

Focusing investment

ACS, like any company, has a greater appetite for investment than can be satisfied. ACS leaders exhibit discipline in terms of: reading where the market is headed, leveraging the current asset base and maximizing ACS' competitive advantages. Our investments have been significant and targeted, with over \$174 million of capital installed over the last three years.

In the area of Wireless, as we closed 2006, we covered more than 80% of the Alaskan population with our third generation mobile wireless network, using CDMA technology to deliver the fastest possible mobile data speeds, clearest voice quality, and fewest blocked and dropped calls in the state. The Wireless voice and data services are now available from the North Slope where oil production occurs today and natural gas production may occur in the future to the Southeast panhandle where summer tourism trebles wireless traffic volumes.

In the area of Broadband, we increased our DSL footprint and capable speeds, and extended the reach of a very flexible, scalable data network for business customers, again spanning the state from the North Slope to Southeast Alaska with 'plug-and-play' data capabilities.

But, the real work at ACS begins the day the capital is installed. As Marketing and Sales 'merchandise' the Network and IT investments to our customers, return on

investment begins. The customer experience is enhanced along a number of dimensions from modest changes like expanded payment options to more revolutionary changes like those embedded in *goVocal*.

How has focused investment translated into performance?

Looking just at the wireless investment as an example, ACS has produced superior returns. A \$57 million CDMA Wireless capital program paired with a compelling business model enabled 2006 Wireless revenues of \$115 million at margins of 47%.

The business model of serving customers holistically, managing the business along processes and focusing investment enables ACS to provide the best communications services to Alaskans and, in turn, to provide exceptional returns to shareholders.

Thank you for demonstrating your confidence in the team at ACS.

Sincerely,



Liane Pelletier
President, CEO and Board Chair



For more about ACS products and services, please visit www.acsalaska.com.

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Alaska Communications Systems

2006

Letter to Stockholders



WIRELESS

INTERNET

LOCAL

LONG DISTANCE

TELEVISION

ACS

Dear Fellow Shareholders:

2006 was another banner year for ACS. Our track record of execution continued as we maintained laser focus on customers, processes and investments. This focus translated into the creation of significant value. Revenue expanded 7%, EBITDA grew over 8%, and retail relationships increased by nearly 6%. Total return on equity was 58%, with shareholders benefiting from stock appreciation of \$5.03¹ and dividends of \$0.86.

We continue to transform ACS from a primarily incumbent local telephone voice company to a competitively-driven Wireless and Broadband company. Wireless and Broadband services are table stakes for successful telecommunications firms of the future and we have aimed our resources in that direction for the last three-plus years while strategically leveraging our customer and asset base in traditional wireline services. This transformation hinges on executing a proven business model of serving customers holistically, managing the business along processes rather than traditional functions, and focusing investment on fast-growing, strategically-innovative, high-payback initiatives.

Serving customers holistically

We place customers at the center of our strategy and actions. We serve three customer segments – consumer, business and carrier – with sales and service specialists attuned to each segment's needs. The ACS Network and Information Technology team partners with the Sales and Service teams to align market and investment strategy, share service measurements, and otherwise work as a unified force to meet customer expectations.

We position ACS as the service provider that can serve our customers at home, at work, and everywhere in between. Three examples of our strategy in action include: *Internet Anyplace*, which delivers total data connectivity for busy people at home and away from home by bundling DSL broadband service with a laptop PC card that finds data service everywhere our cellular network or data roaming exists². *ON ACS*, which delivers an

unlimited calling benefit between the ACS home phone and the ACS cell phone (and vice versa). And, *goVocal*, which delivers home-based and portable voice-over-broadband long distance – reinvented to provide nearly limitless outbound calling, “local” calling to Alaska from a customer-selected Lower 48 area code and city, and low international calling rates.

How has organizing around customers translated into performance?

Serving customers holistically allows ACS, among other things, to deliver well-targeted and therefore valued bundles to the customer which, in turn, drive retail relationship growth and higher retention. Bundles and our commitment to quality have reduced monthly Wireless churn to 1.4% and annual retail Local line loss to 1.8%³.

Managing the business along processes

ACS leaders view the business as one. Many departments have been collapsed over the last three years as the drive for tighter coordination grows. If you were to visit ACS, you would witness many ACS team members engaging in formal process improvement initiatives. Launched two-plus years ago, and reinforced almost as a ‘lifestyle,’ progress continues. ACS now has over 15 formal Process Improvement

teams, all voluntarily staffed with only ACS employees, and all sponsored by a senior executive. Their work always starts with the customer experience, always looks across department boundaries and always redesigns processes to achieve fewer steps, higher accuracy, enhanced customer communication, and tighter cross-departmental coordination. Employees' knowledge of the business grows and their ability to contribute to the overall mission is expanded.

Process Improvement teams run the gamut from product development to trouble resolution. Hundreds of ACS team members now engage in simplifying how we work, constantly raising the bar for measurable improvements in performance. Process improvement reinforces that we cannot stand still and, with much directly under our control, we tap our courage and drive the changes we identify.

How has process improvement translated into performance?

Revenues have grown with little to no change to operating expenditures and, as such, process improvement is effectively ‘funding’ our growth. ACS has added 13% more retail relationships with 5% fewer employees over the last two years⁴.



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Liane Pelletier
President, CEO and Board Chair

¹ Based upon closing prices of \$10.16 on 12/30/05 and \$15.19 on 12/29/06

² ACS covers over 80% of the Alaskan population with wireless data capabilities and our data roaming partners cover close to 100% of the Lower 48 population and close to 50% of the Canadian population

³ As of First Quarter 2007

⁴ Two years ended 12/31/06