

Dear ACS Investor,

I am pleased to share with you, our investors, an overview of the Company's performance in 2003 and to highlight for you the direction set for ACS for the coming years. In many respects, given the number of significant changes that occurred, 2003 started a new agenda and a transition for ACS. After reviewing the events of 2003, I will describe how we are positioning your Company for 2004 and beyond.

On October 6, 2003, I assumed the position of President and CEO of Alaska Communications Systems. I was attracted to ACS because of the tremendous potential to create value for all of our stakeholders given the Company's full suite of products and services. On January 1, 2004, my role at ACS expanded to include Board Chair, as Charles Robinson retired from over 45 years of industry leadership. We thank him for his service and his contributions to shaping the Company and the Alaskan telecom market.

Both the industry and ACS continue to face significant challenges related to competition, pricing, regulation and technology. I have led a shift in focus at ACS away from the regulatory arena and placed it squarely on the customers of today



Liane Pelletier

President, CEO, and Board Chair

and the future. This shift in focus on the customer resulted in restructuring ACS to take advantage of a re-energized workforce bolstered by the addition of several new executives from inside and outside Alaska. We also adjusted our service and product offerings to meet the needs and expectations of our marketplace. I sense a growing realization in both Alaska and the investment community that ACS has the product mix, financial strength and business strategies to distinguish us from our competitors.

ACS 

Alaska Communications Systems

we're there

2003 HIGHLIGHTS

Looking back on 2003, the highlights included the sale of the directory business for net proceeds of \$155.3 million, the refinancing of \$382 million of our debt, the termination of the State of Alaska contract and the start of my leadership at ACS. As a result of these events, we experienced some significant fluctuations in our operating results, but have positioned the Company for improved 2004 performance.

Our revenues for 2003 increased \$5.3 million to \$292.0 million from the \$286.7 million we reported for 2002 adjusted for the sale of our directories business, the State of Alaska contract revenue and previously deferred access revenue. EBITDA for 2003 was \$111.1 million compared to \$106.8 million for 2002, adjusted for the disposition of our directories business, the State of Alaska contract termination and certain other non-recurring revenues and charges. The termination of our contract with the State of Alaska, while resulting in significant charges, has removed a distraction from focusing our attention on our core operations. The contract had also generated a negative operating margin of approximately \$6 million for each of 2003 and 2002, which we do not expect to burden our results going forward.

We were particularly pleased with the performance of our wireless product during 2003, which saw a revenue increase of \$3.4 million, a subscriber increase of 6% year over year to 87,000, and increased average revenue per user. Additionally, we have increased our core Internet revenue by approximately \$4.6 million, or 36% year over year, due in large part to our DSL service offerings and other enhanced broadband services.

For a full discussion of our 2003 results, please read “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes included in the 10-K.

2004 OUTLOOK

Alaska is a beautiful and geographically isolated market in which telecommunications play a vital role. Telecommunications users in Alaska increasingly value mobile services, high-speed data services, and the convenience of doing business with a single provider. ACS’s portfolio of owned local, long distance, internet and wireless facilities, coupled with our relationship with the satellite video provider, DISH, positions us well to serve our customers’ needs.

Given the number of key changes throughout 2003, as the fourth quarter came around, the ACS management team took the opportunity to re-assess how to best utilize our assets and distinguish the Company in the eyes of all Alaskans. In short, the assessment drove a series of substantial changes, the sum of which are no less than transformational. Our game plan, however, is quite simple.

The goal we set for ACS is to grow the number of loyal customers. Loyal customers are those that stay with ACS, those that buy more from ACS and those that refer ACS to their family, their friends and their business associates.

The best strategy for ACS to achieve the goal of growing loyal customers is to compete for them on an integrated basis, leveraging all the Company’s owned assets and weaving in other strategically valued elements like the entertainment product from DISH. This integrated strategy is a smart plan for ACS, for three key reasons. One, it is differentiating; two, it satisfies the customer desire for convenience and value; and three, it should deliver maximum return on assets as integrated service allows for reduced acquisition cost, lowered service costs and longer customer life.

Competing on an integrated basis will come in two stages and will take two forms:

- First, delivering a more seamless experience to the customer, from one-stop shopping on the front end to all-in service at the back end.
- Second, interoperating the assets to create fundamentally new services not available on stand-alone platforms.

Driven by the goal to provide a seamless customer experience, we have dramatically changed our organizational structure and attracted new executive leaders ready for the transformational task ahead. Structurally, ACS has consolidated consumer sales and service as well as business sales and service, so that there is absolute clarity of focus, ownership and accountability for the complete customer experience. ACS has also put all its network functions together as it manages its networks as if they were one and plans for new functionality that is seamless across wired and wireless environments. From sales to network, from advertising to product development, from human resources management to finance, we have One ACS, eliminating as many internal and external walls and barriers as possible.

The sources of growth for ACS playing offense in this manner are clear.

- We will win back the retail relationship with local customers that previously chose a competitor.
- We will grow share in the Alaskan wireless market – we are enabled by the Company’s new CDMA network offering superior voice quality and two speeds of mobile data; we see tremendous opportunity through Alaska’s implementation of wireless number portability.
- We will earn more share of wallet from each customer through bundling and solutions selling.

The clarity of ACS’s goal, strategy and experienced management team motivate a dedicated workforce throughout the state. For each of the areas of our operation, ACS has reinvented itself. Our focus has been on becoming easier to do business with, listening better to our customers, innovating customer solutions, and honoring the Alaskan market uniqueness while importing best in class ideas from elsewhere.

As this letter goes to print, we continue to explore the opportunity to recapitalize the Company through an initial public offering of Income Deposit Securities (IDS). As demonstrated by our IDS filing, and 2003’s successful sale of our directories business and debt refinancing activities, we are constantly seeking extraordinary opportunities to maximize investor value.

We have a work in progress, but momentum and enthusiasm about our future. We are thankful for the support from our communities, our employees, our customers and you, our investors, and we look forward to sharing the rewards of our plan with you.



Liane Pelletier
President, CEO, and Board Chair

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Liane Pelletier

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we're there