WELCOME TO THE CENTER OF THE INTERNET.

This was a year in which the market for Internet services changed dramatically, and Exodus along with it. In 1999, we transformed ourselves from a server-hosting company to an industry-leading provider of complex Web-hosting solutions. Because Internet innovation, after all, needs a place to reside.

EXODUS COMMUNICATIONS™ is a leading provider of complex Internet hosting services for enterprises with mission-critical Internet operations. The Company offers sophisticated system and network management solutions, along with Professional Services, to optimize the performance of customers’ complex Internet operations. Headquartered in Santa Clara, California, Exodus manages its global network infrastructure via a worldwide system of Internet Data Centers (IDCs) located in North America, Europe, and Asia Pacific.

The Company’s stock is publicly traded on the Nasdaq National Market under the ticker symbol EXDS. For more information about Exodus, visit www.exodus.net or call 888.2EXODUS.
INTERNET DATA CENTER LOCATIONS

NORTH AMERICA
- Atlanta
- Austin
- Boston
- Chicago
- Los Angeles
- New York
- Seattle
- Silicon Valley
- Toronto*
- Washington DC

EUROPE
- Amsterdam*
- Frankfurt
- London
- Paris*
- Stockholm*

ASIA PACIFIC
- Australia*
- China*
- Singapore*
- Tokyo

* Planned Internet Data Center locations

KEY
- 155 Mbps Line
- 622 Mbps Line
- Planned Line
- Existing Internet Data Center
- Planned Internet Data Center

All information subject to change without notice
## Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$12,408</td>
<td>$52,745</td>
<td>$242,140</td>
</tr>
<tr>
<td><strong>Net loss attributable to common stockholders</strong></td>
<td>$(26,711)</td>
<td>$(69,330)</td>
<td>$(130,323)</td>
</tr>
<tr>
<td><strong>Basic and diluted net loss per share</strong></td>
<td>$(1.73)</td>
<td>$(0.55)</td>
<td>$(0.78)</td>
</tr>
<tr>
<td><strong>Shares used in computing basic and diluted net loss per share</strong></td>
<td>15,428</td>
<td>125,808</td>
<td>167,924</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>$(20,274)</td>
<td>$(41,945)</td>
<td>$(44,738)</td>
</tr>
<tr>
<td><strong>Number of customers</strong></td>
<td>303</td>
<td>830</td>
<td>2,285</td>
</tr>
<tr>
<td><strong>Average annualized revenue per IDC customer</strong></td>
<td>$103</td>
<td>$133</td>
<td>$196</td>
</tr>
</tbody>
</table>

### Graphs

**Average Annualized Revenue per IDC Customer (in thousands)**

- **Q1 1998**: 100
- **Q2 1998**: 150
- **Q3 1998**: 200
- **Q4 1998**: 250
- **Q1 1999**: 300
- **Q2 1999**: 350
- **Q3 1999**: 400
- **Q4 1999**: 450

**Number of Customers (in thousands)**

- **Q1 1998**: 50
- **Q2 1998**: 100
- **Q3 1998**: 150
- **Q4 1998**: 200
- **Q1 1999**: 250
- **Q2 1999**: 300
- **Q3 1999**: 350
- **Q4 1999**: 400

**Quarterly Revenue (in millions)**

- **Q1 1998**: 50
- **Q2 1998**: 100
- **Q3 1998**: 150
- **Q4 1998**: 200
- **Q1 1999**: 250
- **Q2 1999**: 300
- **Q3 1999**: 350
- **Q4 1999**: 400
FELLOW STOCKHOLDERS, We are very pleased to report to you that 1999 was an extremely successful year for Exodus. In a market that underwent significant change over the past twelve months, our financial results are a testament to the fact that we were able to meet the continually evolving expectations of our customers. In the process, we successfully transitioned Exodus from an Internet Data Center (IDC) company to the industry’s leading provider of complex Web-hosting services.

Revenues for the fiscal year ended December 31, 1999 increased 359 percent to $242.1 million, compared with $52.7 million in the previous year. The Company reported a net loss for 1999 attributable to common stockholders of $130.3 million, or $0.78 per share, compared with a net loss attributable to common stockholders of $69.3 million, or $0.55 per share, in the prior year. Gross margins increased to 19 percent of revenue.

For 1999, EBITDA loss (loss before interest, taxes, depreciation, amortization, and other non-cash charges) was $44.7 million, compared with $41.9 million the year before. We exited the year with twelve of our IDCs EBITDA-positive, up from five at the end of 1998.

A YEAR OF GROWTH. In our last report to you, we described several goals that we had set for ourselves for 1999. These goals were developed to strengthen our position as the leading provider of Internet systems and network management solutions for companies with mission-critical Internet operations. We are happy to say that we have not only met these goals but in most cases far exceeded them.

Specifically, we sought to extend our market leadership by establishing Exodus as the premier brand name in the category of complex Web-hosting services. We believed, as did many industry analysts, that 1999 would see a shift toward increased business-to-business initiatives
in the Internet sector. In fact, this turned out to be the case, as evidenced by the 175 percent increase we experienced in the number of our hosting customers, to 2,285. By the fourth quarter, this increase translated into six new Exodus hosting customers each day. The average annualized revenue per IDC customer, which is based on monthly recurring revenue and does not include any one-time revenue from Professional Services, consulting, or installation fees, increased dramatically as well, from $133,000 at the close of 1998 to $196,000 as we exited 1999.

As our customer base grew, we began to see a dramatic shift in the balance between enterprise and Internet-related customers; our client base is now split evenly between these two categories of companies.

Another of our objectives was to accelerate our domestic and international growth through the construction of new IDCs and the expansion of our network and worldwide public and private network interconnect arrangements. In 1999, we brought eleven new IDCs online, bringing our total to nineteen worldwide. This added capacity represents a 300 percent increase in gross square footage, from 400,000 to 1.6 million. The total number of servers we host worldwide grew in 1999 from 6,600 to over 27,000.

To meet the demands of the expanding Internet, we continued to augment the strength and capacity of our worldwide network. Our peak Internet exchange rate jumped from 2.7 gigabits
per second* to 7.2 gigabits per second†; this higher rate is the equivalent of transmitting an entire set of encyclopedia over the network every second.

**BUILDING EXPERTISE.** We also established several new strategic relationships for distribution and technology in 1999. To help us address new market opportunities presented by the burgeoning demand for e-business, we acquired Cohesive Technology Solutions.† This business now forms the core of an extremely talented and experienced Professional Services organization of nearly 500 people within Exodus.

To further extend our Internet offerings, we acquired Service Metrics,† which allows us to provide “Internet Intelligence” through the collection and analysis of Web site performance data. After the close of the fiscal year, we acquired KeyLabs,† a leading provider of e-business testing services, and announced plans to make an equity investment in Mirror Image Internet, Inc.† This latter relationship will pave the way for creating the world’s most powerful Content Distribution platform. Under this relationship, Mirror Image will deploy Content Access Points (CAPs™) throughout the entire Exodus IDC network—providing fast, secure, reliable, scalable, and robust Content Distribution services to content providers, ISPs, and enterprises alike.

In addition to those initiatives, we made two strategic acquisitions in 1999 to meet our goal of accelerating the expansion of our geographic reach, both in the United States and internationally.
With the acquisition of American Information Systems™ we now provide superior co-location, Web-hosting, Internet Professional Services, and Internet access to corporations in the Midwest. And our acquisition of Global OnLine Japan™—one of Japan’s premier Internet service providers—has given us an immediate presence in the important Asia Pacific market. Also in the international arena, we expanded our network capacity connecting future Exodus IDCs in Europe, Japan, and North America, giving us the capacity needed to meet our customers’ growing demands.

**LOOKING AHEAD.** We are extremely encouraged by our progress to date in the dynamic marketplace of large-scale, complex Internet operations management—a place in which not just servers, but true Internet innovation, now reside. In 2000 and beyond, we intend to continue to build the momentum we have established, with further expansion into new regions, continued development of new alliances, and enhancements of our Managed and Professional Services and new product offerings.

On behalf of Exodus, we thank you for your continued support.

Sincerely,

Ellen M. Hancock
President and Chief Executive Officer

K.B. Chandrasekhar
Chairman of the Board of Directors
Today, over 40 percent of the top Internet sites have chosen Exodus.

Here are the stories behind six of them.

* 2/00 Media Metrix
If the Web is about empowering individuals, it doesn’t get much more individual than this. That’s because Yahoo! helps ordinary folks build their own home pages. At a site that makes it extremely easy to enter the vast new global on-line community now open before them.

Exodus helps Yahoo! by providing the network scalability and around-the-clock engineering support demanded by the largest portal in the world. And with many terabytes of Yahoo! information running through multiple installations within Exodus Internet Data Centers worldwide, that’s a responsibility we take personally.
British Airways flights and holidays.

In a unique partnership with three cable TV companies, British Airways is enabling almost two million households to plan holidays or view and purchase the products and services offered by the airline—on TV.

Exodus was instrumental in helping British Airways extend their already high-profile travel service with Exodus Managed Services—enabling the close monitoring of this new business venture. From the Exodus IDC in London, British Airways now has connections to the Internet, worldwide.
HOW CAN YOU HELP PEOPLE GET VITAL INFORMATION, RAIN OR SHINE?

KEEP WEATHER.COM AHEAD OF THE STORM.

When a snowstorm hits the East or a hurricane batters the South, people want to know. Enter weather.com. The site supplies current conditions and forecasts for over 77,000 locations worldwide, weather-related news and up-to-the-second coverage of all major weather events.

To help weather.com stay on top of all this, the Exodus Professional Services group provided comprehensive network engineering support and detailed site architecture planning. Add our state-of-the-art facilities, high-speed network, and data backup and security services, and weather.com is totally comfortable.
Click on this site and you enter the world’s biggest shoe store, with over 20 million pairs of shoes and counting.

Nordstrom.com and Nordstromshoes.com are dedicated to providing unconditional satisfaction for their online customers. And so at Exodus, we helped Nordstrom scale from 12 servers to more than 60 in just 3½ weeks to make the deadline for their shoe store site launch. By recommending our secure facilities, superior network, and Managed Monitoring Services, our Professional Services group got Nordstromshoes.com up and running in a hurry.
HOW CAN YOU HELP COST-CONSCIOUS ONLINE SHOPPERS?

MAKE SURE priceline.com IS OPEN FOR BUSINESS.

Here's a great idea: link buyers who like to save money with sellers who have excess inventory. Bingo! Welcome to priceline.com, whose motto is, “Name Your Own Price!”

Here’s another great idea: to make sure the site is always available, turn to Exodus. Which is exactly what priceline.com did. This virtual marketplace took advantage of our multiple Managed Service offerings, and expanded security offerings including best-of-breed firewall technology—all from within our secure facilities. With priceline.com and Exodus, everyone comes out ahead.
Today, with more than 200,000 pages dedicated to the latest national and international news, USATODAY.com ranks as the #1 newspaper site on the Internet.

But such fast growth is nothing compared with the spike in viewership the site gets when an unexpected, major news event occurs. To ensure the highest availability and fastest download times, USATODAY.com relies on Exodus for consistent service, secure facilities, and the high-capacity network connections a news organization expects.
As the Internet has grown, so too have the demands of companies utilizing this powerful new platform as a major component of their strategic business objectives. As a leading provider of services for companies with complex Internet businesses, Exodus offers a wide range of capabilities, from sophisticated Managed and Professional Services to state-of-the-art facilities to one of the most technologically advanced global networks in the world.

**MANAGED SERVICES**

Exodus Managed Services provide state-of-the-art tools and expertise for the proactive management of your Internet business in key areas such as storage, performance optimization, and security. With these services, we provide the collaborative intelligence needed to support some of the most critical elements of your Internet operations.

For example, the Exodus DataVault™ Network Storage Service, developed in partnership with Sun Microsystems® and VERITAS®, provides customers a complete, best-of-breed data backup and restore solution, whether backing up a single file or multiple terabytes of data. To expand our storage offering, we have also teamed with Storage Networks, to offer additional storage solutions to help our customers continue to solve the most complex IT data storage challenges.

Further, with performance optimization tools developed by Service Metrics, we can now provide detailed Web site performance measurements that enable companies to anticipate, identify, and resolve consumer satisfaction issues. Our worldwide network of Data Collection Agents (DCAs) collects and report performance data from an end user’s perspective. Such custom reporting and proactive notification allow our customers to optimize their Web site for better performance.

In addition, due to the significant growth of bandwidth-intensive activity over the Internet, we have teamed with Foundry Networks™ to provide Exodus Gigabit Ethernet™ service, which offers ten times the speed of conventional LANs.

To meet the ever increasing security demands facing today’s Internet businesses, we have created the Exodus Security Service Pack™ offering affordable bundled services designed to help companies plan and manage the ongoing protection of their mission-critical Internet operations. This three-tier security solution ensures our customers access to the level of security most appropriate to their individual Internet interests. Regardless of scale, the Security Service Pack offers all customers fast, easy access to security expertise and seamless integration with the complete list of Exodus Managed Security Services. In addition, we have further expanded our expert security consulting services with the acquisition of the Professional Services division of Network-1™.

Finally, for the highest level of customer support, we offer Exodus Platinum Level Support™, in which two or more Exodus professionals are always on call to provide our customers with comprehensive 24 x 7 support.

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*As of 12/99
Our state-of-the-art facilities are custom-designed with the widest range of physical security features, 24 x 7 monitoring, and multiple redundant subsystems.

**NETWORK CONTROL CENTER**
The entire facility, network and customer systems are carefully monitored and managed by the Network Control Center staff, who are available 24 x 7 to provide hands-on assistance as needed.

**REDUNDANT CONNECTIVITY**
Exodus has installed fiber optic cable from multiple providers, allowing redundant fiber connections out to the Internet. In this way, Exodus virtually eliminates any single point of failure.

**SECURITY**
The security and integrity of each IDC is maintained by video-surveillance cameras, security alarms and on-site 24-hour security personnel located behind bullet-proof glass.

**POWER**
Exodus maintains diesel powered backup generators, Uninterruptible Power Supply (UPS) systems, and power distribution units that provide continuous clean power to customer equipment.

**FIRE SUPPRESSION**
Exodus employs state-of-the-art redundant fire suppression systems to protect critical equipment from the threat of fire.

**TEMPERATURE CONTROL SYSTEMS**
Exodus IDCs offer HVAC temperature control systems with separate cooling zones. Zones are monitored by a central system with alarms.

**SECURE AND FLEXIBLE HOUSING OPTIONS**
Flexibly-sized housing options let Exodus IDCs become virtual extensions of the corporate enterprise. Options include locking cabinets, racks, cages, and vaults.

**EXODUS VAULT**
The Exodus Vault incorporates video surveillance, separate air conditioning and fire systems, and secure biometric access control to satisfy the most stringent security requirements.
FACILITIES
Exodus’ world-class Internet Data Centers (IDCs) are connected across the globe through a high-performance, dedicated, and redundant network. Each of our IDCs feature custom-designed security, connectivity, and environmental systems to provide a select hosting solution for customers with mission-critical Internet operations.

Our IDCs are outfitted with state-of-the-art security, temperature control systems, fire detection and suppression safeguards, redundant power, and flexible server space. What’s more, all Exodus IDCs ensure around-the-clock high performance with onsite expert personnel trained in the areas of networking, Internet and systems management.

A total solution for complete confidence and security, Exodus Internet Data Centers provide the physical and technical environment demanded by those with outsourcing interests.

PROFESSIONAL SERVICES
In addition to our expertise in Internet information security, Exodus’ world-class Professional Services group offers a range of valuable consulting services both as packaged offerings and customized solutions for highly specific customer needs.

These services are built around several core capabilities: Architecture Design, for building powerful, scalable Internet solutions; Security Design and Management, for maintaining the integrity of not only the information running through a site, but also the network that supports it; System and Network Design, for deploying an effective information infrastructure through systems and network assessment, planning, and design; and Application Integration and System Testing, to ensure optimal performance, reliability, and scalability.

NETWORK SERVICES
The Exodus Network is one of the largest IP networks in the world today, designed to deliver the scalability, high availability, and peak performance required for high-volume, mission-critical Internet operations. The network has achieved a peak Internet exchange rate of over 7.2 gigabits per second*, enabling us to deliver outstanding levels of performance and service, twenty-four hours a day, seven days a week.

The high-performance and redundancy of our private fiber network and the trafficking power of over 200 direct public and private interconnects combine to virtually eliminate the risk of any single point of failure. This solid design, paired with flexible bandwidth offerings of up to 1,000 megabits per second with our Gigabit Ethernet service, helps carry our customers successfully through explosive Internet growth.

With all of the components necessary to provide complex web-hosting solutions, Exodus truly is where Internet innovation resides.

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1K

THE NUMBER OF MEGABITS WE TRANSFER EVERY SECOND WITH OUR NEW GIGABIT ETHERNET SERVICE.

7.2*

THE SPEED, IN GIGABITS PER SECOND, OF OUR PEAK INTERNET EXCHANGE RATE.

27K*

THE APPROXIMATE NUMBER OF SERVERS WE HOST.

*As of 12/99

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