

Level 3's Financial Strength

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LEVEL 3 - THE NETWORK FOR TODAY AND TOMORROWSM

THE MARKETS AND LEVEL 3

As a network services consumer, you should be concerned with the continued viability of your provider. New entrants and incumbent providers alike have been affected by the downswing in the economy over the past 12 to 18 months. Many won't make it through the market turmoil. We want to put your mind at ease regarding Level 3's financial strength and our long-term viability.

WE ARE PREPARED

When the capital markets deteriorated, we were one of the only providers who were financially prepared. To date, Level 3 has raised more than \$14 billion. As of the third quarter of 2001 (including cash used to repurchase debt), we have \$2.5 billion in available liquidity and approximately \$750 million in additional non-core assets. This cash position, our strong operating performance, and our proactive, cost-reduction initiatives allow us to be pre-funded to free cash flow breakeven, even in the absence of economic improvement.

FINANCIAL HIGHLIGHTS

Below are some of the highlights of our financial strength:

- We have industry-leading gross margins of 64 percent
- Our operating expense is approximately 65 percent variable, given lower SG&A (Selling, General, and Administrative) expenses, including workforce reduction
- Our Capital Expenditure levels are declining and tied directly to incremental revenue. Also, our Capital Expenditures are approximately 85 percent variable going forward (given that we've completed our Network)
- We were adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)-positive for full-year 2000, and we expect to be EBITDA-positive in 2002
- Over the last six months, we've opportunistically reduced outstanding debt by approximately \$1.9 billion, or 23 percent

THIRD QUARTER 2001 RESULTS

Level 3 had strong financial results for third quarter 2001:

- Our communications GAAP revenue was \$319 million (which exceeded projections by \$39 million)
- We had communications cash revenue of \$395 million
- Our communications Gross Margin increased to 64 percent versus 47 percent in second quarter 2001
- Our Capital Expenditures were \$30 million lower than expected

We reaffirmed or increased our fourth quarter and 2001 guidance:

- Level 3 will meet both Communications GAAP and Cash Revenue numbers
- Adjusted EBITDA will remain the same as the previous guidance at \$600 million, while EBITDA will beat the previous guidance by \$80 million (excludes charges for head count reduction)
- Full-year capital expenditures are expected to be \$2.7 billion, \$300 million less than previously forecasted

OUR CUSTOMERS

Our top customers include:

- AOL Time Warner
- Cable & Wireless
- EarthLink
- France Telecom
- Verizon

We recently signed contracts with:

- AOL Time Warner
- AT&T Wireless
- British Telecom
- DirecTV
- Japan Telecom America
- Lehman Brothers
- Microsoft
- Prodigy
- Verizon
- Yahoo!
- Sony Pictures Digital Entertainment

These customer contracts are a strong indication that Level 3 is considered by many of the best in the industry to be an excellent, long-term partner.

WE ARE CONFIDENT

Communications is a central pillar of information technology, and demand is certain to grow rapidly over time. We believe Level 3 is uniquely positioned to succeed, given our continuously upgradeable network and our cost-efficient broadband services.

We are confident that we will remain financially strong because current performance is strong, despite the difficult economic environment. We have industry-leading gross margins that continue to rapidly improve, which validates our business plan. We have proven success in tightly managing expenses, and our capital spending has shifted from network construction to increasing incremental sales.

You can be sure that Level 3 will be *The Network For Today and Tomorrow*SM.

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