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Alaska Communications Reports First Quarter 2005 Results

- Revenue Increases to \$77.4 Million from \$75.4 Million in Fourth Quarter 2004 -
- EBITDA Up 23% to \$27.6 Million Compared to First Quarter 2004 -
- Wireless Revenue Up 47% Compared to First Quarter 2004 and Sixth Consecutive Quarter of Record Subscriber Growth -

ANCHORAGE, Alaska, May 2, 2005 (BUSINESS WIRE) -- Alaska Communications Systems Group, Inc. ("ACS") (NASDAQ: ALSK) today reported financial results for its first quarter ended March 31, 2005.

"Execution of ACS' strategic priorities remains on track in 2005," stated Liane Pelletier, ACS president and chief executive officer. "Completing a series of key financial transactions in the first quarter, we strengthened our financial structure and lowered our cost of capital. Consequently, the company has never been better positioned financially."

Pelletier added, "We continue to drive profitable revenue growth by increasing retail relationships. In both the business and consumer segments, our wireless and data product lines are most often used to establish new relationships, into which we upsell local and long distance. With those steps, we help make the customer's life easier as we grow ACS' share of wallet. The full range of market-facing activities is complemented by an organization-wide emphasis on process improvement. Each to varying degrees, the ten process improvement teams launched at the end of 2004 are focused on streamlining the customer experience, driving cost efficiency and stimulating revenue productivity."

"In terms of investing behind the growth, we have found that the market reception of our CDMA-based products coupled with our more efficient build procedures are allowing ACS to complete the deployment of our statewide CDMA network on an accelerated basis and remain within capex guidance. Finally, the volumes of traffic generated across our various network platforms prompted us to initiate the process of exercising ACS' option to assume additional fiber capacity within the state."

Financing Transactions

During the quarter, ACS issued and sold approximately 9.9 million new common shares in a public offering, receiving total net proceeds of approximately \$76.5 million after payment of underwriting discounts and other stock issuance costs. Additionally, a series of debt transactions were completed, including:

- Entry into a new \$380 million senior secured credit facility, consisting of a \$335 million term loan facility and a \$45 million revolving credit facility;
- Entry into two 5-year interest rate swaps: one rate swap fixing \$135 million of the new senior secured term loan at 6.13% and a second swap fixing \$85 million of the senior secured term loan at 6.50%;
- Repayment of the outstanding balance of \$198.0 million under the previous senior secured credit facility;

- Repurchase of approximately \$59.4 million outstanding principal amount of 9.875% senior notes due 2011; and
- Repurchase of all of the \$147.5 million outstanding principal amount of 9.375% senior subordinated notes due 2009.

As a result, total debt declined by \$66.5 million from December 31, 2004, to \$461.1 million, as of March 31, 2005. In addition, as of the end of first quarter 2005, ACS had fixed rates on 75 percent of its total debt and floating rates on the remaining \$115 million generally bearing interest at LIBOR plus 200 basis points.

David Wilson, ACS senior vice president and chief financial officer, said, "This lower cost capital structure, in conjunction with our confidence in the continued strength of our cash flows, contributed to the decision in March to increase ACS' quarterly cash dividend to \$0.20 per share, an 8 percent increase over the prior dividend rate of \$0.185. In addition, we have initiated a dividend reinvestment and direct stock purchase plan providing a convenient and cost-effective way for investors to purchase ACS common stock."

Quarterly Financial Highlights

For the first quarter ending March 31, 2005:

- Revenues were \$77.4 million, which represented a 2.6 percent increase over first quarter 2004 revenues of \$75.4 million;
- EBITDA increased by 23.5 percent to \$27.6 million from \$22.4 million for the first quarter of 2004, which was impacted by \$3.5 million of restructuring charges;
- Operating income increased 136 percent to \$7.3 million compared to the first quarter 2004; and
- Net loss increased to \$28.2 million from \$8.8 million and to a loss of \$0.77 per share from \$0.30 per share in the prior year. The increase in net loss is attributable to an increase in interest expense, which rose to \$36.0 million from \$12.1 million. Interest expense included \$26.2 million of non-recurring charges associated with our accretive debt restructuring, comprised of \$12.8 million of tender premiums and \$13.4 million for the write off of unamortized debt issuance costs and settlement of original issue discounts.

Wilson added, "Our effective execution against strategic priorities is evident in our first quarter results. Standout areas of performance include wireless, in which a 47.0 percent increase in revenue paired with an operating expense increase of just 20.9 percent drove wireless EBITDA margins from 31.7 percent to 43.8 percent. In addition, Internet and interexchange services recorded year-over-year revenue increases and simultaneous decreases in associated costs."

"Cash used in operating activities in the quarter was \$5.2 million and uses included a settlement of tender premiums and accrued interest expense of \$12.8 million and \$7.3 million, respectively. As a result, ACS closed the quarter with a cash balance of \$68.2 million. Looking ahead, we are confident that we have the right business model and mix of assets in the right market to sustain and grow cash flow over time."

Metric Highlights: First Quarter 2005 Compared to Fourth Quarter 2004

Wilson commented, "Postpaid wireless is the primary driver of growth for ACS, and we continue to deliver compelling results against four key factors that demonstrate the strength of our product offerings and customer loyalty. We are rapidly growing our postpaid subscriber base, which increased by 5.2 percent sequentially to 88,200. Postpaid ARPU continues to move higher resulting from the depth of our product offering and the advent of

CETC revenue, increasing 21.1 percent to \$53.28 compared to \$43.98 in the first quarter of last year. The cost of gross additions remains consistently low at ACS and was less than \$200 per subscriber in the first quarter. Lastly, our postpaid churn rate is industry leading coming in at 1.6 percent per month for the latest quarter.

"At the end of the first quarter, we performed a review of our subscriber count methodology for prepaid wireless and determined that we would cease to count subscribers whose accounts had been inactive for six months. While this resulted in a 2,300 reduction in our prepaid base, it had no impact on previously reported revenue, net income or cash flows."

ACS recorded the following for the first quarter 2005 compared to the fourth quarter 2004:

- Increased the total number of retail customer relationships across all product lines by approximately 2,600 to over 398,800 total.
- Recorded a sixth consecutive quarter of record subscriber growth by adding approximately 1,600 wireless subscribers, bringing the total to approximately 102,300. Churn, inclusive of a 2,300 reduction in prepaid subscribers, averaged 2.4 percent per month.
- Recorded wireless average revenue per unit (ARPU) of \$48.65, inclusive of CETC revenue of \$3.37, compared to \$45.17.
- Increased digital subscriber lines (DSL) 9.7 percent to over 27,100 as a result of increased emphasis on marketing activities.
- Increased long distance subscribers almost 1,500 to 48,500 customers, a 3.2 percent increase, principally as a result of a focused selling effort and the bundling of the long distance product with other ACS services.
- Recorded over 289,100 total local network access lines, which reflects a 510 line reduction due to a reclassification of revenue generating trunk lines used to service cellular carriers rather than end user lines. Net of this reclassification, access lines decreased by approximately 5,800 lines, or 2.0 percent, which is reflective of industry trends.

Business Outlook

For the year 2005, ACS reiterates its previous outlook: Revenue for the full year is expected to be in the range from \$310 million to \$320 million and EBITDA to be in the range from \$108 million to \$112 million.

Net cash interest expense is expected to decline to approximately \$31 million, pro forma for the first quarter debt restructuring being in place from January 1, 2005. ACS expects capital expenditures for 2005 to range from \$65 million to \$70 million, comprised of maintenance capital expenditures of approximately \$35 million and pre-funded growth capital expenditures of between \$30 million and \$35 million.

Conference Call

The company will host a conference call and live webcast today at 5:00 p.m. Eastern Time to discuss first quarter results. For parties in the United States and Canada, call 800-218-0204 to access the earnings call. International parties can access the call at 303-262-2075.

The live webcast of the conference call is accessible from the "Investor Relations" section of the company's website www.alsk.com. The webcast will be archived for a period of 90 days. A telephonic replay of the conference call will also be available 2 hours after the call and will run until Friday, May 6, 2005 midnight Eastern time. To hear the replay, parties in the United States and Canada should call 800-405-2236 and enter pass code 11028616. International parties should call 303-590-3000 and enter pass code 11028616.

About Alaska Communications Systems

ACS is the leading integrated communications provider in Alaska, offering local telephone service, wireless, long distance, data, and Internet services to business and residential customers throughout Alaska. More information can be found on the company's website at www.acsalaska.com or at its investor site at www.alsk.com.

Forward Looking EBITDA Guidance

This press release includes management's estimate of EBITDA for the year ended December 31, 2005. Management believes the most directly comparable GAAP measure would be "Net cash provided by operating activities." Due to the difficulty in forecasting and quantifying the amounts that would be required to be included in this comparable GAAP measure, the Company is not providing an estimate of year-end net cash provided by operating activities at this time.

Safe Harbor Statement

Statements about future results and other expectations constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. The company cautions that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements. A number of factors in addition to those discussed herein could cause actual results to differ materially from expectations. The company's financial planning is affected by business and economic conditions and changes in customer order patterns. Any projections are inherently subject to significant economic and competitive uncertainties and contingencies, many of which are beyond the control of ACS. Important assumptions and other important factors, including risk factors, which could cause actual results to differ materially from those in the forward-looking statements, are specified in the company's Form 10-K for the year ended December 31, 2004 and other filings with the SEC, including under headings such as "Risk factors" and "Management's discussion and analysis of financial condition and results of operations." The company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events, or otherwise.

Tables Follow

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in Thousands, Except per Share Amounts)

	Three Months Ended	
	<u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
Operating revenues:		
Local telephone	\$ 51,565	\$ 55,832
Wireless	17,056	11,601
Internet	5,061	4,613
Interexchange	<u>3,726</u>	<u>3,409</u>
Total operating revenues	77,408	75,455
Operating expenses:		
Local telephone	30,523	32,574
Wireless	9,582	7,928
Internet	5,237	7,506
Interexchange	4,400	5,016
Depreciation and amortization	20,413	19,106
Loss (gain) on disposal of assets, net	<u>(68)</u>	<u>227</u>
Total operating expenses	70,087	72,357
Operating income	7,321	3,098
Other income and expense:		
Interest expense	(35,970)	(12,052)
Interest income	494	242
Equity in income of investments	4	4
Other	<u>(49)</u>	<u>(61)</u>
Total other income (expense)	<u>(35,521)</u>	<u>(11,867)</u>
Loss before income taxes	(28,200)	(8,769)
Income tax benefit (expense)	<u>-</u>	<u>-</u>
Net loss	<u>\$ (28,200)</u>	<u>\$ (8,769)</u>
Loss per share - basic and diluted:		
Net loss	<u>\$ (0.77)</u>	<u>\$ (0.30)</u>
Weighted average shares outstanding:		
Basic	<u>36,730</u>	<u>29,333</u>
Diluted	<u>36,730</u>	<u>29,333</u>

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, In Thousands Except Per Share Amounts)

Assets	March 31, <u>2005</u>	December 31, <u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 63,466	\$ 85,860
Restricted cash	4,690	4,690
Accounts receivable-trade, net of allowance of \$4,895 and \$4,869	38,440	39,413
Materials and supplies	7,056	6,623
Prepayments and other current assets	<u>4,419</u>	<u>3,724</u>
Total current assets	118,071	140,310
Property, plant and equipment	1,068,740	1,061,767
Less: Accumulated depreciation and amortization	<u>668,596</u>	<u>649,455</u>
Property, plant and equipment, net	400,144	412,312
Goodwill	38,403	38,403
Intangible Assets	21,826	21,871
Debt issuance costs	14,294	15,482
Deferred charges and other assets	<u>9,337</u>	<u>8,749</u>
Total assets	<u>\$ 602,075</u>	<u>\$ 637,127</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of long-term obligations	\$ 393	\$ 2,298
Accounts payable-affiliate	2,686	3,973
Accounts payable, accrued and other current liabilities	48,862	53,843
Advance billings and customer deposits	<u>8,893</u>	<u>8,948</u>
Total current liabilities	60,834	69,062
Long-term obligations, net of current portion	457,321	523,591
Other deferred credits and long-term liabilities	74,784	77,916
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, no par, 5,000 authorized, no shares issued and outstanding	-	-
Common stock, \$.01 par value; 145,000 shares authorized, 45,167 and 35,245 shares issued and 40,617 and 30,695 outstanding, respectively	452	352
Treasury stock, 4,549 shares at cost	(18,443)	(18,443)
Paid in capital in excess of par value	350,493	287,966
Accumulated deficit	(321,292)	(298,786)
Accumulated other comprehensive loss	<u>(2,074)</u>	<u>(4,531)</u>
Total stockholders' equity (deficit)	<u>9,136</u>	<u>(33,442)</u>
Total liabilities and stockholders' equity	<u>\$ 602,075</u>	<u>\$ 637,127</u>

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, in Thousands)

	Three Months Ended	
	March 31,	
	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities:		
Net loss	\$ (28,200)	\$ (8,769)
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on disposal of assets and asset impairments	(68)	227
Depreciation and amortization	20,413	19,106
Amortization of debt issuance costs, warrants and original issue discount	13,807	928
Other deferred credits	(4,082)	(2,285)
Changes in components of working capital:		
Accounts receivable and other current assets	(155)	4,964
Accounts payable and other current liabilities	(8,784)	(8,658)
Deferred charges and other assets	<u>1,869</u>	<u>206</u>
Net cash (used) provided by operating activities	\$ (5,200)	\$ 5,719
Cash Flows from Investing Activities:		
Construction & capital expenditures	<u>(7,182)</u>	<u>(10,356)</u>
Net cash used by investing activities	(7,182)	(10,356)
Cash Flows from Financing Activities:		
Repayments of long-term debt	(405,157)	(828)
Proceeds from the issuance of long-term debt, net of discounts	335,000	-
Debt issuance costs	(10,637)	-
Payment of stock dividend	(5,679)	-
Purchase of treasury stock	-	(63)
Issuance of common stock	84,278	9
Stock issuance costs	<u>(7,817)</u>	<u>-</u>
Net cash used by financing activities	(10,012)	(882)
Decrease in cash	(22,394)	(5,519)
Cash, Beginning of period	<u>85,860</u>	<u>97,798</u>
Cash, End of period	<u>\$ 63,466</u>	<u>\$ 92,279</u>
Supplemental Cash Flow Data:		
Interest paid	<u>\$ 30,915</u>	<u>\$ 11,876</u>
Income taxes paid, net of refund	<u>\$ -</u>	<u>\$ 1,120</u>
Supplemental Noncash Transactions:		
Interest rate swap marked to market	<u>\$ 2,457</u>	<u>\$ -</u>
Dividend declared, but not paid	<u>\$ (8,140)</u>	<u>\$ -</u>

Schedule 4

**ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
SCHEDULE OF LOCAL TELEPHONE REVENUES
(Unaudited, in Thousands)**

	Three Months Ended	
	<u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
Local telephone revenues:		
Local network service	\$ 22,218	\$ 22,753
Network access revenue	23,350	27,695
Deregulated and other	<u>5,997</u>	<u>5,384</u>
Local telephone revenues	<u>\$ 51,565</u>	<u>\$ 55,832</u>

Schedule 5

**ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
SCHEDULE OF EBITDA CALCULATION
(Unaudited, in Thousands)**

	Three Months Ended	
	<u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net loss	\$ (28,200)	\$ (8,769)
Add (subtract):		
Interest expense	35,970	12,052
Interest income	(494)	(242)
Depreciation and amortization	20,413	19,106
(Gain) loss on disposal of assets and asset impairment charges, net	<u>(68)</u>	<u>227</u>
EBITDA	<u>\$ 27,621</u>	<u>\$ 22,374</u>

Note: In an effort to provide investors with additional information regarding the Company's results as determined by generally accepted accounting principles (GAAP), the Company also discloses certain non-GAAP information which management utilizes to assess performance and believes provides useful information to investors. The Company has disclosed its net gain before interest expense, provisions for taxes, depreciation expense, amortization expense (EBITDA) because the Company believes it is an important indicator as it provides information about our ability to service debt, pay dividends and fund capital expenditures. EBITDA is not a GAAP measure and should not be considered a substitute for net income and loss and other measures of financial performance recorded in accordance with GAAP. The calculation of "EBITDA" as presented in this press release differs from the calculation of, and therefore is not directly comparable to, "Indenture EBITDA" as presented in ACS' prospectus supplement, dated January 26, 2005, primarily because the calculation of "Indenture EBITDA" allows for adjustments that meet the criteria of being "non-cash", "extraordinary" or otherwise "non recurring" in nature.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
KEY OPERATING STATISTICS
(Unaudited)

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>	<u>March 31,</u> <u>2004</u>
Local telephone:			
Retail access lines *	204,458	207,395	213,784
Wholesale access lines	15,897	16,590	20,068
UNE loop lines	62,263	64,589	69,624
UNE platform lines	<u>6,551</u>	<u>6,365</u>	<u>5,178</u>
Total local telephone access lines	<u><u>289,169</u></u>	<u><u>294,939</u></u>	<u><u>308,654</u></u>
Average local telephone access lines for the quarter	292,054	298,073	309,805
Average local telephone revenue per line for the quarter	\$ 58.85	\$ 56.99	\$ 60.07
Quarterly growth rate in local telephone access lines	-2.0%	-2.1%	-0.7%
Wireless			
Covered population	482,251	482,251	480,422
Post paid cellular subscribers	88,174	83,828	72,998
Average post paid cellular subscribers	86,001	81,478	72,191
Quarterly growth rate - post paid cellular subscribers	5.2%	5.9%	2.3%
Activations for the quarter	8,653	9,393	4,029
Deactivations for the quarter	4,307	4,692	2,414
Average monthly churn for the quarter	1.6%	1.8%	1.1%
Average monthly revenue per subscriber for the quarter***	\$ 53.28	\$ 50.34	\$ 43.98
Prepaid cellular subscribers	8,560	10,404	8,393
Wholesale cellular subscribers	5,545	6,425	6,600
Total cellular subscribers	102,279	100,657	87,991
Average subscribers for the quarter	101,468	98,093	87,504
Quarterly growth rate	1.6%	5.4%	1.1%
Activations for the quarter	9,382	10,642	5,561
Deactivations for the quarter	7,760	5,514	4,587
Average monthly churn for the quarter	2.4%	1.7%	1.7%
Penetration	21.2%	20.9%	18.3%
Quarterly minutes of use (000's) **	92,907	90,483	72,156
Average monthly revenue per subscriber for the quarter***	\$ 48.65	\$ 45.17	\$ 40.30
Long Distance:			
Long distance subscribers	48,542	47,050	42,053
Quarterly minutes of use (000's)	36,557	34,779	32,139
Average subscribers for the quarter	47,796	45,692	42,610
Average monthly revenue per subscriber for the quarter	\$ 25.99	\$ 26.09	\$ 26.67
Internet:			
DSL subscribers	27,115	24,711	19,433
Dial-Up and other service subscribers	<u>21,984</u>	<u>22,842</u>	<u>26,257</u>
Total Internet subscribers	<u><u>49,099</u></u>	<u><u>47,553</u></u>	<u><u>45,690</u></u>
Average subscribers for the quarter	48,326	46,924	45,876
Average monthly DSL & dial up revenue per subscriber for the quarter****	\$ 30.55	\$ 28.86	\$ 28.06

* Prior period retail access lines impacted by change in line count methodology.

** Wireless MOU have been restated to include prepaid airtime certificates.

*** Wireless ARPU has been restated to better reflect ongoing revenue derived from ACS's wireless customers. The restated ARPU excludes equipment sales, space and power, foreign roaming (non-ACS customers roaming on ACS's network) and access termination revenue. Previously, wireless ARPU was based on all wireless revenues, including those that were not derived from ACS's customer base. In addition, ACS has been granted competitive eligible telecommunications carrier status (CETC) in the first Q of 2005 which added \$3.37 to cellular ARPU.

**** Internet ARPU has been restated to include only DSL and dial-up revenues. Previously, internet ARPU included all internet revenues; however, the customer base included only DSL and dial-up subscribers. The restated ARPU provides consistency between revenues and customer counts.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
KEY OPERATING STATISTICS
(Unaudited)

	March 31, <u>2005</u>	December 31, <u>2004</u>	<u>Net Movement</u>
Local telephone retail access lines	204,458	207,395	(2,937)
Wireless subscribers	102,279	100,657	
Less adjustment for resellers	<u>(5,545)</u>	<u>(6,425)</u>	
	<u>96,734</u>	<u>94,232</u>	2,502
Long distance subscribers	48,542	47,050	1,492
DSL and dial up subscribers	<u>49,099</u>	<u>47,553</u>	<u>1,546</u>
Total	<u><u>398,833</u></u>	<u><u>396,230</u></u>	<u><u>2,603</u></u>

Schedule 7

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
SCHEDULE OF FREE CASHFLOWS
(Unaudited, in Thousands)

	Three Months Ended	
	<u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net cash (used) provided by operating activities	\$ (5,200)	\$ 5,719
Total construction and capital expenditures	<u>(7,182)</u>	<u>(10,356)</u>
Free Cashflow	(12,382)	(4,637)
CDMA Growth	<u>597</u>	<u>2,050</u>
Adjusted free cashflow	<u><u>\$ (11,785)</u></u>	<u><u>\$ (2,587)</u></u>

Note: In an effort to provide investors with additional information regarding the Company's results as determined by generally accepted accounting principles (GAAP), the Company also discloses certain non-GAAP information which management utilizes to assess performance and believes provides useful information to investors. The Company has disclosed net cashflow provided by operations net of total construction and capital expenditures (free cashflow) and free cashflow adjusted for growth capital investments in CDMA wireless technology, which the Company plans to fund from existing cash reserves (Adjusted free cashflow). The Company believes it is an important indicator because it provides information about our ability to service debt and pay dividends. Free cashflow and adjusted free cashflow are not GAAP measures and should not be considered a substitute for increase (decrease) in cash and other measures of financial performance recorded in accordance with GAAP.

