition equity consideration	96,868,883	1	4,543	—	—	4,544
Conversion of debt to equity	5,275,915	—	144	—	—	144
Net Income	—	—	—	—	314	314
Other Comprehensive Loss	—	—	—	(183)	—	(183)
Balance at December 31, 2014	341,361,420	$ 3	$ 19,159	$ (147)	$ (12,652)	$ 6,363
Common stock:						
Common stock issued under employee stock benefit plans and other	2,696,470	—	35	—	—	35
Stock-based compensation	—	—	106	—	—	106
Conversion of debt to equity	12,316,583	1	342	—	—	343
Net Income	—	—	—	—	3,433	3,433
Other Comprehensive Loss	—	—	—	(154)	—	(154)
Balance at December 31, 2015	356,374,473	$ 4	$ 19,642	$ (301)	$ (9,219)	$ 10,126
Common stock:						
Common stock issued under employee stock benefit plans and other	3,646,625	—	37	—	—	37
Stock-based compensation	—	—	121	—	—	121
Net Income	—	—	—	—	677	677
Adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*	—	—	—	—	42	42
Other Comprehensive Loss	—	—	—	(86)	—	(86)
Balance at December 31, 2016	360,021,098	$ 4	$ 19,800	$ (387)	$ (8,500)	$ 10,917

See accompanying notes to Consolidated Financial Statements.

(1) Organization and Summary of Significant Accounting Policies

Description of Business

Level 3 Communications, Inc. and subsidiaries is a facilities-based provider (that is, a provider that owns or leases a substantial portion of the plant, property and equipment necessary to provide our services) of a broad range of integrated communications services. We created our communications network by constructing our own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. Our network is an international, facilities-based communications network. We designed our network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

On October 31, 2014, we completed the acquisition of tw telecom inc. (“tw telecom”) and tw telecom became our indirect, wholly owned subsidiary through a tax-free, stock and cash reorganization. See Note 3 - Events Associated with the Acquisition of tw telecom inc.

On October 31, 2016, we entered into an agreement and plan of merger (the "Merger Agreement") with CenturyLink, Inc., a Louisiana corporation ("CenturyLink"), Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 1"), and WWG Merger Sub LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 2"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, we will be acquired by CenturyLink in a cash and stock transaction, including the assumption of our debt (the "CenturyLink Merger"). See Note 2 - CenturyLink Merger.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include our and our subsidiaries' accounts in which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated. The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

As part of our consolidation policy, we consider our controlled subsidiaries, investments in businesses in which we are not the primary beneficiary or do not have effective control but have the ability to significantly influence operating and financial policies, and variable interests resulting from economic arrangements that give us rights to economic risks or rewards of a legal entity. We do not have variable interests in a variable interest entity where we are required to consolidate the entity as the primary beneficiary.

Prior to October 1, 2015, we included the results of our wholly owned Venezuelan subsidiary in our Consolidated Financial Statements using the consolidation method of accounting. Our Venezuelan subsidiary was in the Latin America segment and had total revenue of $72 million for the nine months ended September 30, 2015. For more information on our segments and non-GAAP measures see Note 16 - Segment Information.

Venezuelan exchange control regulations have resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, and have restricted our Venezuelan operations’ ability to pay dividends and settle intercompany obligations in U.S. dollars. The severe currency controls imposed by the Venezuelan government have significantly limited the ability to realize the benefits from earnings of our Venezuelan operations and access the resulting liquidity provided by those earnings in U.S. dollars. We expect that this condition will continue for the foreseeable future.

Additionally, government regulations affecting our ability to manage our Venezuelan subsidiary's capital structure, purchasing, product pricing, customer invoicing and collections, and labor relations; and the current political and economic situation within Venezuela have resulted in an acute degradation in our ability to make key operational decisions for our Venezuelan operations. The lack of exchangeability between the Venezuelan bolivar and the U.S. dollar and the degradation in our ability to control key operational decisions resulting in a lack of control over our Venezuelan subsidiary for U.S. accounting purposes, we concluded it no longer met the accounting criteria for consolidation and deconsolidated our Venezuelan subsidiary on September 30, 2015, and began accounting for our variable interest investment in our Venezuelan operations using the cost method of accounting. As a result of deconsolidating our Venezuelan subsidiary, we recorded a one-time charge of $171 million in the third quarter of 2015, which had no accompanying tax benefit. Our financial results no longer include the operating results of our Venezuelan operations. The factors that led to the deconsolidation of our Venezuelan subsidiary at the end of the third quarter of 2015 continued to exist through the end of 2016. Any dividends from our Venezuelan subsidiary are recorded as other income upon receipt of the cash in U.S. dollars. Prior period results have not been adjusted to reflect the deconsolidation of our Venezuelan subsidiary.

Foreign Currency Translation

Local currencies of foreign subsidiaries are the functional currencies for financial reporting purposes except for certain foreign subsidiaries in Latin America. For operations outside the United States that have functional currencies other than the U.S. dollar, assets and liabilities are translated to U.S. dollars at period-end exchange rates, and revenue, expenses and cash flows are translated using average exchange rates prevailing during the year. A significant portion of our non-United States subsidiaries have either the British pound, the euro or the Brazilian real as the functional currency, each of which experienced significant fluctuations against the U.S. dollar during 2016, 2015 and 2014. Foreign currency translation gains and losses are recognized as a component of accumulated other comprehensive income (loss) in stockholders' equity and in the Consolidated Statements of Comprehensive Income in accordance with accounting guidance for foreign currency translation. We consider the majority of our investments in our foreign subsidiaries to be long-term in nature. Our non-United States exchange transaction gains (losses), including where transactions with our non-United States subsidiaries are not considered to be long-term in nature, are included within other income (expense) in Other, net on the Consolidated Statements of Income.

Reclassifications

Certain amounts in the prior year Consolidated Financial Statements and accompanying footnotes have been reclassified to conform to the current year's presentation primarily pursuant to the adoption of Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. As of December 31, 2015, approximately $19 million of current debt issuance costs have been reclassified from other current assets to long-term debt, less current portion and approximately $109 million of non-current debt issuance costs have been reclassified from other non-current assets to long-term debt, less current portion.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The accounting estimates that require management's judgments include revenue recognition, revenue reserves, network access costs, network access cost dispute reserves, determination of the useful lives of long-lived assets, measurement and recognition of stock-based compensation expense, valuation of long-lived assets, goodwill and indefinite-lived intangible assets for purposes of impairment testing, valuation of asset retirement obligations, allowance for doubtful accounts, measurement of the fair value of assets acquired and liabilities assumed in business combinations, accruals for estimated tax and legal liabilities, and valuation allowance for deferred tax assets. Actual results could differ from these estimates under different assumptions or conditions and such differences could be material.

Revenue

Revenue is recognized monthly as the services are provided based on contractual amounts expected to be collected. Management establishes appropriate revenue reserves at the time services are rendered based on an analysis of historical credit activity to address, where significant, situations in which collection is not reasonably assured as a result of credit risk, potential billing disputes or other reasons. Actual results may differ from these estimates under different assumptions or conditions and these differences could be material.

Intercarrier compensation revenue is recognized when an interconnection agreement is in place with another carrier, or if an agreement has expired, when the parties have agreed to continue operating under the previous agreement until a new agreement is negotiated and executed, or at rates mandated by the Federal Communications Commission (the "FCC").

For certain sale and long-term indefeasible right of use, or IRU, contracts involving private line, wavelengths and dark fiber services, we may receive upfront payments for services to be delivered for a period of up to 25 years. In these situations, we defer the revenue and amortize it on a straight-line basis to earnings over the term of the contract.

Termination revenue is recognized when a customer discontinues service prior to the end of the contract period for which we had previously received consideration and for which revenue recognition was deferred. Termination revenue also is recognized when customers are required to make termination penalty payments to us to settle contractually committed purchase amounts that the customer no longer expects to meet or when a customer and we renegotiate a contract under which we are no longer obligated to provide services for consideration previously received and for which revenue recognition has been deferred.

We are obligated under dark fiber IRUs and other capacity agreements to maintain our network in efficient working order and in accordance with industry standards. Customers are obligated for the term of the agreement to pay for their allocable share of the costs for operating and maintaining the network. We recognize this revenue monthly as services are provided.

Our customer contracts require us to meet certain service level commitments. If we do not meet the required service levels, we may be obligated to provide credits, usually in the form of free service, for a short period of time. The credits are a reduction to revenue and, to date, have not been material.

Network Access Costs

Network Access Costs for the communications business include leased capacity, right-of-way costs, access charges, satellite transponder lease costs and other third party costs directly attributable to providing access to customer locations from our network, but excludes Network Related Expenses, and depreciation and amortization. Network Access Costs do not include any employee expenses or impairment expenses; these expenses are allocated to Network Related Expenses or Selling, General and Administrative Expenses.

We recognize the network access costs as they are incurred in accordance with contractual requirements. We dispute incorrect billings from our suppliers of network services. The most prevalent types of disputes include disputes for circuits that are not disconnected by the supplier on a timely basis, charges from suppliers for circuits that were not timely installed and incorrect rate or other inadequate information needed to determine the appropriate billing from the supplier. Depending on the type and complexity of the issues involved, it may and often does take several quarters to resolve the disputes. We establish appropriate network access costs reserves for disputed supplier billings based on an analysis of our historical experience in resolving disputes with our suppliers and regulatory analysis regarding certain supplier billing matters. Judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation. Actual results may differ from these estimates under different assumptions or conditions and these differences could be material.

Network Related Expenses

Network Related Expenses includes certain expenses associated with the delivery of services to customers and the operation and maintenance of our network, such as facility rent, utilities, maintenance and other costs, each related to the operation of our communications network, as well as salaries, wages and related benefits (including non-cash stock-based compensation expenses) associated with personnel who are responsible for the delivery of services, operation and maintenance of our communications network, and accretion expense on asset retirement obligations, but excludes depreciation and amortization.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses includes the salaries, wages and related benefits (including non-cash, stock-based compensation expenses) and the related costs of corporate and sales personnel, travel, insurance, non-network related rent, advertising, and other administrative expenses.

USF and Gross Receipts Taxes

The revenue recognition standards include guidance relating to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, gross receipts taxes and certain state regulatory fees. We record Universal Service Fund ("USF") contributions where we are the primary obligor for the taxes assessed in each jurisdiction where we do business on a gross basis in our Consolidated Statements of Income, but generally record gross receipts taxes and certain state regulatory fees billed to our customers on a net basis in our Consolidated Statements of Income. Total revenue and network access costs on the Consolidated Statements of Income include USF contributions totaling $357 million, $323 million and $234 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Stock-Based Compensation

We recognize the estimated fair value of stock-based compensation costs, net of an estimated forfeiture rate, over the requisite service period of the award, which is generally the vesting term or term for restrictions on transfer that lapse, as the case may be. We estimate forfeiture rates based on our historical experience for the type of award, adjusted for expected activities as necessary.

Income Taxes

We recognize deferred tax assets and liabilities for our United States and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

Cash and Cash Equivalents

We classify investments as cash equivalents if they are readily convertible to cash and have original maturities of three months or less at the time of acquisition. Cash and cash equivalents consist primarily of highly liquid investments in government and government agency securities and government money market funds issued or managed by financial institutions in the United States, Europe and Latin America and commercial paper depending on liquidity requirements. As of December 31, 2016 and 2015, the carrying value of cash equivalents approximates fair value due to the short period of time to maturity.

Restricted Cash and Securities

Restricted cash and securities consists primarily of cash and investments that serve to collateralize our outstanding letters of credit and certain performance and operating obligations. Restricted cash and securities are recorded as current or non-current assets in the Consolidated Balance Sheets depending on the duration of the restriction and the purpose for which the restriction exists. Restricted securities are stated at cost which approximates fair value as of December 31, 2016 and 2015.

Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and can bear interest. We establish an allowance for doubtful accounts for accounts receivable amounts that may not be collectible. We determine the allowance for doubtful accounts based on the aging of our accounts receivable balances, the credit quality of our customers and an analysis of our historical experience of bad debt write-offs. Accounts receivable balances are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. We recognized bad debt expense, net of recoveries, of approximately $18 million in 2016, $23 million in 2015 and $22 million in 2014.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization for our property, plant and equipment are computed using the straight-line method based on the following estimated useful lives:

Facility and Leasehold Improvements....................................	15	-	40	years
Network Infrastructure (including fiber and conduit)	25	-	50	years
Operating Equipment..........................	5	-	15	years
Furniture, Fixtures, Office Equipment and Other	3	-	7	years

We perform internal reviews to evaluate the depreciable lives of our property, plant and equipment annually, or more frequently if new facts and circumstances arise, that may affect management's original estimates. Due to the rapid changes in technology and the competitive environment, selecting the estimated economic life of telecommunications property, plant, and equipment requires a significant amount of judgment. Our internal reviews take into account input from our global engineering and network services personnel, actual usage, the physical condition of our property, plant, and equipment, industry data, and other relevant factors. In connection with our periodic review of the estimated useful lives of property, plant and equipment, we may determine that the period we expect to use certain assets is different than the remaining previously estimated useful lives.

Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured.

We capitalize costs directly associated with expansions and improvements of our communications network and customer installations, including employee-related costs, and generally capitalize costs associated with network construction and provisioning of services. We amortize such costs over an estimated useful life of 3 to 5 years.

In addition, we continue to develop business support systems required for our business. The external direct costs of software, materials and services, and payroll and payroll-related expenses for employees directly associated with business support system development projects are capitalized. The total development costs of the business support system is amortized over an estimated useful life of 3 years.

Capitalized labor and related costs associated with employees and contract labor working on capital projects were approximately $271 million, $244 million and $187 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Asset Retirement Obligations

We recognize a liability for the estimated fair value of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset in the period incurred. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Increases to the asset retirement obligation liability due to the passage of time are recognized as accretion expense and included within network related expenses. Changes in the liability due to revisions to the amount or timing of future cash flows are recognized by increasing or decreasing the liability with the offset adjusting the carrying amount of the related long-lived asset. To the

extent that the downward revisions exceed the carrying amount of the related long-lived asset initially recorded when the asset retirement obligation liability was established, we record the remaining adjustment as a reduction to depreciation expense, to the extent of historical depreciation of the related long-lived asset, and then to network related expenses.

Goodwill and Indefinite-Lived Intangible Assets

Accounting guidance prohibits the amortization of goodwill and intangible assets with indefinite useful lives. We review goodwill and intangible assets with indefinite lives for impairment annually as of October 1st and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

Our goodwill impairment review process considers the fair value of each reporting unit relative to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded. Prior to performing the two step evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, we are not required to complete the two step goodwill impairment evaluation.

At the time of each impairment assessment date in 2016, 2015, and 2014, our reporting units consisted of three regional operating units in: North America; Europe, the Middle East and Africa ("EMEA"); and Latin America. We conducted our annual goodwill impairment analysis as of October 1, and concluded that our goodwill was not impaired in 2016 and 2014. As a result of the deconsolidation of our Venezuelan subsidiary, we completed an assessment of the Latin American and our other reporting units' goodwill as of September 30, 2015 and concluded there was no impairment in 2015.

Our indefinite-lived intangible assets impairment review process compares the estimated fair value of the indefinite-lived intangible assets to their respective carrying values. If the fair value of the indefinite-lived intangible assets exceeds their carrying values, then the indefinite-lived intangible assets are not impaired. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting guidance, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value exceeds the carrying value prior to performing the two step evaluation. If it is determined that it is unlikely the carrying value exceeds the fair value, then the entity is not required to complete the indefinite-lived intangible assets impairment evaluation.

Long-Lived Assets Including Finite-Lived Intangible Assets

We amortize intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 4 to 12 years.

We evaluate long-lived assets, such as property, plant and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We assess the recoverability of the assets based on the undiscounted future cash flows the asset groups are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the assets plus net proceeds expected from disposition of the assets, if any, are less than the carrying value of the assets. If an asset is deemed to be impaired, the amount of the impairment loss is the excess of the asset's carrying value over its estimated fair value.

We conducted a long-lived asset impairment analysis in 2016, 2015 and 2014 and in each case concluded that our long-lived assets, including finite-lived intangible assets, were not impaired.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, accounts receivable, restricted cash and securities. We maintain our cash equivalents, restricted cash and securities with various financial institutions. These financial institutions are primarily located in the United States, Europe and Latin America and our policy is to limit exposure with any one institution. As part of our cash and risk management processes, we perform periodic evaluations of the relative credit standing of the financial institutions. We also have established guidelines relative to financial instrument credit ratings, diversification and maturities that seek to maintain safety and liquidity. Our investment strategy generally results in lower yields on investments but reduces the risk to principal in the short term prior to these funds being used in our business. Notwithstanding the devaluation of the Venezuelan bolivar, we have not experienced any material losses on financial instruments held at financial institutions.

We provide communications services to a wide range of wholesale and enterprise customers, ranging from well capitalized national carriers to small early stage companies primarily in the United States, Europe, and Latin America. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising our customer base and their dispersion across many different industries and geographical regions. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers, although letters of credit and deposits are required in certain limited circumstances. We have, from time to time, entered into agreements with value-added resellers and other channel partners to reach consumer and enterprise markets for voice services. We have policies and procedures in place to evaluate the financial condition of these resellers prior to initiating service to the final customer. We maintain an allowance for doubtful accounts based upon the expected collectability of accounts receivable. Due to our credit evaluation and collection process, bad debt expenses have not been significant; however, we are not able to predict changes in the financial stability of our customers. Any material change in the financial status of any one or a particular group of customers may cause us to adjust our estimate of the recoverability of receivables and could have a material effect on our results of operations. Fair values of accounts receivable approximate carrying amount due to the short period of time to collection.

A relatively small number of customers account for a significant percentage of our revenue. Our top ten customers accounted for approximately 16%, 16% and 17% of our revenue for the years ended December 31, 2016, 2015 and 2014, respectively.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, *Improvements to Employee Share-Based Payment Accounting*, as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, but all of the amendments must be adopted in the same period.

We elected to early adopt ASU 2016-09 in the third quarter of 2016, which required adjustments to be reflected as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. Upon adoption, we recognized previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of $42 million recorded to accumulated deficit as of January 1, 2016.

This ASU amended the definition of assumed proceeds when applying the treasury stock method of computing earnings per share to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital. This amendment increased the amount of Diluted Weighted-Average Shares Outstanding, as noted in the table below.

The new presentation requirements for excess tax benefits to be shown on the statement of cash flows as an operating activity and presenting employee taxes paid where the employer withholds shares for tax-withholding purposes as a financing activity had no effect to any of the periods presented in our Consolidated Statements of Cash Flows as there had been no such activities in the Consolidated Statements of Cash Flow. We have elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Adoption of the new standard also resulted in the recognition of excess tax benefits as a reduction to income tax expense of $22 million, or $0.06 per basic share, for 2016.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which required debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new guidance is effective retrospectively for public companies for fiscal years beginning after December 15, 2015, and interim periods within those years. It was effective for us on January 1, 2016, and, upon adoption, debt issuance costs capitalized in other current assets and other assets in the consolidated balance sheet were reclassified and presented as a reduction to current and noncurrent long-term debt. As of December 31, 2015, debt issuance costs, net of accumulated amortization, recognized in the Consolidated Balance Sheets totaled $128 million, of which $19 million were recorded in other current assets.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842), which requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. This ASU will replace most existing leasing guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early application is permitted. The standard requires the use of a modified retrospective transition method. We are evaluating the effect that ASU 2016-02 will have on our Consolidated Financial Statements and related disclosures, and expect the new guidance to significantly increase the reported assets and liabilities on our Consolidated Balance Sheets.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, which amended the existing accounting standards for revenue recognition and requires an entity to recognize the amount of revenue it expects to be entitled to for the transfer of promised goods or services to customers. The ASU and subsequent amendments have been codified as ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). In July 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017, and interim reporting periods within those periods. Early adoption is permitted using the original effective date of annual reporting periods beginning after December 15, 2016, and interim reporting periods within those periods. The new guidance may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of initial adoption. We will not adopt ASC 606 early.

We are performing a comprehensive analysis of our revenue streams and contractual arrangements to identify the effects of ASC 606 on our consolidated financial statements and are developing new accounting and reporting policies, business and internal control processes and procedures to facilitate adoption of the standard. Because we currently have service contracts that contain a significant financing component that are not currently separately accounted for, we will be required to estimate and record incremental revenue and interest cost associated with these contractual terms. In addition, we will be

required to capitalize, and subsequently amortize, commission costs associated with obtaining or fulfilling our customer contracts, which we do not currently defer and amortize. We will also have to comply with new revenue disclosure requirements. We are continuing to review and evaluate underlying contract information that will be used to support new accounting and disclosure requirements under ASC 606 and evaluate other matters that may result from adoption of the standard. We have not yet selected a transition method, as our method of transition may be affected by the CenturyLink Merger, which we expect will be completed in the third quarter of 2017, and subsequent integration activities completed prior to the January 1, 2018 ASC 606 adoption date.

(2) CenturyLink Merger

On October 31, 2016, we entered into an agreement and plan of merger with CenturyLink, Inc., a Louisiana corporation, Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink, and WWG Merger Sub LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink, pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, we will be acquired by CenturyLink in a cash and stock transaction, including the assumption of our debt.

Under the Merger Agreement, at the effective time of the merger of Merger Sub 1 with and into us (the "Initial Merger"), (i) each issued and outstanding share of our common stock, will be converted into 1.4286 shares (the "Stock Consideration") of CenturyLink's common stock par value $1.00 per share and (ii) the right to receive $26.50 in cash (the "Cash Consideration" and, together with the Stock Consideration, the "Merger Consideration"). In addition, the Merger Agreement provides that at the effective time of the CenturyLink Merger, each issued and outstanding restricted stock unit award granted prior to April 1, 2014 and each restricted stock unit award granted to a non-employee member of our Board of Directors will be exchanged for the Merger Consideration. Further, at the effective time of the CenturyLink Merger, each issued and outstanding restricted stock unit award granted on or after April 1, 2014, other than those granted to non-employee members of our Board of Directors, will be assumed and converted automatically into a restricted stock unit award of CenturyLink common stock that will be subject to the same service-based vesting conditions as applicable to such awards prior to the transaction (but not any performance-based vesting conditions, which will be deemed satisfied based on forecasted and adjusted results through the closing of the transaction (as determined by Compensation Committee of our Board of Directors)). The CenturyLink Merger is subject to the receipt of certain regulatory approvals, including expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, review by the U.S. Federal Communications Commission, certain state regulatory approvals and other customary closing conditions.

The transaction is also subject to the approval of CenturyLink shareholders and our stockholders. CenturyLink has entered into a voting agreement with STT Crossing Ltd. (a wholly owned subsidiary of ST Telemedia), holder of approximately 18 percent of our outstanding common stock, pursuant to which they have agreed to vote their Level 3 shares in favor of the transaction.

(3) Events Associated with the Acquisition of tw telecom inc.

On October 31, 2014, we completed our acquisition of tw telecom and tw telecom became our indirect, wholly owned subsidiary through a tax-free, stock and cash reorganization. As a result of the acquisition of tw telecom, (1) each issued and outstanding share of common stock of tw telecom was exchanged for 0.7 shares of our common stock and $10 in cash (together the "acquisition consideration"); (2) the outstanding stock options of tw telecom were canceled and the holders received the acquisition consideration, net of aggregate per share exercise price; (3) each restricted stock unit award of tw telecom was immediately vested and canceled and the holders received the acquisition consideration; and (4) each restricted stock unit of tw telecom was immediately vested and canceled and holders received the acquisition consideration.

In connection with the closing of the acquisition, Level 3 Financing, Inc., a wholly owned subsidiary, amended its existing credit agreement to incur an additional $2 billion of borrowings through an additional Tranche (the "Tranche B 2022 Term Loan"). The aggregate net proceeds of the Tranche B 2022 Term Loan were used to finance the cash portion of the acquisition consideration payable to tw telecom's stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the acquisition (see Note 10 - Long-Term Debt for additional information). In addition, the net proceeds from the issuance of $1 billion of 5.375% Senior Notes due 2022 raised in August 2014 (see Note 10 - Long-Term Debt) were used to finance the cash portion of the acquisition consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the acquisition.

On October 30, 2014, we increased the number of authorized shares of common stock to 433,333,333. As a result of the acquisition, we issued approximately 96.9 million shares of our common stock to former holders of tw telecom common shares, stock options, restricted stock awards and restricted stock units. In addition, we called for redemption and discharged or repaid approximately $1.793 billion of tw telecom's outstanding consolidated debt including premiums of $154 million.

Based on the number of our shares issued, our closing stock price of $46.91 on October 31, 2014, the cash paid to the former holders of tw telecom common stock and the $2.1 billion of debt of tw telecom called for redemption and discharged or repaid, the aggregate consideration for acquisition accounting, including assumed capital leases of $152 million, approximated $8.1 billion.

The premium we paid in this transaction is attributable to strategic benefits, as the transaction further solidified our position as a premier global communications provider to the enterprise, government and carrier market, combining tw telecom's extensive local operations and assets in North America with our global assets and capabilities. tw telecom's business model is directly aligned with our initiatives for growth, which include building managed solutions to meet customer needs through an advanced IP/optical network.

The goodwill associated with this transaction is not deductible for income tax purposes except that certain deductible goodwill of tw telecom will continue to be deductible following the acquisition.

Our combined results of operations with tw telecom are included in our consolidated results of operations beginning in November 2014. The assets acquired and liabilities assumed of tw telecom were recognized at their acquisition date fair value. The purchase price allocation of acquired assets and assumed liabilities, including the assignment of goodwill to reporting units, was completed in the fourth quarter of 2015. The following is the final allocation of the purchase price.

	Purchase Price Allocation
	(dollars in millions)
Assets:	
Cash, Cash Equivalents and Restricted Cash	$ 309
Property, Plant and Equipment	1,553
Goodwill	5,181
Identifiable Intangible Assets	1,263
Other Assets	140
Total Assets	8,446
Liabilities:	
Long-Term Debt	(2,099)
Deferred Revenue	(57)
Other Liabilities	(279)
Total Liabilities	(2,435)
Total Consideration to be Allocated	$ 6,011

As a result of new information available since the acquisition date, we made certain immaterial adjustments to the preliminary purchase price allocation during the first quarter of 2015, which have been reflected in the above table. The primary adjustment was a result of a single change in the purchase price allocation of $60 million related to the estimated value associated with the identifiable intangible assets and goodwill.

The following unaudited pro forma financial information presents our combined results with tw telecom as if the completion of the acquisition had occurred as of January 1, 2014 (dollars in millions, except per share data).

	Year Ended December 31,
	2014
Total Revenue	$ 8,123
Net Income	$ 149
Net Income per Share - Basic	$ 0.44
Net Income per Share - Diluted	$ 0.44

These pro forma results include certain adjustments, primarily due to increases in depreciation and amortization expense due to fair value adjustments of tangible and intangible assets, increases in interest expense due to our issuance of incremental debt to finance cash consideration, partially offset by the refinancing of tw telecom debt that had higher interest rates than the incremental financing, and to eliminate historical transactions between us and tw telecom. The unaudited pro forma information is not intended to represent or be indicative of our actual results of operations that would have been reported had the acquisition been completed on January 1, 2014, nor is it representative of our future operating results. The pro forma information does not include any operating efficiencies or cost savings that we achieved with respect to combining the companies.

Acquisition related costs include transaction costs such as legal, accounting, valuation and other professional services as well as integration costs such as severance and retention. Acquisition related

costs have been recorded in Network Related Expenses and Selling, General and Administrative Expenses in our Consolidated Statements of Income. We incurred total acquisition related transaction and integration costs of approximately $81 million in 2014 and $32 million in 2015.

(4) Earnings Per Share

We compute basic earnings per share by dividing net income for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing the net income for the period by the weighted average number of shares of common stock outstanding during the period and including the dilutive effect of common stock that would be issued assuming conversion or exercise of outstanding convertible notes and stock-based compensation awards.

The effect of approximately 3 million total restricted stock units ("RSUs") and performance restricted stock units ("PRSUs") outstanding at December 31, 2016, has been included in the computation of diluted earnings per share for the year ended December 31, 2016. Less than 1 million of PRSUs granted in 2016 were excluded from the computation of diluted earnings per share for the year ended December 31, 2016, as they were contingently issuable and no shares would have been issued if this period was the end of the contingency period.

The effect of approximately 3 million and 4 million total outperform stock appreciation rights ("OSOs") and RSUs outstanding at December 31, 2015 and 2014, respectively have been included in the computation of diluted earnings per share for the year ended December 31, 2015 and 2014, respectively. PRSUs granted in 2015 were excluded from the computation of diluted earnings per share for the year ended December 31, 2015 and PRSUs granted in 2014 were excluded from the computation of diluted earnings per share for the year ended December 31, 2014, as they were contingently issuable and no shares would have been issued if these periods were the end of the contingency period.

The effect of approximately 17 million shares issuable pursuant to the various series of convertible notes outstanding at December 31, 2014, have not been included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive to the computation.

(5) Property, Plant and Equipment

The components of our property, plant and equipment as of December 31, 2016 and 2015 are as follows (dollars in millions):

	Cost	Accumulated Depreciation	Net
December 31, 2016			
Land	$ 179	$ —	$ 179
Land Improvements	77	(58)	19
Facility and Leasehold Improvements	2,679	(1,447)	1,232
Network Infrastructure	9,110	(3,899)	5,211
Operating Equipment	8,846	(5,626)	3,220
Furniture, Fixtures and Office Equipment	241	(196)	45
Other	26	(23)	3
Construction-in-Progress	230	—	230
	$ 21,388	$ (11,249)	$ 10,139
December 31, 2015			
Land	$ 180	$ —	$ 180
Land Improvements	76	(53)	23
Facility and Leasehold Improvements	2,582	(1,352)	1,230
Network Infrastructure	8,979	(3,669)	5,310
Operating Equipment	7,988	(5,079)	2,909
Furniture, Fixtures and Office Equipment	242	(189)	53
Other	28	(23)	5
Construction-in-Progress	168	—	168
	$ 20,243	$ (10,365)	$ 9,878

Depreciation expense was $1.039 billion in 2016, $939 million in 2015 and $713 million in 2014.

(6) Asset Retirement Obligations

Our asset retirement obligations consist of legal requirements to remove certain of our network infrastructure at the expiration of the underlying right-of-way ("ROW") term and restoration requirements for leased facilities. We recognize our estimate of the fair value of our asset retirement obligations in the period incurred in other long-term liabilities. The fair value of the asset retirement obligation is also capitalized as property, plant and equipment and then depreciated over the estimated remaining useful life of the associated asset.

The following table provides asset retirement obligation activity for the years ended December 31, 2016 and 2015 (dollars in millions):

	2016	2015
Asset retirement obligation at January 1	$ 90	$ 85
Accretion expense	10	9
Liabilities settled	(9)	(8)
Revision in estimated cash flows	—	5
Effect of foreign currency rate change	(2)	(1)
Asset retirement obligation at December 31	$ 89	$ 90

(7) Other Intangible Assets

Other intangible assets as of December 31, 2016 and 2015 were as follows (dollars in millions):

	Gross Carrying Amount	Accumulated Amortization	Net
December 31, 2016			
Finite-Lived Intangible Assets:			
Customer Contracts and Relationships	$ 1,973	$ (1,113)	$ 860
Trademarks	55	(55)	—
Patents and Developed Technology	229	(189)	40
	2,257	(1,357)	900
Indefinite-Lived Intangible Assets:			
Trade Name	15	—	15
	$ 2,272	$ (1,357)	$ 915
December 31, 2015			
Finite-Lived Intangible Assets:			
Customer Contracts and Relationships	$ 1,975	$ (932)	$ 1,043
Trademarks	55	(55)	—
Patents and Developed Technology	230	(161)	69
	2,260	(1,148)	1,112
Indefinite-Lived Intangible Assets:			
Trade Name	15	—	15
	$ 2,275	$ (1,148)	$ 1,127

During the fourth quarter of 2016 and 2015, we conducted our long-lived assets and indefinite-lived intangible assets impairment analysis and concluded that there was no impairment in 2016 and 2015.

Finite-lived intangible assets amortization expense was $211 million in 2016, $227 million in 2015 and $95 million in 2014.

At December 31, 2016, the weighted average remaining useful lives of our finite-lived intangible assets was 4.8 years in total; 4.9 years for customer contracts and relationships and 2.8 years for patents and developed technology.

As of December 31, 2016, estimated amortization expense for our finite-lived intangible assets over the next five years and thereafter is as follows (dollars in millions):

2017	$ 196
2018	193
2019	181
2020	166
2021	143
Thereafter	21
	$ 900

(8) Restructuring Charges

Employee Separations

Changing economic and business conditions as well as organizational structure optimization efforts have caused us to initiate from time to time various workforce reductions resulting in involuntary employee terminations. We also have initiated workforce reductions resulting from the integration of previously acquired companies.

During 2015 and 2014, as part of the tw telecom acquisition and to improve organizational effectiveness, we initiated workforce reductions. Restructuring charges totaled $24 million and $45 million in 2015 and 2014, respectively, of which $8 million and $11 million in 2015 and 2014, respectively, were recorded in Network Related Expenses and $16 million and $34 million in 2015 and 2014, respectively, were recorded in Selling, General and Administrative Expenses. Workforce reductions were not material in 2016.

As of December 31, 2016 and 2015, we had $3 million and $4 million, respectively, of employee termination liabilities.

Facility Closings

We also have accrued contract termination costs of $5 million and $11 million as of December 31, 2016 and 2015, respectively, for facility lease costs that we continue to incur without economic benefit. Accrued contract termination costs are recorded in other liabilities (current and non-current) in the Consolidated Balance Sheets. We expect to pay the majority of these costs through 2020. We did not recognize any charge in 2016, and recognized a charge of approximately $3 million and a charge of less than $1 million in 2015 and 2014, respectively, as a result of facility lease costs associated with facility closing. We record charges for contract termination costs within Network Related Expenses and Selling, General and Administrative Expenses in the Consolidated Statements of Income.

(9) Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, restricted cash and securities, receivables, accounts payable, capital leases, other liabilities, and long-term debt (including the current portion). The carrying values of cash and cash equivalents, restricted cash and securities, receivables, accounts payable, capital leases and other liabilities approximated their fair values at December 31, 2016 and 2015.

GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements and disclosures for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as interest and foreign exchange rates, transfer restrictions, and risk of nonperformance.

Fair Value Hierarchy

GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value measurement of each class of assets and liabilities is dependent upon its categorization within the fair value hierarchy, based upon the lowest level of input that is significant to the fair value measurement of each class of asset and liability. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2— Unadjusted quoted prices for similar assets or liabilities in active markets, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3— Unobservable inputs for the asset or liability.

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during each of the years ended December 31, 2016 and 2015.

The table below presents the fair values for our long-term debt as well as the input levels used to determine these fair values as of December 31, 2016 and 2015:

			Fair Value Measurement Using			
	Total Carrying Value in Consolidated Balance Sheets		Unadjusted Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)	
(dollars in millions)	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Liabilities Not Recorded at Fair Value in the Financial Statements:						
Long-term Debt, including the current portion:						
Term Loans	$ 4,566	$ 4,556	$ 4,671	$ 4,570	$ —	$ —
Senior Notes	6,135	6,126	6,283	6,298	—	—
Capital Leases and Other	183	199	—	—	183	199
Total Long-term Debt, including the current portion:	$ 10,884	$ 10,881	$ 10,954	$ 10,868	$ 183	$ 199

We do not have any assets or liabilities where the fair value is measured using significant unobservable inputs (Level 3).

Term Loans

The fair value of the Term Loans referenced above was approximately $4.7 billion and $4.6 billion at December 31, 2016 and 2015, respectively. The fair value of each loan is based on quoted prices. Each loan tranche is actively traded.

Senior Notes

The fair value of the Senior Notes referenced above was approximately $6.3 billion and $6.3 billion at December 31, 2016 and 2015, respectively, based on quoted prices. Each series of notes is actively traded.

Capital Leases

The fair value of our capital leases are determined by discounting anticipated future cash flows derived from the contractual terms of the obligations and observable market interest and foreign exchange rates.

(10) Long-Term Debt

The following table summarizes our long-term debt (amounts in millions):

	Date of				December 31, 2016	December 31, 2015
	Issuance/ Amendment	Maturity	Interest Payments	Interest Rate	Amount	Amount
Senior Secured Term Loans:						
Borrowed by Level 3 Financing, Inc.						
Tranche B-III 2019 Term Loan [1][4]	Aug 2013	Aug 2019	Quarterly	LIBOR +3.00%	$ 815	$ 815
Tranche B 2020 Term Loan [1][4]	Oct 2013	Jan 2020	Quarterly	LIBOR +3.00%	1,796	1,796
Tranche B-II 2022 Term Loan [1][4]	May 2015	May 2022	Quarterly	LIBOR +2.75%	2,000	2,000
Senior Notes:						
Issued by Level 3 Financing, Inc.						
Floating Rate Senior Notes due 2018 [2][4]	Nov 2013	Jan 2018	May/Nov	6-Month LIBOR +3.50%	300	300
7% Senior Notes due 2020 [2]	Aug 2012	Jun 2020	Jun/Dec	7.000%	—	775
6.125% Senior Notes due 2021 [2]	Nov 2013	Jan 2021	Apr/Oct	6.125%	640	640
5.375% Senior Notes due 2022 [2]	Aug 2014	Aug 2022	May/Nov	5.375%	1,000	1,000
5.625% Senior Notes due 2023 [2]	Jan 2015	Feb 2023	Jun/Dec	5.625%	500	500
5.125% Senior Notes due 2023 [2]	Apr 2015	May 2023	Mar/Sept	5.125%	700	700
5.375% Senior Notes due 2025 [2]	Apr 2015	May 2025	Mar/Sept	5.375%	800	800
5.375% Senior Notes due 2024 [2]	Nov 2015	Jan 2024	Jan/Jul	5.375%	900	900
5.25% Senior Notes due 2026 [2]	Mar 2016	Mar 2026	Apr/Oct	5.250%	775	—
Issued by Level 3 Communications, Inc.						
5.75% Senior Notes due 2022 [3]	Dec 2014	Dec 2022	Mar/Sept	5.750%	600	600
Capital Leases and Other Debt					183	199
Total Debt Obligations					11,009	11,025
Unamortized discounts					(13)	(16)
Unamortized debt issuance costs					(112)	(128)
Current Portion					(7)	(15)
Total Long-Term Debt					$ 10,877	$ 10,866

(1) The term loans are secured obligations and guaranteed by Level 3 Communications, Inc. and Level 3 Communications, LLC and certain other subsidiaries.

(2) The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

(3) The notes were not guaranteed by any of Level 3 Communications, Inc.'s subsidiaries.

(4) The Tranche B-III 2019 Term Loan and the Tranche B 2020 Term Loan each had an interest rate of 4.000% as of December 31, 2016 and 2015. The Tranche B-II 2022 Term Loan had an interest rate of 3.500% as of December 31, 2016 and 2015. The Floating Rate Senior Notes due 2018 had an interest rate of 4.762% as of December 31, 2016 and 4.101% as of December 31, 2015. The interest rate on the Tranche B-III 2019 Term Loan and the Tranche B 2020 Term Loan are set with a minimum LIBOR of 1.00%, and the Tranche B-II 2022 Term Loan is set with a minimum LIBOR of 0.75%.

Senior Secured Term Loans

As of January 1, 2014, Level 3 Financing, Inc., our direct wholly owned subsidiary ("Level 3 Financing") had a senior credit facility consisting of $815 million Tranche B-III Term Loan due 2019 and $1.796 billion Tranche B Term Loan due 2020.

On October 31, 2014, Level 3 Financing entered into a ninth amendment agreement to the Existing Credit Agreement to incur $2 billion in aggregate borrowings under the Existing Credit Agreement through the creation of a new Tranche B 2022 Term Loan (the "Tranche B 2022 Term Loan"). The Tranche B 2022 Term Loan included an upfront payment to the lenders of 0.75% of par and bears interest equal to LIBOR plus 3.50% with LIBOR set at a minimum of 1.00%.

On May 8, 2015, Level 3 Financing refinanced its existing $2 billion senior secured Tranche B 2022 Term Loan under a tenth amendment agreement to its Existing Credit Agreement through the creation of a new senior secured Tranche B-II 2022 term loan in the aggregate principal amount of $2 billion (the "Tranche B-II 2022 Term Loan"). The Tranche B-II 2022 Term Loan has an interest rate of LIBOR plus 2.75%, with a minimum LIBOR of 0.75%, and will mature on May 31, 2022. The Tranche B-II 2022 Term Loan was priced to lenders at par, with the payment to the lenders of an upfront fee of 25 basis points at closing. As a result of this transaction, we recognized a loss on the refinancing of approximately $27 million.

Senior Notes

We completed several offerings and refinancing of senior notes in 2016 and 2015. All of the notes pay interest semiannually, and allow for the redemption of the notes at the option of the issuer upon not less than 30 or more than 60 days' prior notice by paying the greater of 101% of the principal amount or a "make-whole" amount, plus accrued interest. In addition, the notes also have a provision that allows for an additional right of optional redemption using cash proceeds received from the sale of equity securities. For specific details of these features and requirements, including the applicable premiums and timing, refer to the indentures for the respective senior notes in connection with the original issuances.

5.375% Senior Notes due 2022

On August 12, 2014, Level 3 Escrow II, Inc. ("Level 3 Escrow"), an indirect, wholly owned subsidiary of Level 3 Communications, Inc., issued $1.0 billion in aggregate principal amount of its 5.375% Senior Notes due 2022 (the "5.375% Senior Notes due 2022"). The 5.375% Senior Notes due 2022 were assumed by Level 3 Financing and the proceeds were used to refinance certain existing indebtedness of tw telecom.

5.75% Senior Notes due 2022

On December 1, 2014, we issued a total of $600 million aggregate principal amount of our 5.75% Senior Notes due 2022 (the "5.75% Senior Notes"). The net proceeds from the offering of the notes, together with cash on hand were used to redeem all of the outstanding 11.875% Senior Notes due 2019 issued by Level 3 Financing, including the payment of accrued interest and applicable premiums, and in connection with that redemption, the indenture relating to the 11.875% Senior Notes due 2019 was discharged on December 31, 2014. Level 3 Financing redeemed its 11.875% Senior Notes due 2017 at a price of 106.859% of the principal amount and recognized a loss on extinguishment of debt of $53 million.

5.625% Senior Notes due 2023

In January 2015, Level 3 Financing issued $500 million in aggregate principal amount of its 5.625% Senior Notes due 2023 (the “5.625% Senior Notes”). The net proceeds from the offering of the 5.625% Senior Notes, together with cash on hand, were used to redeem, on April 1, 2015, all of Level 3 Financing’s approximately $500 million aggregate principal amount of 9.375% Senior Notes due 2019, including accrued interest, applicable premiums and expenses. Total loss on extinguishment of debt related to the 9.375% Senior Notes due 2019 was $36 million.

5.125% Senior Notes due 2023 and 5.375% Senior Notes due 2025

In April 2015, Level 3 Financing issued $700 million in aggregate principal amount of its 5.125% Senior Notes due 2023 (the “5.125% Senior Notes”) and $800 million in aggregate principal amount of its 5.375% Senior Notes due 2025 (the “5.375% Senior Notes due 2025”). The net proceeds from the offering of the 5.125% Senior Notes and 5.375% Senior Notes due 2025, together with cash on hand, were used to redeem all $1.2 billion aggregate principal amount of Level 3 Financing’s 8.125% Senior Notes due 2019 and all $300 million aggregate principal amount of our 8.875% Senior Notes due 2019. Total loss on extinguishment of debt related to the 8.125% Senior Notes due 2019 was $82 million and total loss on extinguishment of debt related to the 8.875% Senior Notes due 2019 was $18 million.

5.375% Senior Notes due 2024

On November 13, 2015, Level 3 Financing issued $900 million in aggregate principal amount of its 5.375% Senior Notes due 2024 (the “5.375% Senior Notes due 2024”). The net proceeds from the offering of the 5.375% Senior Notes due 2014, together with cash on hand, were used to redeem all $900 million aggregate principal amount of Level 3 Financing’s 8.625% Senior Notes due 2020. Total loss on modification and extinguishment of debt related to the 8.625% Senior Notes due 2020 was approximately $55 million.

7% Convertible Senior Notes

During the fourth quarter of 2014, certain holders converted approximately $142 million of the 7% Convertible Senior Notes to common equity. Upon conversion, we issued an aggregate of approximately 5 million shares of our common stock, representing the approximately 37 shares per $1,000 note into which the notes were then convertible.

During the first quarter of 2015, holders converted the remaining $333 million aggregate principal amount of our 7% Convertible Senior Notes due 2015 to common equity. Upon conversion, we issued an aggregate of approximately 12 million shares of our common stock, representing the approximately 37 shares per $1,000 note into which the notes were then convertible.

5.25% *Senior Notes due 2026*

On March 22, 2016, Level 3 Financing issued $775 million in aggregate principal amount of its 5.25% Senior Notes due 2026 (the “5.25% Senior Notes due 2026”).

The 5.25% Senior Notes due 2026 were not originally registered under the Securities Act of 1933, as amended. A registration statement with respect to these notes has been filed with the Securities and Exchange Commission, and became effective on February 23, 2017.

On April 21, 2016, all of the outstanding principal amount of the 7% Senior Notes due 2020 was redeemed at a redemption price equal to 104.138% of the principal amount, along with accrued and unpaid interest to but excluding the redemption date. To fund the redemption of these notes, Level 3 Financing used the net proceeds, along with cash on hand, from the March 22, 2016 issuance of

its 5.25% Senior Notes due 2026. We recognized a loss on modification and extinguishment of debt of approximately $40 million in Other Expense in the second quarter of 2016 as a result of the redemption of the 7% Senior Notes due 2020.

Capital Leases

As of December 31, 2016, we had $183 million of capital leases. We lease property, equipment, certain dark fiber facilities and metro fiber under non-cancelable IRU agreements that are accounted for as capital leases. Interest rates on these capital leases approximated 5.8% on average as of December 31, 2016.

Debt Issuance Costs

For the years ended December 31, 2016, 2015 and 2014, we deferred debt issuance costs of $11 million, $50 million and $49 million, respectively, in connection with debt issuances, that are being amortized to interest expense over the respective terms of the debt. At December 31, 2016 and 2015, there was $112 million and $128 million, respectively, of unamortized debt issuance costs.

Covenant Compliance

At December 31, 2016 and 2015, we were in compliance with the financial covenants on all outstanding debt issuances.

Long-Term Debt Maturities

Aggregate future contractual maturities of long-term debt and capital leases (excluding discounts and debt issuance costs) were as follows as of December 31, 2016 (dollars in millions):

2017	$ 7
2018	306
2019	822
2020	1,804
2021	650
Thereafter	7,420
	$ 11,009

(11) Accumulated Other Comprehensive Loss

The accumulated balances for each classification of other comprehensive loss are as follows:

(dollars in millions)	Net Foreign Currency Translation Adjustment	Net Defined Benefit Pension Plans	Total
Balance at January 1, 2014	$ 67	$ (31)	$ 36
Other comprehensive loss before reclassifications	(178)	(9)	(187)
Amounts reclassified from accumulated other comprehensive loss	—	4	4
Balance at December 31, 2014	(111)	(36)	(147)
Other comprehensive income (loss) before reclassifications	(162)	6	(156)
Amounts reclassified from accumulated other comprehensive loss	—	2	2
Balance at December 31, 2015	(273)	(28)	(301)
Other comprehensive loss before reclassifications	(80)	(7)	(87)
Amounts reclassified from accumulated other comprehensive loss	—	1	1
Balance at December 31, 2016	$ (353)	$ (34)	$ (387)

(12) Employee Benefits and Stock-Based Compensation

We record non-cash compensation expense for our performance restricted stock units, restricted stock units, 401(k) matching contributions and prior to October 1, 2016, outperform stock appreciation rights.

The following table summarizes non-cash compensation expense and capitalized non-cash compensation for each of the three years ended December 31, 2016, 2015 and 2014 (dollars in millions):

	2016	2015	2014
Outperform Stock Appreciation Rights	$ 1	$ 6	$ 8
Restricted Stock Units	76	65	34
Performance Restricted Stock Units	43	35	14
401(k) Match Expense	37	36	23
Restricted Stock Unit Bonus Grant	—	—	(5)
	157	142	74
Capitalized Non-Cash Compensation	(1)	(1)	(1)
	$ 156	$ 141	$ 73

We capitalize non-cash compensation for those employees directly involved in the construction of the network, installation of services for customers or the development of business support systems.

OSOs and restricted stock units are granted under the Level 3 Communications, Inc. Stock Incentive Plan, as amended (the "Stock Plan"), which term extends through May 21, 2025. The Stock Plan provides for accelerated vesting of stock awards upon retirement if an employee meets certain age and years of service requirements and certain other requirements. Under the Stock Compensation guidance, if an employee meets the age and years of service requirements under the accelerated vesting provision, the award would be expensed at grant or expensed over the period from the grant date to the date the employee meets the requirements, even if the employee has not actually retired. We recognized non-cash compensation expense for employees that met the age and years of service requirements for

accelerated vesting at retirement of $8 million, $14 million and $4 million in 2016, 2015 and 2014, respectively.

Outperform Stock Appreciation Rights

OSOs were awarded through the end of 2013, and were outstanding through October 2016. Our OSO program was designed so that our stockholders would receive a market return on their investment before OSO holders receive any return on their OSOs. We believe that the OSO program directly aligned management's and stockholders' interests by basing stock option value on our ability to outperform the market in general, as measured by the Standard & Poor's ("S&P") 500® Index. Participants in the OSO program did not realize any value from awards unless our common stock price outperformed the S&P 500® Index during the life of the grant. When the stock price gain was greater than the corresponding gain on the S&P 500® Index, the value received for awards under the OSO plan was based on a formula involving a multiplier related to the level by which our common stock outperformed the S&P 500® Index. To the extent that Level 3's common stock outperformed the S&P 500® Index, the value of OSO units to a holder exceeded the value of non-qualified stock options.

The initial strike price, as determined on the day prior to the OSO grant date, was adjusted over time (the "Adjusted Strike Price"), until the settlement date. The adjustment was an amount equal to the percentage appreciation or depreciation in the value of the S&P 500® Index from the date of grant to the date of settlement. The value of the OSO increased for increasing levels of outperformance. OSO units had a multiplier range from zero to four depending upon the performance of Level 3 common stock relative to the S&P 500® Index as shown in the following table.

If Level 3 Stock Outperforms the S&P 500® Index by:	Then the Pre-multiplier Gain Multiplied by a Success Multiplier of:
0% or Less	—
More than 0% but Less than 11%	Outperformance percentage multiplied by 4/11
11% or More	4.00

The Pre-multiplier Gain was the Level 3 common stock price minus the Adjusted Strike Price on the date of settlement.

Upon settlement of an OSO, we delivered to the grantee the difference between the fair market value of a share of Level 3 common stock as of the day prior to the settlement date, less the Adjusted Strike Price (the "Exercise Consideration"). The Exercise Consideration may be paid in cash, Level 3 common stock or any combination of cash or Level 3 common stock at our discretion. The number of shares of Level 3 common stock delivered to the grantee was determined by dividing the Exercise Consideration to be paid in Level 3 common stock by the fair market value of a share of Level 3 common stock as of the date prior to the settlement date. Fair market value was defined in the OSO agreement as the closing price per share of Level 3 common stock on the national securities exchange on which the common stock is traded. Settlement of the OSO units did not require any cash outlay by the employee.

OSO units had a three year life and settled 100% on the third anniversary of the date of the award. Recipients had no discretion on the timing to exercise OSO units, thus the expected life of all such OSO units was three years.

Transactions involving OSO units awarded are summarized in the table below. The Option Price Per Unit identified in the table below represents the initial strike price, as determined on the day prior to the OSO grant date for those grants.

	Units	Initial Strike Price Per Unit		Weighted Average Initial Strike Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (years)
					(in millions)	
Balance January 1, 2014	2,148,865	$ 14.10	$ 36.60	$ 23.99	$ 31.6	1.46
OSOs granted	—	$ —	$ —	$ —		
OSOs forfeited	(52,901)	$ 16.99	$ 27.53	$ 22.99		
OSOs expired	(106,844)	$ 36.60	$ 36.60	$ 36.60		
OSOs exercised	(771,251)	$ 14.70	$ 27.53	$ 24.26		
Balance December 31, 2014	1,217,869	$ 16.99	$ 27.53	$ 22.76	$ 88.0	0.90
OSOs granted	—	$ —	$ —	$ —		
OSOs forfeited	(12,945)	$ 20.29	$ 26.69	$ 22.81		
OSOs expired	—	$ —	$ —	$ —		
OSOs exercised	(589,944)	$ 22.15	$ 22.97	$ 22.32		
Balance December 31, 2015	614,980	$ 20.29	$ 26.69	$ 22.77	$ 48.5	0.37
OSOs granted	—	$ —	$ —	$ —		
OSOs forfeited	(6,875)	$ 20.29	$ 26.69	$ 26.03		
OSOs expired	—	$ —	$ —	$ —		
OSOs exercised	(608,105)	$ 20.29	$ 26.69	$ 22.73		
Balance December 31, 2016	—					

In the table above, the weighted average initial strike price represents the values used to calculate the theoretical value of OSO units on the grant date and the intrinsic value represents the value of OSO units that outperformed the S&P 500® Index as of December 31, 2015 and 2014, respectively.

The total realized value of OSO units settled was $14 million, $13 million and $19 million for the years ended December 31, 2016, 2015 and 2014, respectively. We issued 992,446, 622,755 and 732,593 shares of Level 3 common stock upon the exercise of OSO units for the years ended December 31, 2016, 2015 and 2014, respectively. The number of shares of Level 3 common stock issued upon settlement of an OSO unit varied based upon the relative performance of the Level 3 common stock price and the S&P 500® Index between the initial grant date and settlement date of the OSO.

Restricted Stock Units and Performance Restricted Stock Units

Restricted stock units are generally granted annually on July 1 to certain eligible recipients, including the Board of Directors, at no cost. Restrictions on transfer lapse over one to four year periods.

In April 2014, we began granting Performance Restricted Stock Units ("PRSUs"). PRSUs are designed to provide participants with a long-term stake in our success with both retention and performance components. Under these awards, a participant becomes vested in a number of PRSUs based on our achievement of specified levels of financial performance during the performance period set forth in the applicable award letter issued pursuant to the award agreement, so long as the participant remains continuously employed by us until the applicable scheduled vesting date, subject to certain change in control provisions as outlined in the award agreement. The performance objective is based on

our financial performance measures. Participants will be entitled to an award within a range of 50% at a minimum achievement level and 200% at a maximum achievement level.

PRSUs use a two-year performance measurement period and vest 50% on the second anniversary of the grant date (after the relevant performance has been measured) and the second 50% vest in February of the following year.

The weighted-average grant-date fair value of restricted stock units awarded totaled $80 million, $106 million and $72 million for the years ended December 31, 2016, 2015 and 2014, respectively. The fair value of these awards was calculated using the value of Level 3 common stock on the grant date and these awards are being amortized over the periods in which the restrictions lapse. As of December 31, 2016, unamortized compensation cost related to restricted stock units was $77 million and the weighted average period over which this cost will be recognized is 2.45 years.

The changes in restricted stock units are shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	2,924,350	$ 22.77
Stock and units granted	1,650,772	$ 43.48
Lapse of restrictions	(1,150,080)	$ 22.92
Stock and units forfeited	(206,305)	$ 27.14
Nonvested at December 31, 2014	3,218,737	$ 32.95
Stock and units granted	2,087,942	$ 50.60
Lapse of restrictions	(1,194,519)	$ 31.70
Stock and units forfeited	(358,227)	$ 44.25
Nonvested at December 31, 2015	3,753,933	$ 42.09
Stock and units granted	1,547,229	$ 51.45
Lapse of restrictions	(1,342,027)	$ 36.95
Stock and units forfeited	(254,712)	$ 47.45
Nonvested at December 31, 2016	3,704,423	$ 47.49

The changes in performance restricted stock units are shown in the following table:

	Number	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	—	$ —
Units granted	605,111	$ 39.30
Lapse of restrictions	(1,750)	$ 39.14
Units forfeited	(35,480)	$ 39.14
Nonvested at December 31, 2014	567,881	$ 39.31
Units granted	713,657	$ 53.82
Lapse of restrictions	—	$ —
Units forfeited	(53,073)	$ 49.25
Nonvested at December 31, 2015	1,228,465	$ 47.31
Units granted	498,184	$ 52.84
Lapse of restrictions	(297,940)	$ 39.43
Units forfeited	(97,298)	$ 52.02
Nonvested at December 31, 2016	1,331,411	$ 50.80

The weighted-average grant-date fair value of performance restricted stock units awarded totaled $26 million, $38 million and $24 million for the years ended December 31, 2016, 2015 and 2014, respectively. The fair value of these awards was calculated using the value of Level 3 common stock on the grant date and these awards are being amortized over the periods in which the restrictions lapse. As of December 31, 2016, unamortized compensation cost related to PRSUs was $32 million and the weighted average period over which this cost will be recognized is 1.59 years.

The total fair value of restricted stock units and PRSUs whose restrictions lapsed in the years ended December 31, 2016, 2015 and 2014 was $61 million, $38 million and $27 million, respectively.

Defined Contribution Plans

We sponsor a number of defined contribution plans. The principal defined contribution plans are discussed individually below. Other defined contribution plans are not individually significant and therefore have been summarized in aggregate below.

We offer our qualified employees the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of Section 401(k) of the Internal Revenue Code ("401(k) Plan"). Each employee is eligible to contribute, on a tax deferred basis, a portion of annual earnings generally not to exceed $18,000 in 2016 and $18,000 in 2015. We match 100% of employee contributions up to 4% of eligible earnings or applicable regulatory limits.

Our matching contributions are made with Level 3 common stock based on the closing stock price on each pay date. Our matching contributions are made through units in the Level 3 Stock Fund, which represent shares of Level 3 common stock. The Level 3 Stock Fund is the mechanism that is used for Level 3 to make employer matching and other contributions to employees through the Level 3 401(k) Plan. Prior to January 2016, employees were not able to purchase units in the Level 3 Stock Fund but effective January 2016, employees may allocate account balances to the Level 3 Stock Fund subject to a limitation on the total percentage of the employee's 401(K) account balances maintained in the Level 3

Stock Fund. Employees are able to diversify our matching contribution as soon as it is made, even if they are not fully vested, subject to insider trading rules and regulations. Our matching contributions vest ratably over the first three years of service or over such shorter period until the employee has completed three years of service at such time the employee is then 100% vested in all our matching contributions, including future contributions. We made 401(k) Plan matching contributions of $37 million, $36 million and $23 million for the years ended December 31, 2016, 2015 and 2014, respectively. Our matching contributions are recorded as non-cash compensation and included in network related expenses of $5 million, $5 million and $4 million for the years ended December 31, 2016, 2015 and 2014, respectively, and in selling, general and administrative expenses of $32 million, $31 million and $19 million for the years ended December 31, 2016, 2015 and 2014, respectively. Former tw telecom employees became eligible to participate in our 401(k) Plan starting January 1, 2015.

The tw telecom 401(k) Plan ("tw telecom 401(k) Plan") provided 100% matching cash contributions up to a maximum 5% of eligible compensation. Our contributions to the tw telecom 401(k) Plan vest immediately. Expenses recorded relating to the tw telecom 401(k) Plan for the two months in 2014 subsequent to the completion of the tw telecom acquisition were approximately $2 million.

Other defined contribution plans we sponsored are individually not significant. On an aggregate basis the expenses we recorded relating to these plans were approximately $6 million, $6 million and $6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Defined Benefit Plans

We have certain contributory and non-contributory employee pension plans, which are not significant to our financial position or operating results. We recognize in our balance sheet the funded status of our defined benefit post-retirement plans, which is measured as the difference between the fair value of the plan assets and the plan benefit obligations. We are also required to recognize changes in the funded status within accumulated other comprehensive income, net of tax to the extent such changes are not recognized in earnings as components of periodic net benefit cost. The fair value of the plan assets was $136 million and $142 million as of December 31, 2016 and 2015, respectively. The total plan benefit obligations were $158 million and $158 million as of December 31, 2016 and 2015, respectively. Therefore, the total funded status was an obligation of $22 million and $16 million as of December 31, 2016 and 2015, respectively.

Annual Discretionary Bonus Grant

Our annual discretionary bonus program is intended to motivate employees to achieve our financial and business goals. Each participant is provided a target award expressed as a percentage of base salary. Actual awards under the program are based on corporate results as well as achievement of specific individual performance criteria during the bonus program period, and may be paid in cash, restricted stock units, or a combination of the two, at the sole discretion of the Compensation Committee of the Board of Directors. The annual discretionary bonus will be paid in cash for the 2016 bonus program, and was paid in cash for the 2015 and 2014 bonus programs. We paid out 1.4 million immediately-vested restricted stock units in 2014 for the 2013 bonus plan.

(13) Income Taxes

The following table summarizes the income tax (expense) benefit attributable to the income (loss) before income taxes for each of the three years ended December 31, 2016, 2015 and 2014:

(dollars in millions)	2016	2015	2014
Current:			
United States Federal	$ —	$ —	$ —
State	(4)	(3)	(1)
Foreign	(41)	(33)	(40)
	(45)	(36)	(41)
Deferred, net of changes in valuation allowances:			
United States federal	(177)	2,941	6
State	(27)	246	15
Foreign	84	(1)	96
	(120)	3,186	117
Income Tax (Expense) Benefit	$ (165)	$ 3,150	$ 76

The United States and Foreign components of income (loss) before income taxes for each of the three years ended December 31, 2016, 2015 and 2014 are as follows (some of the income (loss) is subject to taxation in multiple jurisdictions):

(dollars in millions)	2016	2015	2014
United States	$ 794	$ 401	$ 207
Foreign	48	(118)	31
	$ 842	$ 283	$ 238

A reconciliation of the actual income tax (expense) benefit and the tax computed by applying the U.S. federal rate (35%) to the income before income taxes for each of the three years ended December 31, 2016, 2015 and 2014 is shown in the following table:

	2016	2015	2014
	(dollars in millions)		
Computed Tax Expense at Statutory Rate	$ (295)	$ (99)	$ (83)
State and Local Income Taxes	(31)	(15)	(8)
Effect of Earnings in Jurisdictions outside of the United States	24	30	13
Change in Valuation Allowance	139	3,401	205
Disallowed Interest	(58)	(62)	(25)
Non-Deductible Deconsolidation Loss	—	(57)	—
Other Permanent Items	(33)	(25)	(19)
Adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*	22	—	—
U.S. Federal Law Changes	110	—	—
Indefinite-Lived Assets	—	—	2
Uncertain Tax Positions	(2)	(5)	3
Changes in Tax Rates	(24)	(20)	(7)
Other, net	(17)	2	(5)
Income Tax (Expense) Benefit	$ (165)	$ 3,150	$ 76

The components of the net deferred tax assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
	(dollars in millions)	
Deferred Tax Assets:		
Deferred revenue	364	351
Unutilized tax net operating loss carry forwards	4,550	4,959
Fixed assets	95	115
Other	471	501
Total Deferred Tax Assets	5,480	5,926
Deferred Tax Liabilities:		
Deferred revenue	(57)	(58)
Fixed assets	(962)	(924)
Intangible assets	(357)	(399)
Other	(120)	(350)
Total Deferred Tax Liabilities	(1,496)	(1,731)
Net Deferred Tax Assets before Valuation Allowance	3,984	4,195
Valuation Allowance	(862)	(1,002)
Net Deferred Tax Assets after Valuation Allowance	$ 3,122	$ 3,193

As of December 31, 2016, we had available net operating loss carry forwards of approximately $9.0 billion after taking into account the effects of Section 382 limitation of the Internal Revenue Code for U.S. federal income tax purposes.

As a result of certain realization requirements of applicable accounting guidance, the table of deferred tax asset and liabilities shown above does not include certain deferred tax assets as of December 31, 2015 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. However, effective January 1, 2016 we adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, and the deferred tax assets related to equity compensation are reflected in the table for the year ended December 31, 2016.

Our loss carry forwards expire in future years through 2035 and are subject to examination by the tax authorities up to three years after the carry forwards are utilized. The U.S. net operating tax loss carry forwards available for federal income tax purposes expire as follows (dollars in millions):

Expiring December 31,	Amount
2024	$ 891
2025	1,267
2026	1,254
2027	1,645
2028	477
2029	694
2030	663
2031	833
2032	729
2033	194
2034	389
2035	1
	$ 9,037

Under the rules prescribed by Internal Revenue Code Section 382 and applicable regulations, if certain transactions occur with respect to an entity's capital stock that result in a cumulative ownership shift of more than 50 percentage points by 5% stockholders over a three-year testing period, annual limitations are imposed with respect to the entity's ability to utilize its net operating loss carry forwards and certain current deductions against any taxable income the entity achieves in future periods and could result in a substantial income tax expense at the time of the shift. We extended the term of our Stockholder Rights Plan, which was adopted to protect our U.S. federal net operating loss carry forwards from these limitations. This plan was designed to deter trading that would result in a change of control (as defined in Section 382) and therefore protect our ability to use our U.S. federal net operating loss carry forwards in the future.

As of December 31, 2016, we had state net operating loss carry forwards of approximately $9.4 billion that have various expiration periods through 2035. We had approximately $5.5 billion of foreign jurisdiction net operating loss carry forwards that are subject to limitations on their utilization. The majority of these foreign jurisdiction tax loss carry forwards have no expiration period.

We recognize deferred tax assets and liabilities for our domestic and non-U.S. operations, for operating loss and other credit carry forwards and the expected tax consequences of temporary

differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns, and future profitability by tax jurisdiction. We have historically provided a valuation allowance to reduce our U.S. federal and state and foreign deferred tax assets to the amount that is more likely than not to be realized. We monitor our cumulative loss position and other evidence each quarter to determine the appropriateness of our valuation allowance. Although we believe our estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

In the fourth quarter of 2014, we released $100 million of deferred tax valuation allowance primarily related to our business in the U.K. due to a recapitalization and consolidation of legal entities whereby one U.K. entity with a full valuation allowance was merged with an entity that had no valuation allowance against its deferred tax assets, as we had an expectation of future taxable income for the combined entities.

In the fourth quarter of 2015, we released the majority of the valuation allowance against our U.S. federal and state deferred tax assets, resulting in a non-cash benefit to income tax expense of approximately $3.3 billion, $3.1 billion of which was related to future years' earnings. In making the determination to release the valuation allowance against U.S. federal and state deferred tax assets, we took into consideration our movement into a cumulative income position for the most recent 3-year period, including pro forma adjustments for acquired entities, our 8 out of 9 consecutive quarters of pre-tax operating income, and forecasts of future earnings for our U.S. business. We expect to continue to generate income before taxes in the United States in future periods.

During 2016, we recognized a $22 million income tax benefit from the vesting of stock based compensation due to the adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. We also recognized $82 million of income tax benefit related to the release of deferred tax asset valuation allowances primarily in Germany, Brazil, and Mexico. The determinations to release the foreign valuation allowances were driven by our projection of future profitability for each legal entity due to the recapitalization of our German subsidiary, the planned action to restructure our Brazilian business, and the merger of our Mexican subsidiaries.

We continue to maintain our existing valuation allowance against net deferred tax assets in many of our state and foreign jurisdictions where we do not currently believe the realization of our deferred tax assets is more likely than not.

The valuation allowance for deferred tax assets was approximately $0.9 billion as of December 31, 2016 and $1.0 billion as of December 31, 2015. The change in valuation allowance is primarily due to the release of the valuation allowance against foreign deferred tax assets.

With respect to our foreign corporate subsidiaries, we provide for U.S. income taxes on the undistributed earnings and the other outside basis temporary differences (differences between a parent's book and tax basis in a subsidiary, including currency translation adjustments) unless they are considered indefinitely reinvested outside the United States. The amount of temporary differences related to undistributed earnings and other outside basis temporary differences of investments in foreign subsidiaries upon which U.S. income taxes have not been provided was immaterial.

With respect to our foreign branches, we had historically established deferred tax liabilities for foreign branches with an overall cumulative translation gain, but had not established deferred tax assets for those with an overall translation loss as we had no plans to trigger realization of the losses in the foreseeable future. On December 7, 2016, the Internal Revenue Service issued regulations under Internal

Revenue Code Section 987 addressing the taxation of foreign currency translations gains and losses arising from foreign branches. The new regulations require a “fresh start” recalculation of the unrealized gains and losses as of the adoption date. The regulations provide that the tax bases of specified assets, such as fixed assets, will be translated at historic foreign exchange rates. As a result, the deferred taxes related to such foreign currency translation are expected to reverse through the operations of the branch thereby allowing the recognition of deferred tax assets arising from translation losses as well. The issuance of the regulations resulted in us recognizing an estimated one-time tax benefit of $110 million during the fourth quarter 2016.

Our liability for uncertain income tax positions totaled $18 million at December 31, 2016 and $18 million at December 31, 2015. If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of $17 million ($17 million as of December 31, 2015) and a reduction in the effective tax rate. We do not expect that the liability for uncertain tax positions will materially increase or decrease during the twelve months ended December 31, 2017. A reconciliation of the beginning and ending balance of unrecognized income tax benefits follows (dollars in millions):

	Amount
Balance as of January 1, 2014	$ 13
Tax positions of prior years netted against deferred tax assets	5
Gross increases - tax positions of prior years	1
Gross increases - tax positions during 2014	—
Gross decreases - lapse of statute of limitations	(2)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2014	17
Tax positions of prior years netted against deferred tax assets	(2)
Gross increases - tax positions of prior years	3
Gross increases - tax positions during 2015	2
Gross decreases - lapse of statute of limitations	(2)
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2015	18
Tax positions of prior years netted against deferred tax assets	(1)
Gross increases - tax positions during 2016	2
Gross decreases - tax positions of prior years	(1)
Gross decreases - lapse of statute of limitations	—
Gross decreases - settlement with taxing authorities	—
Balance as of December 31, 2016	$ 18

The unrecognized tax benefits in the table above do not include accrued interest and penalties of $18 million, $16 million and $17 million as of December 31, 2016, 2015 and 2014, respectively. Our policy is to record interest and penalties related to uncertain tax positions in income tax expense. We recognized accrued interest and penalties related to uncertain tax positions in income tax expense in our Consolidated Statements of Income of approximately $1 million, a benefit of less than $1 million and a benefit of approximately $1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

We, or at least one of our subsidiaries, file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carry forwards are available.

We incur tax expense attributable to income in various subsidiaries that are required to file state or foreign income tax returns on a separate legal entity basis. We also recognize accrued interest and penalties in income tax expense related to uncertain tax benefits. Our tax rate is volatile and may move up or down with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, changes in tax laws, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled.

(14) Segment Information

Operating segments are defined under GAAP as components of an enterprise for which separate financial information is available and evaluated regularly by our chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. Our CODM is Jeff K. Storey, President and Chief Executive Officer. Our reportable segments consist of: 1) North America; 2) EMEA; and 3) Latin America. Other separate business interests that are not segments include interest, certain corporate assets and overhead costs, and certain other general and administrative costs that are not allocated to any of the operating segments.

The CODM measures and evaluates segment performance primarily based upon revenue, revenue growth and Adjusted EBITDA. Adjusted EBITDA, as defined by us, is equal to net income (loss) from the Consolidated Statements of Income before (1) income tax benefit (expense), (2) total other income (expense), (3) non-cash impairment charges included within selling, general and administrative expenses and network related expenses, (4) depreciation and amortization expense, and (5) non-cash stock-based compensation expense included within selling, general and administrative expenses and network related expenses.

Adjusted EBITDA is not a measurement under GAAP and may not be used in the same way by other companies. Management believes that Adjusted EBITDA is an important part of our internal reporting and is a key measure used by management to evaluate our profitability and operating performance and to make resource allocation decisions. Management believes such measurement is especially important in a capital-intensive industry such as telecommunications. Management also uses Adjusted EBITDA to compare our performance to that of our competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period our ability to fund capital expenditures, fund growth, service debt and determine bonuses.

Adjusted EBITDA excludes non-cash impairment charges and non-cash stock-based compensation expense because of the non-cash nature of these items. Adjusted EBITDA also excludes interest income, interest expense and income tax benefit (expense) because these items are associated with our capitalization and tax structures. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses reflect the effect of capital investments which management believes are better evaluated through cash flow measures. Adjusted EBITDA excludes net other income (expense) because these items are not related to our primary operations.

There are limitations to using non-GAAP financial measures such as Adjusted EBITDA, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from our calculations. Additionally, this financial measure does not include certain significant items such as interest income, interest expense, income tax benefit (expense), depreciation and amortization expense, non-cash impairment charges, non-cash stock-based compensation expense,

and net other income (expense). Adjusted EBITDA should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Revenue and the related expenses are attributed to regions based on where services are provided. Revenue and costs for services provided in more than one region are allocated equally between the regions, and we do not otherwise charge for services between reportable segments. Therefore, segment results do not include any intercompany revenue. The operating activities of the separate regions along with the activities that are not attributable to a segment are interdependent, and the regional results in the tables below do not include all intercompany charges and allocations that would be necessary to report the regional results on a standalone basis.

Total revenue consists of:

- Core Network Services revenue from Internet Protocol and data services; transport and fiber; local and enterprise voice services; colocation and data center services; and security services.

- Wholesale Voice Services revenue from sales to other carriers of long distance voice services.

Core Network Services revenue represents higher profit services and Wholesale Voice Services revenue represents lower profit services. Core Network Services revenue requires different levels of investment and focus and provides different contributions to our operating results than Wholesale Voice Services revenue. Management believes that growth in revenue from our Core Network Services is critical to the long-term success of our business. We also believe we must continue to effectively manage the profitability of the Wholesale Voice Services revenue. We believe trends in our communications business are best gauged by analyzing revenue changes in Core Network Services.

The following table presents revenue by segment for each of the years ended December 31,

(dollars in millions)	2016	2015	2014
Core Network Services Revenue:			
North America	$ 6,362	$ 6,207	$ 4,520
EMEA	744	835	904
Latin America	661	715	784
Total Core Network Services Revenue	$ 7,767	$ 7,757	$ 6,208
Wholesale Voice Services Revenue:			
North America	$ 386	$ 447	$ 535
EMEA	11	14	6
Latin America	8	11	28
Total Wholesale Voice Services Revenue	$ 405	$ 472	$ 569
Total Revenue	$ 8,172	$ 8,229	$ 6,777

The following table presents Adjusted EBITDA by segment and reconciles Adjusted EBITDA to net income for each of the years ended December 31,

(dollars in millions)	2016	2015	2014
Adjusted EBITDA:			
North America	$ 3,220	$ 3,048	$ 2,065
EMEA	215	235	214
Latin America	293	302	348
Unallocated Corporate Expenses	(878)	(947)	(732)
Adjusted EBITDA	$ 2,850	$ 2,638	$ 1,895
Income Tax (Expense) Benefit	(165)	3,150	76
Total Other Expense	(602)	(1,048)	(775)
Depreciation and Amortization	(1,250)	(1,166)	(808)
Non-Cash Stock Compensation	(156)	(141)	(73)
Non-Cash Impairment	—	—	(1)
Net Income	$ 677	$ 3,433	$ 314

The following table presents capital expenditures by segment and reconciles capital expenditures to total capital expenditures for each of the years ended December 31:

(dollars in millions)	2016	2015	2014
Capital Expenditures:			
North America	$ 874	$ 752	$ 495
EMEA	145	158	117
Latin America	166	155	153
Unallocated Corporate Capital Expenditures	149	164	145
Total Capital Expenditures	$ 1,334	$ 1,229	$ 910

The following table presents total assets by segment:

	As of December 31,	
(dollars in millions)	2016	2015
Assets:		
North America	$ 20,818	$ 19,961
EMEA	1,639	1,796
Latin America	2,304	2,131
Other	127	129
Total Assets	$ 24,888	$ 24,017

The changes in the carrying amount of goodwill by segment during year ended December 31, 2016 and 2015 were as follows (in millions):

	North America	EMEA	Latin America	Total
Balance at January 1, 2015	$ 6,955	$ 138	$ 596	$ 7,689
Goodwill adjustments including the effect of foreign currency rate change	69	(9)	—	60
Balance at December 31, 2015	7,024	129	596	7,749
Effect of foreign currency rate change	—	(20)	—	(20)
Balance at December 31, 2016	$ 7,024	$ 109	$ 596	$ 7,729

(15) Commitments, Contingencies and Other Items

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. Amounts accrued for such contingencies aggregate to $97 million and are included in "Other" current liabilities and "Other Liabilities" in our Consolidated Balance Sheet at December 31, 2016. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued would have no effect on our results of operations but could materially adversely affect our cash flows for the affected period.

We review our accruals at least quarterly and adjusts them to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Below is a description of material legal proceedings and other contingencies pending at December 31, 2016. Although we believe we have accrued for these matters in accordance with the accounting guidance for contingencies, contingencies are inherently unpredictable and it is possible that results of operations or cash flows could be materially and adversely affected in any particular period by unfavorable developments in, or resolution or disposition of, one or more of these matters. For those contingencies in respect of which we believe it is reasonably possible that a loss may result that is materially in excess of the accrual (if any) established for the matter, we have either provided an estimate of such possible loss or range of loss or included a statement that such an estimate cannot be made. In addition to the contingencies described below, we are party to many other legal proceedings and contingencies, the resolution of which is not expected to materially affect our financial condition or future results of operations beyond the amounts accrued.

Rights-of-Way Litigation

We are party to a number of purported class action lawsuits involving our right to install fiber optic cable network in railroad right-of-ways adjacent to plaintiffs' land. In general, we obtained the rights to construct our networks from railroads, utilities, and others, and have installed our networks along the rights-of-way so granted. Plaintiffs in the purported class actions assert that they are the owners of lands over which the fiber optic cable networks pass, and that the railroads, utilities and others who granted us the right to construct and maintain our network did not have the legal authority to do so. The complaints seek damages on theories of trespass, unjust enrichment and slander of title and property, as well as punitive damages. We have also received, and may in the future receive, claims and demands related to rights-of-way issues similar to the issues in these cases that may be based on similar or different legal theories. We have defeated motions for class certification in a number of these actions but expect that, absent settlement of these actions, plaintiffs in the pending lawsuits will continue to seek certification of statewide or multi-state classes. The only lawsuit in which a class was certified against us, absent an

agreed upon settlement, occurred in *Koyle, et. al. v. Level 3 Communications, Inc., et. al.,* a purported two state class action filed in the United States District Court for the District of Idaho. The *Koyle* lawsuit has been dismissed pursuant to a settlement reached in November 2010 as described further below.

We negotiated a series of class settlements affecting all persons who own or owned land next to or near railroad rights of way in which we have installed our fiber optic cable networks. The United States District Court for the District of Massachusetts in *Kingsborough v. Sprint Communications Co. L.P.* granted preliminary approval of the proposed settlement; however, on September 10, 2009, the court denied a motion for final approval of the settlement on the basis that the court lacked subject matter jurisdiction and dismissed the case.

In November 2010, we negotiated revised settlement terms for a series of state class settlements affecting all persons who own or owned land next to or near railroad rights of way in which we have installed our fiber optic cable networks. We are currently pursuing presentment of the settlement in applicable jurisdictions. The settlements, affecting current and former landowners, have received final federal court approval in all but one of the applicable states and the parties are actively engaged in, or have completed, the claims process for the vast majority of the applicable states, including payment of claims. We continue to seek approval in the remaining state.

Management believes that we have substantial defenses to the claims asserted in all of these actions and intends to defend them vigorously if a satisfactory settlement is not ultimately approved for all affected landowners.

Peruvian Tax Litigation

Beginning in 2005, one of our Peruvian subsidiaries received a number of assessments for tax, penalties and interest for calendar years 2001 and 2002. Peruvian tax authorities ("SUNAT") took the position that the Peruvian subsidiary incorrectly documented its importations resulting in additional income tax withholding and value-added taxes ("VAT"). The total amount of the asserted claims, including potential interest and penalties, was $26 million, consisting of $3 million for income tax withholding in connection with the import of services for calendar years 2001 and 2002, $7 million for VAT in connection with the import of services for calendar years 2001 and 2002, and $16 million in connection with the disallowance of VAT credits for periods beginning in 2005. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, the total amount of exposure is $18 million at December 31, 2016.

We challenged the tax assessments during 2005 by filing administrative claims before SUNAT. During August 2006 and June 2007, SUNAT rejected our administrative claims, thereby confirming the assessments. Appeals were filed in September 2006 and July 2007 with the Tribunal Fiscal, the highest level of administrative review, which is not part of the Peru judiciary (the "Tribunal"). The 2001 and 2002 assessed withholding tax assessments were resolved in our favor in separate administrative resolutions; however, the penalties with respect to withholding tax remain at issue in the administrative appeals.

In October 2011, the Tribunal issued its administrative resolution with respect to the calendar year 2002 tax period regarding VAT, associated penalties and penalties associated with withholding taxes, deciding the central issue underlying the assessments in the government's favor, while confirming the assessment in part and denying a portion of the assessment on procedural grounds. We appealed the Tribunal's October 2011 administrative resolutions to the judicial court in Peru. In September 2014, the first judicial court rendered a decision largely in our favor on the central issue underlying the assessments. SUNAT appealed the court’s decision to the next judicial level. The court of appeal remanded the case to the first judicial court for further development of the facts and legal analysis supporting its decision. In April 2016, the first judicial level rendered a decision in our favor on the central issue underlying the assessments. SUNAT has appealed the substantive issue to the next judicial level. We also appealed certain procedural points.

In October 2013, the Tribunal notified us of its July 2013 administrative resolution with respect to the calendar year 2001 tax period regarding VAT, associated penalties and penalties associated with withholding taxes, determining the central issue underlying the assessments in the government's favor, while confirming the assessment in part and denying a portion of the assessment on procedural grounds. We appealed the Tribunal's July 2013 administrative resolutions to the judicial court in Peru. In April 2015, the first judicial court rendered a decision largely in SUNAT's favor on the central issue underlying the assessments. We appealed the court's decision to the next judicial level. In April 2016, the court of appeal rendered a decision that declared null the April 2015 decision and remanded the case to the first judicial court for further development of the facts and legal analysis supporting its decision.

In December 2013, SUNAT initiated an audit of calendar year 2001. In June 2014, we were served with SUNAT's assessments of the 2001 VAT credits declared null by the Tribunal and the corresponding fine. In July 2014, we challenged these assessments by filing administrative claims before SUNAT. In January 2015, SUNAT rejected the administrative claims, thereby confirming the assessments. We filed an appeal with the Tribunal in February 2015. In May 2015, the Tribunal notified us of its administrative resolution declaring the assessments and corresponding fines null. The time for SUNAT to appeal this resolution has closed. Under local practice, notification of an appeal can take several months. Counsel confirmed in the first quarter of 2016 that SUNAT has not filed an appeal to the resolution. Nevertheless, SUNAT retains the right to reissue the assessments declared null or start a new audit. However, we are under no obligation to provide additional information and any fine issued by SUNAT based on the same information that it has already used in the past would be declared null. Accordingly, in March 2016, we released an accrual of approximately $15 million for an assessment and associated interest.

In addition, based on a change in legal interpretation by the Peruvian judicial courts, the statute of limitations with respect to the 2001 fines has expired. Accordingly, in the fourth quarter of 2016, we released an accrual of approximately $11 million of fines and associated interest.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against certain of our Latin American subsidiaries for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys fees and statutorily mandated inflation adjustments) as a result of their separation from us or termination of service relationships. We are vigorously defending ourselves against the asserted claims, which aggregate to approximately $29 million at December 31, 2016.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authorities issued tax assessments against one of our Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS") with respect to revenue from leasing movable properties (in the case of the December 2004, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. During the third quarter of 2014, we released an accrual of $6 million for tax, penalty and associated interest corresponding to the ICMS applicable on the provision of Internet access services due to the expiration of the statute of limitations for the January 2008 to June 2009 tax periods. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues. We have filed objections to these assessments, arguing that the lease of assets and the provision of Internet access are not communication services subject to ICMS. The objections to the September 2002, December 2004 and March 2009 assessments were rejected by the respective state administrative

courts, and we have appealed those decisions to the judicial courts. In October 2012 and June 2014, we received favorable rulings from the lower court on the December 2004 and March 2009 assessments regarding equipment leasing, but those rulings are subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the April and July 2009 and May 2012 assessments are still pending final administrative decisions. The July 2014 assessment was confirmed during the fourth quarter of 2014 at the first administrative level and we appealed this decision to the second administrative level. During the fourth quarter of 2014, we entered into an amnesty with the Rio de Janeiro state tax authorities with respect to potential ICMS liability for the 2008 tax period. As a result, we paid $5 million and released an accrual of $3 million of tax corresponding to the ICMS applicable on the provision of Internet access services in the fourth quarter of 2014.

We are vigorously contesting all such assessments in both states and, in particular, view the assessment of ICMS on revenue from leasing movable properties to be without merit. Nevertheless, we believe it is reasonably possible that these assessments could result in a loss of up to $48 million at December 31, 2016 in excess of the accruals established for these matters.

Letters of Credit

It is customary for us to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of December 31, 2016 and December 31, 2015, we had outstanding letters of credit or other similar obligations of approximately $39 million and $46 million, respectively, of which $33 million and $43 million are collateralized by cash that is reflected on the Consolidated Balance Sheets as restricted cash and securities. We do not believe exposure to loss related to our letters of credit is material.

Operating Leases

We are leasing rights-of-way, facilities and other assets under various operating leases which, in addition to rental payments, may require payments for insurance, maintenance, property taxes and other executory costs related to the lease. Certain leases provide for adjustments in lease cost based upon adjustments in various price indexes and increases in the landlord's management costs.

The right-of-way agreements have various expiration dates through 2060. Payments under these right-of-way agreements were $205 million in 2016, $211 million in 2015 and $173 million in 2014.

We have obligations under non-cancelable operating leases for certain colocation, office facilities and other assets, including lease obligations for which facility related restructuring charges have been recorded. The lease agreements have various expiration dates through 2119. Rent expense, including common area maintenance, under non-cancelable lease agreements was $347 million in 2016, $357 million in 2015 and $318 million in 2014.

Future minimum payments for the next five years and thereafter under network and related right-of-way agreements and non-cancelable operating leases for facilities and other assets consist of the following as of December 31, 2016 (dollars in millions):

	Right-of-Way Agreements	Operating Leases	Total	Future Minimum Sublease Receipts
2017	$ 162	$ 282	$ 444	$ 4
2018	80	244	324	4
2019	71	222	293	3
2020	55	164	219	1
2021	50	124	174	—
Thereafter	325	501	826	—
	$ 743	$ 1,537	$ 2,280	$ 12

Certain right-of-way agreements include provisions for increases in payments in future periods based on the rate of inflation as measured by various price indexes. We have not included estimates for these increases in future periods in the amounts included above.

Certain non-cancelable right of way agreements provide for automatic renewal on a periodic basis. We include payments due during these automatic renewal periods given the significant cost to relocate our network and other facilities.

Certain other right-of-way agreements are currently cancelable or can be terminated under certain conditions by us. We include the payments under such cancelable right-of-way agreements in the table above for a period of 1 year from January 1, 2017, if we do not consider it likely that we will cancel the right of way agreement within the next year.

Cost of Access and Third-Party Maintenance

In addition, we have purchase commitments with third-party access vendors that require us to make payments to purchase network services, capacity and telecommunications equipment. Some of these access vendor commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage. In addition, we have purchase commitments with third parties that require us to make payments for maintenance services for certain portions of our network.

The following table summarizes our purchase commitments at December 31, 2016 (dollars in millions):

	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Cost of Access Services	$ 425	$ 278	$ 131	$ 11	$ 5
Third-Party Maintenance Services	235	59	69	40	67
	$ 660	$ 337	$ 200	$ 51	$ 72

(16) Condensed Consolidating Financial Information

Level 3 Financing has issued Senior Notes that are unsecured obligations of Level 3 Financing, Inc.; however, they are also fully and unconditionally and jointly and severally guaranteed on an unsecured senior basis by Level 3 Communications, Inc. and Level 3 Communications, LLC.

In conjunction with the registration of the Level 3 Financing, Inc. Senior Notes, the accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 "Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered."

The operating activities of the separate legal entities included in our Consolidated Financial Statements are interdependent. The accompanying condensed consolidating financial information presents the statements of comprehensive income, balance sheets and statements of cash flows of each legal entity and, on an aggregate basis, the other non-guarantor subsidiaries based on amounts incurred by such entities, and is not intended to present the operating results of those legal entities on a stand-alone basis. Level 3 Communications, LLC leases equipment and certain facilities from other wholly owned subsidiaries of Level 3 Communications, Inc. These transactions are eliminated in our consolidated results.

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year ended December 31, 2016

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	$ —	$ —	$ 3,557	$ 4,747	$ (132)	$ 8,172
Costs and Expenses:						
Network access costs	—	—	1,283	1,574	(132)	2,725
Network related expenses	—	—	953	393	—	1,346
Depreciation and amortization	—	—	385	865	—	1,250
Selling, general and administrative expenses	16	5	1,024	362	—	1,407
Total costs and expenses	16	5	3,645	3,194	(132)	6,728
Operating (Loss) Income	(16)	(5)	(88)	1,553	—	1,444
Other Income (Expense):						
Interest income	—	—	3	1	—	4
Interest expense	(36)	(505)	(2)	(3)	—	(546)
Interest income (expense) affiliates, net	1,385	2,113	(3,215)	(283)	—	—
Equity in net earnings (losses) of subsidiaries	(669)	(2,033)	757	—	1,945	—
Other, net	(1)	(39)	2	(22)	—	(60)
Total other expense	679	(464)	(2,455)	(307)	1,945	(602)
Income (Loss) before Income Taxes	663	(469)	(2,543)	1,246	1,945	842
Income Tax (Expense) Benefit	14	(200)	(2)	23	—	(165)
Net Income (Loss)	677	(669)	(2,545)	1,269	1,945	677
Other Comprehensive Loss, Net of Income Taxes	(86)	—	—	(86)	86	(86)
Comprehensive Income (Loss)	$ 591	$ (669)	$ (2,545)	$ 1,183	$ 2,031	$ 591

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year ended December 31, 2015

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	$ —	$ —	$ 3,325	$ 5,077	$ (173)	$ 8,229
Costs and Expenses:						
Network access costs	—	—	1,243	1,763	(173)	2,833
Network related expenses	—	—	947	485	—	1,432
Depreciation and amortization	—	—	309	857	—	1,166
Selling, general and administrative expenses	4	—	1,064	399	—	1,467
Total costs and expenses	4	—	3,563	3,504	(173)	6,898
Operating (Loss) Income	(4)	—	(238)	1,573	—	1,331
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(51)	(574)	(3)	(14)	—	(642)
Interest income (expense) affiliates, net	1,310	1,984	(3,041)	(253)	—	—
Equity in net earnings (losses) of subsidiaries	2,162	(1,693)	177	—	(646)	—
Other, net	(18)	(200)	3	(192)	—	(407)
Total other expense	3,403	(483)	(2,864)	(458)	(646)	(1,048)
Income (Loss) before Income Taxes	3,399	(483)	(3,102)	1,115	(646)	283
Income Tax (Expense) Benefit	34	2,645	(1)	472	—	3,150
Net Income (Loss)	3,433	2,162	(3,103)	1,587	(646)	3,433
Other Comprehensive (Loss) Income, Net of Income Taxes	(154)	—	—	(154)	154	(154)
Comprehensive Income (Loss)	$ 3,279	$ 2,162	$ (3,103)	$ 1,433	$ (492)	$ 3,279

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year ended December 31, 2014

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Revenue	$ —	$ —	$ 3,073	$ 3,918	$ (214)	$ 6,777
Costs and Expenses:						
Network access costs	—	—	1,177	1,566	(214)	2,529
Network related expenses	—	—	762	484	—	1,246
Depreciation and amortization	—	—	277	531	—	808
Selling, general and administrative expenses	21	2	735	423	—	1,181
Total costs and expenses	21	2	2,951	3,004	(214)	5,764
Operating (Loss) Income	(21)	(2)	122	914	—	1,013
Other Income (Expense):						
Interest income	—	—	—	1	—	1
Interest expense	(143)	(492)	(2)	(17)	—	(654)
Interest income (expense) affiliates, net	1,227	1,827	(2,890)	(164)	—	—
Equity in net earnings (losses) of subsidiaries	(710)	(2,047)	663	—	2,094	—
Other, net	(53)	—	7	(76)	—	(122)
Total other expense	321	(712)	(2,222)	(256)	2,094	(775)
Income (Loss) before Income Taxes	300	(714)	(2,100)	658	2,094	238
Income Tax (Expense) Benefit	14	4	(1)	59	—	76
Net Income (Loss)	314	(710)	(2,101)	717	2,094	314
Other Comprehensive Income (Loss), Net of Income Taxes	(183)	—	—	(183)	183	(183)
Comprehensive Income (Loss)	$ 131	$ (710)	$ (2,101)	$ 534	$ 2,277	$ 131

Condensed Consolidating Balance Sheets
December 31, 2016

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 15	$ —	$ 1,700	$ 104	$ —	$ 1,819
Restricted cash and securities	—	—	1	6	—	7
Receivables, less allowances for doubtful accounts	—	—	26	686	—	712
Due from affiliates	17,032	21,715	—	2,180	(40,927)	—
Other	—	—	87	28	—	115
Total Current Assets	17,047	21,715	1,814	3,004	(40,927)	2,653
Property, Plant, and Equipment, net	—	—	3,869	6,270	—	10,139
Restricted Cash and Securities	22	—	9	—	—	31
Goodwill and Other Intangibles, net	—	—	353	8,291	—	8,644
Investment in Subsidiaries	16,869	17,599	3,674	—	(38,142)	—
Deferred Tax Assets	51	2,687	—	632	—	3,370
Other Assets, net	—	—	16	35	—	51
Total Assets	$ 33,989	$ 42,001	$ 9,735	$ 18,232	$ (79,069)	$ 24,888
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	$ —	$ —	$ 307	$ 399	$ —	$ 706
Current portion of long-term debt	—	—	2	5	—	7
Accrued payroll and employee benefits	—	—	160	35	—	195
Accrued interest	11	110	—	8	—	129
Current portion of deferred revenue	—	—	116	150	—	266
Due to affiliates	—	—	40,927	—	(40,927)	—
Other	—	—	127	41	—	168
Total Current Liabilities	11	110	41,639	638	(40,927)	1,471
Long-Term Debt, less current portion	592	10,108	13	164	—	10,877
Deferred Revenue, less current portion	—	—	719	282	—	1,001
Other Liabilities	16	—	155	451	—	622
Commitments and Contingencies						
Stockholders' Equity (Deficit)	33,370	31,783	(32,791)	16,697	(38,142)	10,917
Total Liabilities and Stockholders' Equity (Deficit)	$ 33,989	$ 42,001	$ 9,735	$ 18,232	$ (79,069)	$ 24,888

Condensed Consolidating Balance Sheets
December 31, 2015

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 12	$ 6	$ 727	$ 109	$ —	$ 854
Restricted cash and securities	—	—	1	7	—	8
Receivables, less allowances for doubtful accounts	—	—	47	710	—	757
Due from affiliates	12,415	22,759	—	2,816	(37,990)	—
Other	—	—	56	55	—	111
Total Current Assets	12,427	22,765	831	3,697	(37,990)	1,730
Property, Plant, and Equipment, net	—	—	3,423	6,455	—	9,878
Restricted Cash and Securities	27	—	14	1	—	42
Goodwill and Other Intangibles, net	—	—	363	8,513	—	8,876
Investment in Subsidiaries	16,772	17,714	3,734	—	(38,220)	—
Deferred Tax Assets	38	2,847	—	556	—	3,441
Other Assets, net	—	—	12	38	—	50
Total Assets	$ 29,264	$ 43,326	$ 8,377	$ 19,260	$ (76,210)	$ 24,017
Liabilities and Stockholders' Equity (Deficit)						
Current Liabilities:						
Accounts payable	$ —	$ 1	$ 195	$ 433	$ —	$ 629
Current portion of long-term debt	—	—	2	13	—	15
Accrued payroll and employee benefits	—	—	186	32	—	218
Accrued interest	11	90	—	7	—	108
Current portion of deferred revenue	—	—	119	148	—	267
Due to affiliates	—	—	37,990	—	(37,990)	—
Other	—	—	115	64	—	179
Total Current Liabilities	11	91	38,607	697	(37,990)	1,416
Long-Term Debt, less current portion	591	10,092	15	168	—	10,866
Deferred Revenue, less current portion	—	—	680	297	—	977
Other Liabilities	15	—	133	484	—	632
Commitments and Contingencies						
Stockholders' Equity (Deficit)	28,647	33,143	(31,058)	17,614	(38,220)	10,126
Total Liabilities and Stockholders' Equity (Deficit)	$ 29,264	$ 43,326	$ 8,377	$ 19,260	$ (76,210)	$ 24,017

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2016

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Net Cash (Used in) Provided by Operating Activities	$ (49)	$ (468)	$ 564	$ 2,296	$ —	$ 2,343
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(704)	(630)	—	(1,334)
Change in restricted cash and securities, net	5	—	6	1	—	12
Proceeds from sale of property, plant and equipment and other assets	—	—	1	2	—	3
Net Cash Provided by (Used in) Investing Activities	5	—	(697)	(627)	—	(1,319)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	764	—	—	—	764
Payments on and repurchases of long-term debt, including current portion and refinancing costs	—	(806)	(1)	(13)	—	(820)
Increase (decrease) due from/to affiliates, net	47	504	1,107	(1,658)	—	—
Net Cash Provided by (Used in) Financing Activities	47	462	1,106	(1,671)	—	(56)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(3)	—	(3)
Net Change in Cash and Cash Equivalents	3	(6)	973	(5)	—	965
Cash and Cash Equivalents at Beginning of Year	12	6	727	109	—	854
Cash and Cash Equivalents at End of Year	$ 15	$ —	$ 1,700	$ 104	$ —	$ 1,819

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2015

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	$ (40)	$ (617)	$ 193	$ 2,319	$ —	$ 1,855
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(453)	(776)	—	(1,229)
Cash related to deconsolidated Venezuela operations	—	—	—	(83)	—	(83)
Change in restricted cash and securities, net	(25)	—	3	—	—	(22)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	4	—	4
Other	—	—	(14)	—	—	(14)
Net Cash Provided by (Used in) Investing Activities	(25)	—	(464)	(855)	—	(1,344)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	—	4,832	—	—	—	4,832
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(313)	(4,725)	(2)	(11)	—	(5,051)
Increase (decrease) due from/to affiliates, net	383	511	693	(1,587)	—	—
Net Cash Provided by (Used in) Financing Activities	70	618	691	(1,598)	—	(219)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(18)	—	(18)
Net Change in Cash and Cash Equivalents	5	1	420	(152)	—	274
Cash and Cash Equivalents at Beginning of Year	7	5	307	261	—	580
Cash and Cash Equivalents at End of Year	$ 12	$ 6	$ 727	$ 109	$ —	$ 854

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2014

(dollars in millions)	Level 3 Communications, Inc.	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non-Guarantor Subsidiaries	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	$ (178)	$ (458)	$ 625	$ 1,172	$ —	$ 1,161
Cash Flows from Investing Activities:						
Capital expenditures	—	—	(362)	(548)	—	(910)
Change in restricted cash and securities, net	—	—	2	(12)	—	(10)
Proceeds from sale of property, plant and equipment and other assets	—	—	—	3	—	3
Investment in tw telecom, net of cash acquired	(474)	—	—	307	—	(167)
Other	—	—	—	(2)	—	(2)
Net Cash Provided by (Used in) Investing Activities	(474)	—	(360)	(252)	—	(1,086)
Cash Flows from Financing Activities:						
Long-term debt borrowings, net of issuance costs	590	—	—	(1)	—	589
Payments on and repurchases of long-term debt, including current portion and refinancing costs	(647)	—	—	(24)	—	(671)
Increase (decrease) due from/to affiliates, net	708	457	(305)	(860)	—	—
Net Cash Provided by (Used in) Financing Activities	651	457	(305)	(885)	—	(82)
Effect of Exchange Rates on Cash and Cash Equivalents	—	—	—	(44)	—	(44)
Net Change in Cash and Cash Equivalents	(1)	(1)	(40)	(9)	—	(51)
Cash and Cash Equivalents at Beginning of Year	8	6	347	270	—	631
Cash and Cash Equivalents at End of Year	$ 7	$ 5	$ 307	$ 261	$ —	$ 580

(17) Unaudited Quarterly Financial Data

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
(dollars in millions except per share data)								
Revenue	$ 2,051	$ 2,053	$ 2,056	$ 2,061	$ 2,033	$ 2,062	$ 2,032	$ 2,053
Costs and Expenses:								
Network Access Costs	694	723	676	696	675	706	680	708
Network Related Expenses	338	356	339	363	337	369	332	344
Depreciation and Amortization	301	288	310	288	319	296	320	294
Selling, General and Administrative Expenses	356	370	357	364	348	364	346	369
Total Costs and Expenses	1,689	1,737	1,682	1,711	1,679	1,735	1,678	1,715
Operating Income	362	316	374	350	354	327	354	338
Other Income (Expense):								
Interest Income	1	1	1	—	1	—	1	—
Interest Expense	(135)	(180)	(140)	(165)	(139)	(145)	(132)	(152)
Loss on Modification and Extinguishment of Debt	—	—	(40)	(163)	—	—	—	(55)
Venezuela Deconsolidation Charge	—	—	—	—	—	(171)	—	—
Other, net	(10)	(10)	(5)	(17)	1	6	(6)	3
Total Other Expense	(144)	(189)	(184)	(345)	(137)	(310)	(137)	(204)
Income Before Income Taxes	218	127	190	5	217	17	217	134
Income Tax (Expense) Benefit	(90)	(5)	(34)	(18)	(74)	(16)	33	3,189
Net Income (Loss)	$ 128	$ 122	$ 156	$ (13)	$ 143	$ 1	$ 250	$ 3,323
Net Income (Loss) Per Share - Basic	$ 0.36	$ 0.35	$ 0.44	$ (0.04)	$ 0.40	$ —	$ 0.70	$ 9.33
Net Income (Loss) Per Share - Diluted	$ 0.36	$ 0.35	$ 0.43	$ (0.04)	$ 0.39	$ —	$ 0.69	$ 9.24

Net income (loss) per share for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while net income (loss) per share for the year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the income (loss) per share for each of the four quarters may not equal the net income (loss) per share for the year.

During the second quarter of 2016, we recognized a loss on modification and extinguishment of debt of $40 million, related to the redemption of the 7% Senior Notes due 2020.

In the second quarter of 2016, we recognized approximately $40 million income tax benefit related to the release of our German deferred tax valuation allowance.

In the fourth quarter of 2016, we recognized a $110 million income tax benefit related to the issuance of new regulations under Internal Revenue Code Section 987 addressing the taxation of foreign currency translation gains and losses arising from foreign branches.

In the fourth quarter of 2016, we recognized a $35 million income tax benefit related to releases of deferred tax valuation allowances primarily in Brazil.

In the fourth quarter of 2016, we recognized $16 million income tax expense related to income tax rate changes.

During the fourth quarter of 2015, we recognized a $3.3 billion income tax benefit primarily related to the release of U.S. federal and state deferred tax valuation allowances.

During the fourth quarter of 2015, we recognized a loss on extinguishment of debt of $55 million, related to the refinancing of the 8.625% Senior Notes due 2020.

During the second quarter of 2015, we recognized a loss on extinguishment of debt of $36 million, related to the refinancing of the 9.375% Senior Notes due 2019.

During the second quarter of 2015, we recognized a loss on extinguishment of debt of $82 million, related to the refinancing of the 8.125% Senior Notes due 2019.

During the second quarter of 2015, we recognized a loss on extinguishment of debt of $18 million, related to the refinancing of the 8.875% Senior Notes due 2019.

During the second quarter of 2015, we recognized a loss on modification and extinguishment of debt of $27 million, related to the refinancing of the senior secured Tranche B Term Loan due 2022.

(18) Subsequent Event

On February 22, 2017, we completed the refinancing of all of our outstanding $4.611 billion senior secured term loans through the issuance of a new Tranche B 2024 Term Loan in the amount of $4.611 billion. The term loans refinanced are our Tranche B-III 2019 Term Loan, Tranche B 2020 Term Loan, and the Tranche B-II 2022 Term Loan. The new Tranche B 2024 Term Loan bears interest at LIBOR plus 2.25 percent, with a zero percent minimum LIBOR, and will mature on February 22, 2024. The Tranche B 2024 Term Loan was priced to lenders at par, with the payment to the lenders at closing of an upfront 25 basis point fee.

CORPORATE HEADQUARTERS

1025 Eldorado Boulevard
Broomfield, CO 80021
General Information: 720-888-1000

TRANSFER AGENT

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
Post Office Box 64854
St. Paul, MN 55164-0854

For address changes, stock transfers, name changes, registration changes, lost stock certificates and stock holdings, please contact:

Wells Fargo Shareholder Services
St. Paul, MN
1-800-468-9716

E-mail Address:
Stocktransfer@WellsFargo.com

AUDITORS

KPMG LLP
1225 17th Street, Suite 800
Denver, CO 80202

INVESTOR RELATIONS

Inquiries by securities analysts, investment professionals and stockholders about Level 3 Communications, Inc. Common Stock, including requests for any Securities and Exchange Commission or other Stockholder reports should be directed to:

Investor.Relations@Level3.com
1-877-LVLTCOM (585-8266)
investors.level3.com

WEBSITE

Additional corporate information including company history, current and historic financials, Form 10-K, and press releases, can be found on the Level 3 Communications Web site at *www.level3.com.*

10-K

After the close of each fiscal year, Level 3 Communications submits a Form 10-K to the Securities and Exchange Commission containing certain additional information about its business. A copy of the Form 10-K may be obtained without charge by addressing your request to Investor Relations at Investor.Relations@Level3.com or Investor Relations, Level 3 Communications, Inc., 1025 Eldorado Boulevard, Broomfield, CO 80021.

COMMON STOCK

Level 3 Communications Common Stock is traded on the New York Stock Exchange under the symbol LVLT.

As of March 31, 2017, there were 361,345,200 shares of Common Stock issued and outstanding. There were 5,354 stockholders of record.

Level 3, Level 3 Communications, Level (3) and the Level 3 Logo are either registered service marks or service marks of Level 3 Communications, LLC and/or one of its Affiliates in the United States and/or other countries. Any other service names, product names, company names or logos included herein are the trademarks or service marks of their respective owners. Level 3 services are provided by subsidiaries of Level 3 Communications, Inc.

www.Level3.com