UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ______ to ______

COMMISSION FILE NUMBER 000-28167

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

(Exact name of registrant as specified in its charter)

```
               DELAWARE                                 52-2126573
    (State or other jurisdiction of       (I.R.S. Employer Identification
No.)
     incorporation or organization)

        510 L STREET, SUITE 500                           99501
           ANCHORAGE, ALASKA                            (Zip Code)
(Address of principal executive offices)

                                 (907) 297-3000
              (Registrant's telephone number, including area code)

                                ---------------
```

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS
Common Stock, Par Value $.01 per Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on March 8, 2001, was approximately $55,966,873 computed upon the basis of the closing sales price of the Common Stock on that date. For purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of March 8, 2001, there were outstanding 31,467,602 shares of Common Stock, $.01 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the registrant's 2001 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2000

		PAGE
PART I		
ITEM 1.	BUSINESS	2
ITEM 2.	PROPERTIES	24
ITEM 3.	LEGAL PROCEEDINGS	24
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	25
PART II		
ITEM 5.	MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	26
ITEM 6.	SELECTED FINANCIAL DATA	27
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	45
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	46
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	46
PART III		
ITEM 10.	EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT	47
ITEM 11.	EXECUTIVE COMPENSATION	49
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	49
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	49
PART IV		
ITEM 14.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K	50
SIGNATURES		52
INDEX TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS		F-1

PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS AND ANALYSTS' REPORTS

This report contains forward looking statements within the meaning of the federal securities laws, including statements concerning future rates, revenues, costs, capital expenditures, and financing needs and availability and statements of management's expectations and beliefs. Actual results could differ materially from these statements as a result of many factors, including future economic, regulatory and political conditions in Alaska and the United States.

Investors should also be aware that while Alaska Communications Systems Group, Inc. ("ACS Group" or the "Company") does, at various times, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential information. Accordingly, shareholders should not assume that ACS Group agrees with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of ACS Group.

INTRODUCTION

ACS Group was formed in 1998 by Fox Paine & Company, members of the former senior management team of Pacific Telecom, Inc., and other experienced telecommunications industry executives. In May 1999, the Company acquired Century Telephone Enterprises, Inc.'s Alaska properties ("CenturyTel's Alaska Properties") and Anchorage Telephone Utility or ATU (collectively the "Predecessor Entities"). CenturyTel's Alaska Properties were the incumbent provider of local telephone services in Juneau, Fairbanks and more than 70 rural communities in Alaska and provided Internet services to customers statewide. CenturyTel's Alaska Properties included ACS of Fairbanks, Inc., ACS of Alaska, Inc., and ACS of the Northland, Inc. ATU was the largest local exchange carrier ("LEC") in Alaska and provided local telephone and long distance services primarily in Anchorage and cellular services statewide. ATU provided long distance services through ATU Long Distance, Inc. and cellular services through MACtel, Inc. These companies are now known as ACS of Anchorage, Inc., ACS Long Distance, Inc. and ACS Wireless, Inc. On October 29, 1999, the Company changed its name from ALEC Holdings, Inc. to Alaska Communications Systems Group, Inc.

The financial statements for the ACS Group represent the operations of the following entities:

- Alaska Communications Systems Group, Inc.

- Alaska Communications Systems Holdings, Inc. ("ACS Holdings")

- ACS of Alaska, Inc. ("ACSAK") (formerly Telephone Utilities of Alaska, Inc.)

- ACS of the Northland, Inc. ("ACSN") (formerly Telephone Utilities of the Northland, Inc.)

- ACS of Fairbanks, Inc. ("ACSF") (formerly PTI Communications of Alaska, Inc.)

- ACS of Anchorage, Inc. ("ACSA") (formerly Alaska Communications Systems, Inc.)

- ACS Wireless, Inc. ("ACSW") (formerly MACtel, Inc.)

- ACS Long Distance, Inc. ("ACSLD") (formerly ATU Long Distance, Inc.)

- ACS Television, L.L.C. ("ACSTV") (formerly Alaskan Choice Television, L.L.C.)

- ACS Internet, Inc. ("ACSI") (formerly PTINet, Inc.)

- Internet Alaska, Inc. ("IAI")

ACS Group is the leading diversified, facilities-based telecommunications provider in Alaska, offering local telephone, cellular, long distance, data and Internet services to business and residential customers throughout the state. ACS Group is the only telecommunications provider in Alaska using its own network facilities to provide full service end-to-end communications to its customers.

At various times, ACS Group evaluates opportunities for establishing or acquiring other telecommunications businesses through acquisitions or otherwise in Alaska and elsewhere in the United States, and may make investments in such businesses in the future. ACS Group has focused its attention on local telephone, cellular, interexchange network and data services, and Internet businesses.

LOCAL TELEPHONE. With almost 330,000 access lines, representing approximately 70% of the access lines in Alaska, ACS Group is the largest LEC in Alaska and the 14th largest in the U.S. The Company provides service to all of the state's major population centers, including Anchorage, Juneau and Fairbanks.

CELLULAR. ACS Group is the largest and only statewide provider of cellular services in Alaska, currently serving approximately 76,000 subscribers. Its cellular network covers over 460,000 residents, including all major population centers and highway corridors. The Company recently upgraded its network to be fully digital in substantially all of its service areas.

INTERNET. ACS Group is the second largest provider of Internet access services in Alaska with over 45,000 customers. ACS Group offers dedicated and dial-up Internet access and digital subscriber line, or DSL, Internet access to its customers.

INTEREXCHANGE NETWORK AND OTHER

Wireless Cable Television. Long-distance. ACS Group provides long distance and other interexchange services to over 57,000 customers in Alaska. ACS Group has migrated long distance traffic on main routes from leased circuits onto its own network infrastructure.

Wireless Cable Television. ACS Group provides wireless cable television services in the Fairbanks and Anchorage service areas. ACS Group is evaluating opportunities to expand its offering of wireless cable television services.

PRODUCTS, SERVICES AND REVENUE SOURCES

ACS Group offers a broad portfolio of telecommunications services to residential and business customers in its markets. The Company's service offerings are locally managed to better serve the needs of each community. The Company believes that, as the communications marketplace continues to converge and competition continues to enter the market, the ability to offer an integrated package of communications products will provide a distinct competitive advantage, as well as increase customer loyalty, and thereby decrease customer turnover. The Company complements its local telephone services by actively marketing its cellular, Internet, and interexchange network and other service offerings.

Profit or loss and total assets for each of the Company's segments is disclosed in Note 14 "Business Segments" of the Alaska Communications Systems Group, Inc. Consolidated Financial Statements. The following table sets forth the components of ACS Group's consolidated revenues for the year ended December 31, 2000 and pro forma combined revenues for the years ended December 31, 1999 and 1998 (dollars in millions):

	REVENUE FOR THE YEAR ENDED DECEMBER 31,					
	2000 CONSOLIDATED		1999 COMBINED		1998 COMBINED	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
REVENUE BY SOURCE:						
Local network service	$ 92.4	29.5%	$ 94.5	31.5%	$ 93.1	33.1%
Network access	105.2	33.6	105.3	35.1	98.6	35.0
Directory advertising	32.0	10.2	27.9	9.3	26.5	9.4
Deregulated and other revenue	21.8	7.0	21.2	7.1	19.6	7.0
Local telephone	251.4	80.3	248.9	83.0	237.8	84.4
Cellular	39.5	12.6	36.1	12.0	31.8	11.3
Internet	9.2	2.9	4.9	1.6	5.2	1.8
Interexchange network and other	12.9	4.1	10.0	3.3	6.8	2.4
Total	$313.0	100.0%	$299.9	100.0%	$281.6	100.0%

LOCAL TELEPHONE

The Company provides local telephone service through its four LECs. Local telephone revenue consist of local network service, network access, directory advertising, and deregulated and other revenue, each of which is described below.

Local Network Service

Basic Local Network Service. Basic local network service enables customers to originate and receive telephone calls within a defined "exchange" area. The Company provides basic local services on a retail basis to residential and business customers, generally for a fixed monthly charge. The maximum amount that can be charged to a customer for basic local services is determined by rate proceedings involving the Regulatory Commission of Alaska ("RCA"). The Company charges business customers higher rates to recover a portion of the costs of providing local service to residential customers as is customary in the industry. On average, U.S. business rates for basic local services have been over two times the rates of residential customers. Basic local service also includes non-recurring charges to customers for the installation of new products and services and recurring charges for enhanced features such as call waiting and caller ID.

At December 31, 2000, approximately 56% of ACS Group's retail access lines served residential customers, while 44% served business customers. Currently, monthly charges for basic local service for residential customers range from $9.42 to $16.30 in ACS Group's service areas compared to the national average for urban areas of $13.84. Monthly charges for business customers range from $17.65 to $26.05 in ACS Group's service areas compared to the national average for urban areas of $34.31.

The table below sets forth the annual growth in access lines for ACS Group and its Predecessor Entities from December 31, 1996 to December 31, 2000. The number of access lines shown for 1997 includes approximately 37,000 access lines that were acquired by CenturyTel's Alaska Properties as part of its acquisition of the City of Fairbanks Telephone Operation in October 1997. The number of access lines shown represents all revenue producing access lines connected to both retail and wholesale customers.

	AS OF DECEMBER 31,				
	2000	1999	1998	1997	1996
Retail access lines	272,936	281,726	266,704	275,549	237,721
Wholesale access lines	17,303	15,680	13,010	5,106	-
Unbundled network elements	39,221	28,202	20,680	2,700	-
Total Local Telephone Access Lines	329,460	325,608	300,394	283,355	237,721
Percentage Growth	1.2%	8.4%	6.0%	19.2%	5.4%

On June 1, 1999, as part of the consolidation of its operating and billing systems, ACS Group conformed the methodology by which the number of access lines is calculated across all of its local exchanges to that used for CenturyTel's Alaska Properties. The Company intends to use the method used to calculate access lines in service for CenturyTel's Alaska Properties to calculate its access lines in all future periods. In the table above, for the year ended December 31, 1999, the Company shows ATU's number of access lines calculated using this method. If the number of ATU's access lines in service at December 31, 1998 was computed under this same method, the number of access lines at ATU would increase by 4,940 and the total number of access lines would equal 305,334 and the combined growth percentage would be 6.6% for 1999. Due to limited data available to ACS Group, no adjustments to the access lines in service for any year prior to 1998 have been computed.

Management believes that future access line growth is dependent on among other things, the economic outlook in Alaska and the United States, the impact of technology on line demand and population growth in the Company's serving areas.

Competitive Local Network Service. The Company also provides interconnection through wholesale access (the "1996 Act") to its basic local service and through leasing unbundled network elements ("UNEs") to its competitors as required by the Telecommunications Act of 1996. Revenues for these services are included in local network service revenues. The Company currently provides 56,524 lines to competitors in the Anchorage service area on either a wholesale or UNE basis. UNE rates in Anchorage are currently $13.85, which, in the opinion of management, is below the Company's forward looking and embedded cost. The RCA has lifted the Company's rural exemption for the Fairbanks and Juneau serving areas and awarded interconnection rates to a competitor on a UNE basis of $19.19 and $16.71, respectively, which the Company also believes to be below its cost. As of March 8, 2001, no facilities have been provided to competitors on a wholesale or UNE basis in Fairbanks or Juneau. See "Business -- Regulation" for further discussion of regulatory matters including interconnection under the 1996 Act.

While there is some seasonality, operating results for local telephone services are not materially impacted by seasonal factors.

Network Access

Network access services arise in connection with the origination and termination of long distance, or toll, calls and typically involve more than one company in the provision of such long distance service on an end-to-end basis. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each company providing services relating to the call. This mechanism is the access charge, which the Company bills to each interexchange carrier for the use of its facilities to access the customer. The Company also receives universal service revenue, which it includes in its reported network access revenue. These components of network access revenue are described below.

Intrastate Access Charges. ACS Group generates intrastate access revenue when an intrastate long distance call that involves an ACS Group LEC and an interexchange carrier is originated and terminated within the same state. The interexchange carrier pays the Company an intrastate access payment for either terminating or originating the call. The Company records the details of the call through its carrier access billing system and receives the access payment from the interexchange carrier. The company also provides billing and collection ("B&C") services for interexchange carriers through negotiated B&C agreements for certain types of toll calls placed by the Company's local customers. ACS Group's LECs in competitive areas are under their own stand-alone tariffs for intrastate access. In non-competitive areas, ACS Group's LECs participate in a statewide tariff and access charge pooling arrangement that is administered by the Alaska Exchange Carriers Association ("AECA"). The access charge for ACS Group's intrastate service is regulated by the RCA.

Interstate Access Charges. ACS Group generates interstate access revenue when an interstate long distance call is originated from an Alaskan local calling area served by an ACS Group LEC and is terminated in a local calling area in another state, and vice versa. The Company bills interstate access charges in a manner similar to intrastate access charges. However, interstate access charges are regulated by the Federal Communications Commission ("FCC") rather than the RCA. ACS Group's LECs participate in a nationwide tariff and access charge pooling arrangement that is administered by the National Exchange Carrier Association ("NECA") for all ACS Group's LECs except ACSA. ACSA participates in the NECA common line tariff, but has its own interstate access tariff for traffic sensitive and special access services.

Universal Service Revenue. Universal service revenue supplements the amount of local service revenue the Company receives to ensure that basic local service rates for customers in high cost rural areas are not significantly higher than rates charged in lower cost urban and suburban areas. The 1996 Act prescribed new standards applicable to universal service, including mechanisms for defining the types of services to be provided as part of a universal service program, specific goals or criteria applicable to universal service programs, new qualifications for receipt of universal service funding and new requirements for contributions to universal service funding. The FCC, in conjunction with a federal-state joint board composed of FCC and state commission members, has been working since passage of the 1996 Act to implement these new statutory provisions. The FCC has chosen to address universal service matters, initially for non-rural telephone companies, and subsequently for rural telephone companies. New cost-identification models for non-rural local carriers were adopted effective on January 1, 2000. New rules for rural telephone companies, applicable to all ACS Group LEC operations except ACSA, have been proposed to the FCC by the Joint Board. If these rules are adopted in 2001, they are unlikely to have a material impact on ACS Group's revenue.

Operating results for network access services are not materially impacted by seasonal factors.

Directory Advertising

Directory advertising revenues are derived by ACS Group principally from yellow pages advertising in the local telephone books of each of the Company's local exchange service areas. The Company provides this service under a contractual arrangement with a directory publishing company. Directory advertising is billed in conjunction with local telephone service. ACS Group competes for directory advertising services in substantially all of its service areas.

Deregulated and Other Revenue

Deregulated and other revenues consist of B&C contracts, space and power rents, pay telephone service, customer premise equipment sales, and other miscellaneous revenues generated by the Company's LECs. ACS Group seeks to capitalize on its local presence and network infrastructure by offering these additional services to customers and interexchange carriers.

CELLULAR

ACS Group's cellular business is currently managed separately from its LEC business and is subject to a different regulatory framework and cost structure. Cellular services are provided statewide under the ACS Wireless and MACtel brand names. The primary sources of cellular revenue include subscriber access charges, airtime usage, toll charges, connection fees, roaming revenues, and enhanced features, such as caller ID and call waiting. A subscriber may purchase services separately or may purchase rate plans that package these services in different ways to fit different calling patterns and desired features.

The table below sets forth the annual growth in the number of cellular subscribers served and total covered population for ACS Group and its Predecessor Entities from December 31, 1996 to December 31, 2000.

	AS OF DECEMBER 31,				
	2000	1999	1998	1997	1996
Estimated covered population	462,057	460,802	460,162	453,361	353,674
Ending subscribers	75,933	73,068	66,572	55,131	39,329
Ending penetration	16.4%	15.9%	14.5%	12.2%	11.1%

Although ACS Group has achieved cellular penetration rates of 17% in Anchorage and Fairbanks, and 21% in Kenai, penetration rates in the Company's other service areas are significantly lower. Management believes there are opportunities to improve the penetration rates of its cellular operations in Juneau. Management also believes that the market for cellular services will continue to grow with the expansion of the cellular industry as a whole.

ACS Group also owns 10 megahertz E Block PCS licenses covering Anchorage, Juneau and Fairbanks, which were purchased by CenturyTel's Alaska Properties in 1997. Management is analyzing the build out of these licenses and technical alternatives for using this spectrum to enhance the Company's service offerings in its overall business.

Cellular revenue declines in the winter months and increases in the summer months due to Alaska's northern latitude and the wide swing in available daylight. However, operating results for cellular services are not materially impacted by seasonal factors.

INTERNET

ACS Group provides Internet access services to approximately 45,000 customers at December 31, 2000. In order to offer Internet access, the Company provides local dial-up telephone numbers for its customers. ACS Group also offers high speed DSL. These local dial-up numbers and dedicated DSL connections allow customers access, through a modem connection on their computer, to a series of computer servers ACS Group owns and maintains. These servers allow customers to access their e-mail accounts and to be routed to local access points that connect customers to the Internet. ACS Group charges customers either a flat rate for unlimited Internet usage or a usage sensitive rate, which, in either case, is billed on customers' local telephone bill.

Operating results for Internet access services are not materially impacted by seasonal factors.

INTEREXCHANGE NETWORK AND OTHER

Long Distance Services. ACS Group's predecessors began offering long distance services on a resale basis in October 1997, primarily in Anchorage. The Company currently has approximately 57,000 long distance customers and less than 5% of total long distance revenues in Alaska. Before August 1998, CenturyTel's Alaska Properties were precluded from entering the long distance business by a non-competition agreement with AT&T Alascom which was signed when Pacific Telecom sold Alascom, Inc. to AT&T in 1995. To date, ACS Group's long distance operations have generated significant operating losses. The Company is evaluating its long distance strategy.

In April 1999, ACS Group entered into a settlement agreement with General Communication, Inc. ("GCI") under which the Company agreed to enter into a number of new business arrangements and to settle a number of outstanding disputes, including GCI's opposition to ACS Group's acquisitions of CenturyTel's Alaska Properties and ATU. As part of this agreement and to support other aspects of the Company's business strategy, ACS Group purchased from GCI $19.5 million of fiber capacity for high-speed links within Alaska and for termination of traffic in the lower 49 states. Subsequently, the Company entered into an amendment to the purchase agreement with GCI, whereby, among other things, ACS Group agreed to purchase additional capacity for $19.5 million. The Company fulfilled this commitment to purchase additional capacity on January 12, 2001.

ACS Group is subject to numerous conditions imposed by the RCA and, to a lesser degree, by the FCC on the manner in which the Company conducts its long distance operations. The restrictions are intended to prohibit cross-subsidization from the regulated LEC to the long distance affiliate and discrimination against other long distance providers in favor of a LEC's long distance affiliate. Among the conditions applied to ACS Group's long distance affiliates are those which:

- require the Company to hold all books and records, management, employees and administrative services separate, except that services may be provided among affiliates through arm's length affiliated interest agreements,

- prohibit ACSAK, ACSN and ACSF properties from bundling local and long distance services until competition develops in their local markets and

- prevent the Company from joint ownership of telephone transmission or switching facilities with the LEC and from using the LEC's assets as collateral for its own indebtedness.

As a result of the introduction of competition in ACSA's local service areas, the Alaska Public Utilities Commission ("APUC"), predecessor to the RCA, lifted the restriction on bundling of local and long distance services in ACSA's service areas in 1998. The status of this bundling restriction for ACSA is unclear based on recent RCA actions.

Operating results for long distance services are not materially impacted by seasonal factors.

Wireless Cable Television. ACS Group owns ACSTV, a wireless cable television provider. ACSTV provides wireless cable television services over assigned UHF frequencies to approximately 2,300 customers in the Company's Anchorage and Fairbanks service areas. ACS Group is evaluating opportunities to expand its offering of wireless cable television services.

NETWORK FACILITIES

As of December 31, 2000, ACS Group owned 74 exchanges serving approximately 330,000 access lines. All of the Company's exchanges are served by digital switches provided predominately by Nortel Networks. ACS Group's switches are linked through a combination of extensive aerial, underground and buried cable, including 485 miles of fiber optic cable, as well as digital microwave and satellite links. The Company has 100% single-party services (one customer per access line), and believes substantially all of its switches have current generic software upgrades installed, allowing for the full range of enhanced customer features.

ACS Group has integrated numerous network elements to offer a variety of services and applications that meet the increasingly sophisticated needs of customers. These elements include Signal System 7 signaling networks, voice messaging platforms, digital switching, digital subscriber lines and, in some communities, integrated service digital network access. As the telecommunications industry experiences significant changes in technology, customer demand and competition, the Company intends to introduce additional enhancements.

Network operations and monitoring are provided by ACS Group's network operating control center located in Anchorage. The network operating control center has technicians staffed or on-call seven days a week, 24 hours a day. Automated alarm systems are in place should problems arise with the network after normal business hours. The Company also has customer care call center facilities in Anchorage and Fairbanks along with additional customer care facilities in Juneau, Sitka, Kenai/Soldotna and Kodiak. All of these facilities offer extended business hours to efficiently handle customer inquiries and orders for service.

ACS Group's cellular operations consist of three switching centers, 89 cell sites and four repeaters covering substantially all major population centers and highway corridors in Alaska. The Company uses Ericsson switches and radios for its cellular operations. The Company converted substantially of all of its switching and cell site equipment to digital service in 2000. The Company's switching and cell site infrastructure is linked by fiber and digital microwave. ACS Group's network operating control center located in Anchorage also supports all cellular switches in ACS Group's markets. Customer care centers are located in Anchorage, Fairbanks, Juneau and Kenai/Soldotna.

The Company is enhancing its interexchange network to accommodate developing products and technology. The Company is working with Nortel Networks and other vendors on a multiple phase conversion of its network from a time division multiple access, or TDMA, circuit switched platform to an asynchronous transfer mode/Internet protocol, or ATM/IP. ACS Group believes the implementation of an ATM/IP network will enhance its capability to provide a complete suite of telecommunications and data services and achieve significant operating efficiencies. The Company completed the first phase of the conversion in 1999, which resulted in the migration of its network traffic to its fiber optic transport facilities acquired in June 1999. The Company completed the second phase in 2000, which involved the conversion of its transport connections between Anchorage and each of Fairbanks, Kenai, Juneau and Seattle from TDMA to ATM/IP. ACS Group expects to complete the implementation of its ATM/IP network by year-end 2002. Planned network enhancements prior to year-end 2002 will include the installation of call servers in Anchorage and either Fairbanks or Juneau and the conversion of network switching nodes to accommodate ATM/IP traffic.

Completion of the ATM/IP network will enable the Company to provide an array of IP products throughout its core business. ACS Group currently offers frame relay, and will offer each of the following services as the necessary network elements are completed:

- virtual private networks,

- virtual private lines,

- transparent local area networks (LAN),

- proprietary LANs and wide area networks (WAN) and

- high speed Internet access.

CUSTOMERS

ACS Group has three basic types of customers for the services of its LECs:

- business and residential customers located in their local service areas that pay for local phone service,

- interexchange carriers that pay for access to long distance calling customers located within the Company's local service areas and

- competitive local exchange carriers ("CLECs") that pay for wholesale access to the Company's network in order to provide competitive local service on either a wholesale or UNE basis as prescribed under the 1996 Act.

Approximately 56% of ACS Group's retail access lines served residential customers, while 44% served business customers.

ACS Group also has approximately 76,000 cellular subscribers, 45,000 Internet subscribers and 57,000 long-distance subscribers consisting substantially of retail residential and business consumers.

No single ACS Group customer represented more than 10% of its total 2000 consolidated revenue.

COMPETITION

Local Telephone Service

Incumbent local exchange carriers ("ILECs") may be subject to any of three types of competition:

- facilities-based competition from providers with their own local service network,

- resale competition from resale interconnection, or providers who purchase local service from the ILEC at wholesale rates and resell these services to their customers and

- competition from UNE interconnection, that is, providers who lease UNEs from the ILEC.

The geographic characteristics of rural areas presently make the entrance of most facilities-based competitors uneconomical because of the significant capital investment required and the limited market size. Therefore, ACS Group believes competition is likely to come from resale interconnection or UNE interconnection. There are no regional Bell operating companies in Alaska.

In September 1997, GCI and AT&T Alascom, the two largest long distance carriers in Alaska, began providing competitive local telephone services in Anchorage. GCI competes principally through UNE interconnection with ACSA facilities, while AT&T Alascom competes primarily by reselling ACSA's services. Competition is based upon price and pricing plans, types of services offered, customer service, billing services, quality and reliability. GCI has focused principally on advertising discount plans for bundled services. AT&T Alascom's strategy has been to resell ACSA's service as part of a package of local and long distance services. As a result, ACSA now has approximately 37% competitive market penetration as of December 31, 2000. The Company expects GCI and AT&T Alascom to continue to compete for local telephone business.

As "rural telephone companies" under the 1996 Act, ACS Group's rural LECs have historically been exempt from the obligation to lease their facilities or resell their services on a wholesale discount basis to CLECs seeking interconnection. However, on June 30, 1999 the APUC ordered these exemptions terminated for certain rural service areas of ACS Group, and on October 11, 1999, the RCA, which replaced the APUC on July 1, 1999, sustained the APUC's order. As a result, ACS Group's rural LECs entered into interconnection arbitration with GCI. This arbitration resulted in arbitration agreements for certain rural service areas of ACS Group. See "Business -- Regulation" for further discussion.

ACS Group expects increasing competition from providers of various services that provide users the means to bypass its network. Long distance companies may construct, modify or lease facilities to transmit traffic directly from a user to a long distance company. Cable television companies also may be able to modify their networks to partially or completely bypass the Company's local network.

In addition, while cellular telephone services have historically complemented traditional LEC services, the Company anticipates that existing and emerging wireless technologies may increasingly compete with LEC services. For example, AT&T has recently introduced its fixed wireless product to the Anchorage market. At this time it is not possible to predict the impact of this product on the Company's share of the local market. Technological developments in cellular telephone features, personal communications services, digital microwave and other wireless technologies are expected to further permit the development of alternatives to traditional wireline services.

Cellular Services

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of improvements in the capacity and quality of digital technology, shorter cycles for new products and enhancements, and changes in consumer preferences and expectations. ACS Group believes that the demand for wireless telecommunications services is likely to increase significantly as equipment costs and service rates continue to decline and equipment becomes more convenient and functional. Competition is based on price, quality, network coverage, packaging features and brand reputation. In addition, there are six PCS licensees in each of the Company's cellular service areas. ACS Group holds PCS licenses covering Anchorage, Fairbanks and Juneau. ACS Group currently competes with at least one other wireless provider in each of its cellular service areas, including AT&T Wireless Services, Alaska DigiTel, and Dobson Communications. At least one new wireless competitor is expected to enter the Alaska market in 2001. The Company believes that the unique and vast terrain and the high cost of PCS system buildout make entrance into markets outside Anchorage uneconomical at this time.

As the market for simple cellular voice services approaches maturity, providers are experiencing downward pressure on price. ACS Group is positioning itself to offset this impact by bringing new higher margin services to market. By developing products for targeted market segments, the Company is leveraging the advantage in market share and geographical coverage to attract new customers and increase monthly revenues from existing customers. New products will be coming to market in 2001 that will address the specific needs of the oil and construction industries. New consumer offerings will also come to market in 2001. These new services are expected to provide a means for differentiation, produce additional revenues and increase margins.

Long Distance Services

The long distance telecommunications market is highly competitive. Competition in the long distance business is based on price, customer service, billing services and quality. The Company currently offers long distance service to customers located throughout the state of Alaska; however, it is focused primarily on the more populous communities in the state. AT&T Alascom and GCI are currently the two major competing long distance providers in Alaska. The Company currently has less than 5% of total long distance revenues in Alaska. The Company provides traditional "1+" direct distance dialing (DDD), toll-free services, calling cards and private line services for data and voice applications. In late 2000, The Company introduced its flat-rate long distance "Infinite Minutes" program, which helped to increase its market share in the residential long distance segment over previous periods. ACS Group expects to continue offering innovative products of this nature in the future.

Internet Services

The market for Internet access services is highly competitive. There are few significant barriers to entry, and the Company expects that competition will intensify in the future. ACS Group currently competes with a number of established online services companies, interexchange carriers and cable companies. The Company believes that its ability to compete successfully will depend upon a number of factors, including the reliability and security of its network infrastructure, the ease of access to the Internet, and the pricing policies of its competitors.

SALES AND MARKETING

ACS Group and its Predecessor Entities have historically conducted their sales and marketing operations for each of their respective products on a stand-alone basis, with each product line having its own sales force and marketing department. ACS Group has consolidated its product and service offerings under the "Alaska Communications Systems" and "ACS" brands, subject to regulatory and strategic business considerations.

Key components of the Company's sales and marketing strategy include:

- marketing current and future service offerings aggressively, including packaged service offerings,

- centralizing marketing functions and

- enhancing direct sales efforts.

ACS Group believes that it can leverage its position as an integrated, one-stop provider of telecommunications services with strong positions in local access, cellular, long distance and data, and Internet markets. By pursuing, within the bounds of any applicable regulatory constraints, a marketing strategy that takes advantage of these characteristics and that facilitates cross-selling and packaging of it products and services, the Company believes it can increase penetration of new product offerings, improve customer retention rates, increase its share of its customers' overall telecommunications expenditures, and achieve continued revenue and operating cash flow growth.

ACS Group has begun, to a limited extent, within regulatory bounds, marketing local telephone services in attractively priced, packaged service offerings with cellular, long distance and Internet services. However, ACS Group believes packaged offerings are popular with customers because they allow customers to enjoy pricing for a number of services at a substantial discount to a la carte pricing of individual services. Subject to regulatory limitations, the Company intends to expand this strategy, which it expects will increase the average revenue per customer, and result in a more loyal and satisfied customer base and in reduced churn.

The Company has established a sales and marketing organization where marketing strategies will be centralized and sales functions will be based locally. To enhance its direct selling efforts, the Company has established additional customer and retail service centers in its larger service areas, such as Juneau and Kenai/Soldotna, and intends to enhance its call center operations through a combination of technology investments, training, and incentive compensation programs for call center employees.

EMPLOYEES

ACS Group considers employee relations to be good. As of December 31, 2000, the Company employed a total of 1,163 regular full-time employees, 857 of whom were represented by the International Brotherhood of Electrical Workers, Local 1547 ("IBEW"). On November 2, 1999, the IBEW membership for ACS Group ratified the terms of the new master collective bargaining agreement that governs the terms and conditions of employment for all IBEW represented employees working for ACS Group in the State of Alaska. The master agreement embraces a labor-management relationship that is founded on trust, cooperation and shared goals. The November 1999 agreement, which expires December 31, 2006, provides for wage increases up to 4% in specified years based on the annual increases in the U.S. Department of Labor CPI-U, the consumer price index for Anchorage. The last wage increase under the agreement was implemented in January 2000 and the next scheduled wage review is in July 2001. The master agreement also provides escalation in contributions of up to 4% annually for the health and welfare contributions that are made by ACS Group on behalf of the represented employee group. There have been no work stoppages or strikes, and none are anticipated.

ACS Group enjoys good relations with the employee group that is not represented by the IBEW as well. Non-represented employees qualify for wage increases based on individual and company performance. Additionally, employees represented by ACS Group receive health and welfare packages that are competitive in the marketplace in which ACS Group competes.

REGULATION

OVERVIEW

The Company's local telephone operating subsidiaries, ACSA, ACSF, ACSAK, and ACSN, are each "telecommunications carriers" and ILECs under the Communications Act of 1934 (the "Communications Act"), which was amended by the 1996 Act, and are subject to FCC jurisdiction. ACSLD, ACS Group's long distance subsidiary, is also subject to both the FCC and RCA's regulatory jurisdiction. ACS Group's cellular and PCS companies are also subject to FCC jurisdiction because they are telecommunications carriers and because they hold FCC-issued licenses. The Company's local telephone operating companies are also "public utilities" within the meaning of the Alaska statutes and are, therefore, governed by the applicable rules and regulations of the RCA. The RCA succeeded to the regulatory responsibilities of the APUC when it ceased to exist on June 30, 1999.

FEDERAL REGULATION

Under the federal regulatory scheme, ILECs are required to comply with the Communications Act and the applicable rules and regulations of the FCC. In substantially overhauling the Communications Act, the 1996 Act was intended to, among other things, eliminate unproductive regulatory burdens and promote competition. Despite this, telecommunications carriers are still subject to extensive ongoing regulatory requirements. For instance, ACS Group's subsidiaries are required to maintain accounting records in accordance with the Uniform System of Accounts, to structure access charges according to FCC rules, and to charge for interstate services at a rate of return not to exceed a rate prescribed by the FCC. The FCC also must give prior consent to transfers of control and assignments of radio frequency licenses. The FCC requires ILECs providing access services to file tariffs with the FCC reflecting the rates, terms and conditions of those services. These tariffs are subject to review and potential objection by the FCC or third parties. Additionally, all of the Company's LECs are "ILECs" within the meaning of the 1996 Act. As such, they are subject to various requirements under that Act, including specific interconnection duties such as providing requesting telecommunications carriers with UNEs and wholesale discounted resale of end user services.

As of 2001, long distance companies will be precluded from filing tariffs for interstate domestic services. Federal tariffing is being replaced with Internet web site posting of offers, terms and prices. ACSLD was fully detariffed prior to the end of 2000.

STATE REGULATION

Telecommunications companies subject to the RCA's jurisdiction are required to obtain certificates of public convenience and necessity prior to operating as a public utility in Alaska. The RCA is responsible for approving new certificates and any transfers of existing certificates. In addition, the RCA is responsible for implementing a portion of the competitive requirements of the 1996 Act, as well as for regulating intrastate access and rates for local and other services of local telephone companies. After passage of the 1996 Act, the APUC adopted a plan to address competition issues across Alaska. The APUC established multiple dockets to investigate different competition-related issues, including revising local and long distance market structures, reforming its intrastate access charge system and establishing a state universal service fund. In addition to its preliminary actions to mandate access charge depooling for ILECs operating in competitive markets, the RCA made operational the new Alaska Universal Service Fund ("AUSF"). In a subsequent rulemaking, the RCA revised its eligibility standards for companies receiving high-cost switching support from the AUSF. These new rules resulted in a loss of support to ACS Group's rural affiliates. Rather than seeking interim local relief for this cost recovery shift, ACS Group has opted to include consideration of this issue in the more comprehensive rate proceedings described below.

In connection with regulatory approval of ACS Group's acquisitions of CenturyTel's Alaska Properties and ATU in 1999, the APUC imposed several conditions on its operating companies. Among those conditions was a requirement that ACSA, ACSF, ACSAK, and ACSN each file revenue requirement, cost of service and rate design studies no later than July 2001. All of these companies except

ACSF were also required to file updated depreciation analyses concurrently with the rate case filings. ACS Group is actively involved in the production of these filings and anticipates that a comprehensive schedule will be established after a pre-hearing conference.

As previously noted, restrictions were placed on the ability of ACS Group's rural LECs to bundle service offerings with ACSLD. In October 2000, ACSLD offered its innovative, flat-rated long distance plan called "Infinite Minutes." Initially, the Infinite Minutes was offered in the interstate jurisdiction and included an eligibility requirement that customers subscribe to ACS Group's local service (or Internet service where ACS Group's local service was not otherwise available). After introducing the interstate plan, ACS Group's filed a similar instate plan with the RCA. Although approved on an interim basis, the RCA imposed several conditions on Infinite Minutes. Among these was the conclusion that requiring LEC subscription as an eligibility criterion violated ACSLD's certificate restrictions regarding "bundled offers." The RCA ordered ACSLD to "de-link" the instate Infinite Minutes offer from any LEC bundling requirement for all markets, including Anchorage. The RCA also ordered ACSLD to offer instate Infinite Minutes to all customers on a statewide basis and to do so via a "1-800" platform in those locations where ACSLD did not already operate. Finally, the RCA directed ACSLD to order equal access interconnection with its competitor, GCI, in Anchorage, to facilitate access to Infinite Minutes by GCI's LEC customers. After considerable review of the changing economic profile of this offer as imposed by the RCA, ACSLD has determined to discontinue its instate Infinite Minutes plan and has made appropriate filings with the RCA to do so.

Having secured both LEC certification and interconnections agreements to serve the local exchange markets in Juneau and Fairbanks, Alaska, GCI's CLEC operation has filed for "Eligible Telecommunications Carrier" ("ETC") status with the RCA. ETC designation is an essential first step in securing "portable" or shared universal service support. ACS Group's operating companies are currently designated as ETCs in the same two markets for which GCI seeks similar designation. Although it is possible to have multiple ETCs in a single market, GCI's request is unusual in that it asks the RCA to act in advance of all eligibility requirements having been met. ACS Group and the Alaska Telephone Association are expected to file comments with the RCA.

The RCA also commenced a rulemaking geared towards new regulations for the "deaveraging" of LEC study areas for purposes of computing universal service support. The regulatory objectives include creating competitive incentives in the lower cost components of the study area without placing undue pressure on support mechanisms for the higher cost segments. Although currently inactive, this rulemaking is of particular interest to ACS Group and is likely to be scheduled for further proceedings in 2001 along with an anticipated new rulemaking targeted at further access charge reform.

COST RECOVERY AND REVENUE RECOGNITION

As a regulated common carrier, the operating subsidiary companies of ACS Group are afforded the opportunity to set maximum rates at a level that allows the Company to recover the reasonable costs incurred in the provision of regulated telecommunications services and to earn a reasonable rate of return on the investment required to provide these services.

These costs are recovered through:

- monthly charges to end users for basic local telephone services and enhanced service offerings,

- access charges to interexchange carriers for originating and terminating interstate and intrastate interexchange calls,

- interconnection charges, wholesale service charges, UNE charges, and other rates to competing carriers interconnecting with the Company's networks or reselling its services and

- high-cost support mechanisms, such as the federal Universal Service Fund and the AUSF.

Maximum rates for regulated services and the amount of high-cost support are set by the FCC with respect to interstate services and by the RCA with respect to intrastate services.

In conjunction with the recovery of costs and establishment of rates for regulated services, a LEC must first determine its aggregate costs and then allocate those costs between regulated and nonregulated services. After identifying the regulated costs of providing local telephone service, a LEC must allocate those costs between state and federal jurisdictions and among its various interstate and intrastate services. This process is complicated by the necessity to allocate specific pieces of plant and equipment to a particular service because a LEC's plant and equipment are utilized for different jurisdictional services, such as local telephone and interstate and intrastate access. This process is referred to as "separations" and is governed primarily by the FCC's rules and regulations. The underlying legal purpose of separations rules is to define how a carrier's expenses are allocated and recovered from federal and state jurisdictions. The FCC is considering whether to modify or eliminate the current separations process. This decision could indirectly increase or reduce earnings of carriers subject to separations rules by reallocating costs between the federal and state jurisdictions.

INTERSTATE END-USER RATES

The deployment of the local telephone network from the switching facility to the customer is known as the "local loop" and is one of the most significant costs incurred by a LEC in providing telephone service. The FCC has established a rate structure that provides for the recovery of a portion of the cost of the local loop allocated to the interstate jurisdiction directly from the end user customer through the assessment of a subscriber line charge. The remaining portion of the local loop costs are recovered from interstate access charges to an interexchange carrier or, in some circumstances, from the federal Universal Service Fund. A number of new initiatives under review at the FCC have the potential to shift substantial portions of the interexchange contribution directly to the end user. Both the Coalition for Affordable Local and Long distance Services ("CALLS") and the proposed Multi-Association Group ("MAG") plans include an appreciable increase in the subscriber line charge paid by both residential and business customers. The CALLS plan, affecting companies servicing predominantly large, urban markets, has already been given FCC approval. The similarly structured MAG plan, which may, if adopted, have direct application to markets in Alaska, is under review by the FCC at this time.

As a result of the market and geographic conditions in rural areas, the costs of providing local loop and switching services are often higher than in urban areas. In the absence of an accommodation in the FCC rules to address this fact, a substantial portion of the costs of smaller LECs would remain allocated to the intrastate jurisdiction placing substantial pressure on such carriers to charge higher rates for intrastate services. Accordingly, the FCC provides for additional interstate cost recovery by eligible telecommunications carriers through the federal Universal Service Fund. The federal Universal Service Fund is available to carriers whose local loop costs are significantly above the national average as calculated pursuant to FCC rules. Recent FCC rulings have made this high-cost support available to a competitive carrier, on an averaged per line basis, for those lines serving customers switching to the competitive carrier. See "Promotion of Universal Service," below. Rules for rural telephone companies are still being developed by the FCC and have not been adopted as of March 8, 2001.

INTERSTATE ACCESS RATES

Interstate access rates are developed on the basis of a LEC's measurement of its interstate costs for the provision of access service to interexchange carriers divided by its projected demand for access service. The resulting rates are published in a company's interstate access tariff and filed with the FCC, at which time they are subject to challenge by third parties and to review by the FCC.

The FCC recognized that this rate making and tariff filing process may be administratively burdensome for small LECs. Accordingly, the FCC established NECA, in 1983 to, among other things, develop common interstate access service rates, terms and conditions. NECA develops interstate access rates on the basis of data that are provided individually by participating LECs and blended to yield average rates. These rates are intended to generate revenue equal to the aggregate costs plus a return on the investment of all of the participants. Currently, the authorized maximum rate of return used in setting interstate access rates is 11.25%.

On August 24, 2000, GCI, filed a formal complaint with the FCC under various provisions of the Communications Act of 1934 (as amended), alleging that ACSA (formerly known as ATU) exceeded their federally authorized rates of return related to the 1997-1998 monitoring period. The principal issue raised in the complaint focuses on the proper jurisdictional recognition (federal versus state) of minutes of use associated with Internet service provider traffic. On January 24, 2001, the FCC issued an order finding for GCI on the matter and ordering the Company to pay GCI approximately $2.7 million plus interest. The Company has filed an appeal in the United States Court of Appeals for the District of Columbia Circuit and will seek a stay concerning its obligation to pay GCI during the pendency of the appeal. The Company believes it has adhered to applicable legal requirements and is actively defending its position, but cannot predict the ultimate outcome of the proceedings. Amounts potentially refundable under the FCC's order are fully reserved at December 31, 2000.

Individual participating LECs are likely to have costs of providing service that are either higher or lower than the revenues generated by applying the overall NECA tariff rate. To rectify this result, the revenues generated by applying the NECA rates are pooled from all of the participating companies and redistributed on the basis of each individual company's costs. The result of this process not only eliminates the burden of individual tariff filing, but also produces a system in which small companies can share and spread risk. For example, if a smaller LEC filed its own tariff and subsequently suffered the loss of major customers that utilize interstate access service, the LEC could suffer significant under-recovery of its costs. In the NECA pool environment, the impact of this loss is reduced because it is spread over all of the pool participants.

NECA operates separate pools for traffic sensitive costs, which are primarily switching costs, and non-traffic sensitive costs, which are primarily loop costs. Companies are also free to develop and administer their own interstate access charges. ACS Group's rural LECs participate in both the traffic sensitive and non-traffic sensitive NECA pools. ACSA files its own traffic sensitive access tariffs with the FCC but participates in the NECA non-traffic sensitive pool.

The FCC has initiated a proceeding to review its policies governing interstate exchange access rates and the rate of return applicable to ILECs who are subject to rate-of-return, rather than price cap, regulation. All of the Company's LEC subsidiaries are rate-of-return regulated, and thus the outcome of this proceeding could directly affect their earning prospects. The FCC has not yet taken final action in this proceeding. In October, 2000, the MAG composed of three trade associations representing small rural telephone companies, submitted a proposal to the FCC that would, if adopted: (1) preserve the current 11.25 percent authorized rate of return for LECs subject to rate-of-return regulation;
(2) permit these carriers to elect "incentive" regulation that would allow them to earn in excess of the authorized rate of return under some circumstances; and
(3) decrease overall interstate access charge rate levels, while increasing universal service support payments. The FCC sought comment on the MAG Plan in January 2001. The outcome of this proceeding and its ultimate impact on the Company cannot be predicted at this time.

On October 26, 2000, the FCC granted the petition of a subsidiary of ACS Group, ACSA (previously filed under the name of ATU), seeking a waiver of certain federal access charge rules. The effect of the waiver is to permit ACSA pricing flexibility through the ability to offer term and volume discount pricing in connection with its switched access services. The FCC waiver was granted, in part, upon findings concerning the level of competition in the Anchorage marketplace, as demonstrated in the record of the proceedings.

END USER LOCAL RATES

The levels of rates charged to end-users for the provision of basic local service are generally subject to rate-of-return regulation administered by the RCA. Local rates are typically set at a level that will allow recovery of embedded costs for local service divided by the number of services and customers. Recognized costs include an allowance for a rate of return on investment in plant used to provide local service. Rate cases are typically infrequent, carrier-initiated and require the carrier to meet substantial burdens of proof. The last APUC-authorized rates of return were 12.55% and 11.70% for ACSAK and ACSN, respectively. These rates were ordered in 1989. ACSA's last authorized rate of return was 8.97% for retail local exchange and 10.85% for intrastate access, ordered in 1991. ACSF was previously not regulated by the APUC and instead was regulated by the City of Fairbanks Public Utilities Board. As a condition of the acquisition of the City of Fairbanks Telephone Operation by a predecessor company, the APUC required that a general rate proceeding be initiated for ACSF by June 1999. This proceeding has been delayed and combined with a requirement that all ACS Group's affiliate LECs file revenue requirement analyses, cost of service studies and proposed rate designs with the RCA no later than July 1, 2001.

The APUC adopted regulations to govern competition in the local exchange marketplace. The transitional regulations provide for, among other things:

- initial classification of all ILECs, including the Company's rural properties and ACSA, as dominant carriers,

- symmetrical requirements that all carriers, both dominant and nondominant, offer all retail services for resale at wholesale rates and

- substantial dominant carrier pricing flexibility in competitive areas, under which carriers may reduce retail rates, offer new or repackaged services and implement special contracts for retail service upon 30 days' notice to the APUC. Only rate increases affecting existing services are subject to full cost support showings for LECs in areas with local competition.

INTRASTATE ACCESS RATES

In the past, the APUC had required all local companies in Alaska to pool their access costs and has set an annual statewide average price for access service. Each LEC charges interexchange carrier fees for originating or terminating long distance calls on its network based on the statewide average cost of access rather than on its individual costs of access. Access revenues are collected in a pool administered by the AECA and then redistributed to the LECs based on their actual costs. With the passage of the 1996 Act and increased competition in the local exchange market, the APUC began a process of reforming intrastate access charges.

Under recent revisions to the Alaska access system, LECs not yet subject to local competition continue to participate in the AECA pool. Participants in this pool recover their costs based on the embedded cost of services most recently authorized by the RCA. In the event of competitive entry into a dominant incumbent carrier's service area, these revisions also require the dominant LEC to exit the pool and initiate separate access charges. Dominant LECs subjected to competitive entry have the right to propose that their access charges be based on market rates. The RCA is currently advancing a proceeding to examine whether changes to the current annual process for establishing access charges are warranted. The RCA is also expected to issue a new access charge reform Notice of Inquiry in early 2001 which will target further substantive changes in access charge derivation.

An additional consequence of this access reform is the continued removal of subsidies implicit in access pricing. For instance, the APUC abolished the "weighting system" for the non-traffic-sensitive rate element that had loaded extra costs on access charges for lower cost urban exchanges to support rural exchanges. At the same time, the APUC shifted the support requirement for high switching costs to a state universal service fund. The RCA has adopted new regulations which limit this switching support to local companies with access lines of 20,000 or less. This change has reduced the amount of AUSF, which the Company's rural LECs receive and the resulting cost recovery shift will be addressed in the local service rate cases to be filed in 2001.

The AUSF serves as a complement to the federal Universal Service Fund, but must meet federal statutory criteria concerning consistency with federal rules and regulations. Currently, the AUSF only subsidizes a portion of higher cost carriers' switching costs, and the costs of lifeline service, which supports rates of low income customers. It is expected that application of the fund to support certain public interest payphones will occur in 2001. It is unclear the degree to which the AUSF might be used to absorb cost shifts that occur if federal universal service support is scaled back in the future.

THE TELECOMMUNICATIONS ACT OF 1996

Among other things, the 1996 Act was enacted to enhance competition without jeopardizing the availability of nationwide universal service at affordable rates. These two objectives have resulted in a complex set of rules intended to promote competitive entry in the provision of local telephone services except where entry would adversely affect the provision of universal service or the public interest.

PROMOTION OF LOCAL SERVICE COMPETITION AND RURAL EXEMPTIONS

The 1996 Act made competitive entry into the local telephone business more attractive to other carriers by removing barriers to competition. In order to promote competition, the 1996 Act established new interconnection rules generally requiring LECs to allow competing carriers to interconnect with their local networks. Congress recognized, however, that when the desire to promote competition conflicted with the ability of existing carriers to provide universal service to higher cost customers, LECs classified as "Rural Telephone Companies" should be exempted from interconnection requirements until the continuation of the exemption was no longer required by the public interest, as defined in the 1996 Act.

Under the 1996 Act, all LECs, including both ILECs and new competitive carriers, are required to:

- offer reasonable and nondiscriminatory resale of their telecommunications services,

- ensure that customers can keep their telephone numbers when changing carriers,

- ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing,

- ensure access to telephone poles, ducts, conduits and rights of way and

- compensate competitors for the costs of terminating traffic.

The 1996 Act also requires ILECs to:

- negotiate in good faith the terms and conditions of interconnection with any competitive carrier making a request for same,

- interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point,

- unbundle and provide nondiscriminatory access to UNEs, such as local loops, switches and transport facilities, at nondiscriminatory rates and on nondiscriminatory terms and conditions, unless such carriers are exempt as rural telephone companies,

- offer resale interconnection at wholesale rates,

- provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and

- provide for the physical collocation of equipment necessary for interconnection or access to UNEs at the premises of the ILEC, at rates, terms and conditions that are just, reasonable and nondiscriminatory.

In order to implement interconnection requirements, LECs generally enter into negotiated interconnection arrangements with competing carriers. LECs may also offer interconnection tariffs, available to all competitors.

Competitors are required to compensate a LEC for the cost of providing interconnection services. In the case of resale interconnection, the rules provide that the rates charged should be on a wholesale basis and reflect the current retail rates of the ILEC, excluding the portion of costs avoided by the ILEC. In the case of UNE interconnection, rates are based on costing methodologies that employ a forward-looking economic cost pricing methodology known as Total Element Long Run Incremental Cost ("TELRIC").

On January 25, 1999, in AT&T Corp. et al. v. Iowa Utilities Board et al. 525 U.S. 366 (1999), the U.S. Supreme Court affirmed the FCC's authority to develop national pricing guidelines, but the Supreme Court did not evaluate the substance of these rules. Some ILECs have argued that the FCC improperly placed upon them the burden of proof in rural exemption proceedings and improperly defined the meaning of the term "not unduly economically burdensome" as used in the 1996 Act. In addition, some ILECs argued that the FCC's forward-looking TELRIC pricing methodology does not allow adequate compensation for the provision of UNEs.

On July 18, 2000, in Iowa Utilities Board, et al. v. Federal Communications Commission 219 F.3d 744 (8th Cir. 2000) ("Iowa II"), the Eighth Circuit Court of Appeals ordered some of these FCC rules to be vacated on the grounds they were inconsistent with the 1996 Act. The Eighth Circuit said the FCC's rural exemption rules were contrary to the plain language of the 1996 Act. As to the FCC's TELRIC pricing methodology, the Eighth Circuit upheld the use of a forward-looking economic model but vacated the FCC's rule requiring the pricing model to assume a hypothetical network based upon the most efficient technology currently available and the lowest cost network configuration.

On September 22, 2000, the Eighth Circuit stayed that portion of its mandate which vacated the FCC hypothetical network rule (set out at 47 C.F.R.
Section 51.505(b)(1)). This suspension was ordered by the Court to permit parties to the proceeding to seek review of its Iowa II decision by the U.S. Supreme Court. On January 22, 2001, the U.S. Supreme Court granted certiorari to review the Eighth Circuit's decision requiring the FCC to vacate its hypothetical network rule. The Eighth Circuit did not suspend other portions of its decision, including those portions vacating FCC rules addressing the "rural exemption" provisions of 47 U.S.C. Section 251(f)(1), and the U.S. Supreme Court declined to review the Eighth Circuit's rural exemption decision.

Subsequent to staying its mandate concerning the hypothetical network rule, on January 8, 2001, the Eighth Circuit, in Southwestern Bell v. Missouri Public Service Commission, 2001 W.L. 13289 (8th Cir. 2001), vacated an interconnection agreement approved by the Missouri PSC on the grounds that it relied on the hypothetical network rule that the Eighth Circuit had previously found invalid. The Eighth Circuit, in that case, specifically held that despite staying its mandate in Iowa II, all interconnection agreements must be based on use of a pricing methodology that is consistent with the court's ruling in Iowa II.

The 1996 Act also specifies that resale and UNE rates are to be negotiated among the parties, or, if the parties fail to reach an agreement, arbitrated by the relevant state regulatory commission. Once the parties have come to agreement, the proposed rates are subject to final approval by the state regulatory commission.

In January 1997, ACSA's predecessor ATU entered into an interconnection agreement with GCI, which provides for resale and UNE interconnection, and with AT&T Alascom, which provides for resale interconnection. Neither interconnection agreement contained a defined term or a termination date. Near the end of 1999, the Company notified GCI and AT&T of its view that the interconnection agreements pertaining to ACSA had reached the end of a reasonable period of availability. In January of 2000, the Company filed a motion with the RCA to reopen the original GCI arbitration proceedings involving ACSA for the purpose of establishing of an appropriate forward looking cost model and the re-pricing various interconnection services and UNEs in the Anchorage market. The RCA subsequently granted the essence of the Company's motion and has reopened the docket for such purposes. No action was taken in 2000, but the Company expects the RCA to hold hearings and consider the matter in 2001.

Certain of ACS Group's local operating utilities, ACSAK, ACSN, and ACSF, are defined as "rural telephone companies" under the 1996 Act. As rural telephone companies, they were granted rural exemptions from the requirements relating to both resale interconnection and UNE interconnection. The rural exemptions were to continue until the APUC determined that interconnection was technically feasible, not unduly economically burdensome and consistent with the 1996 Act's universal service provisions.

On June 30, 1999, the APUC issued an order terminating the rural exemptions of ACSN, ACSAK and ACSF. On October 11, 1999, the RCA affirmed the APUC's order. As a result, these rural LECs are no longer exempt from the 1996 Act's interconnection requirements applicable to ILECs, and the Company's competitors immediately requested interconnection agreements.

Separately, on September 1, 1999, ACS Group filed petitions with the RCA seeking suspension or modification of interconnection duties and addressing market structure reforms for the Fairbanks and Juneau-Douglas markets. In those petitions, the Company's rural LECs proposed tariffed terms and conditions, including pricing, for resale of their services at wholesale discounts, for certain UNEs, and for the interconnection of their facilities and those of CLECs in the Fairbanks and Juneau-Douglas markets, effective January 1, 2000. Further, as part of that proposal, ACS Group also requested that the RCA permit its LECs to operate subject to competitive regulation and that the RCA remove or reduce other regulatory limitations in those markets, effective January 1, 2001. Subsequently, on October 26, 1999, the RCA dismissed the Company's petitions seeking to establish open competitive markets in Fairbanks and Juneau through tariffed interconnection terms and conditions.

On November 10, 1999, the Company filed a formal appeal of the RCA's order terminating the rural exemptions in the Alaska Superior Court. On November 12, 1999, the Company filed a parallel appeal of the RCA's order dismissing its petitions for tariffed interconnection in the Alaska Superior Court. The issues in the case were fully briefed during the year 2000. Recently, the court denied the Company's request to stay the RCA's order terminating the rural exemptions. Although ACS Group believes that the appeals are well founded, it cannot predict the timing and outcome of this litigation. The Company believes that the RCA's order is inconsistent with the pronouncements of the Eighth Circuit and that tariffing terms and conditions for interconnection will promote more open competitive markets and thus eventually promote regulatory flexibility and/or reduced regulation.

Subsequent to terminating the rural exemptions for the Fairbanks and Juneau-Douglas markets, the Company entered into unsuccessful negotiations for interconnection agreements with GCI. Interconnection issues, including the pricing for UNEs, were subject to an RCA arbitration during the year 2000. On September 5, 2000, the RCA issued orders largely ratifying the findings of the arbiter in the Fairbanks and Juneau interconnection arbitration proceedings involving the Company and GCI. On September 25, 2000, the Company filed protective appeals in the State Superior Court and in the Federal District Court for the District of Alaska, alleging various errors in the RCA orders. On October 5, 2000, the RCA issued final orders affirming the interconnection agreements arbitrated in these proceedings. On October 20, 2000, the Company filed a petition for reconsideration with the RCA, seeking Commission review and redetermination of specific elements in its final order. The RCA did not act on this petition. Although ACS Group believes that the appeals are well founded, it cannot predict the timing and outcome of this litigation. The Company has and will continue to vigorously defend its proposed cost models and interconnection charges but it cannot be certain that it will be able to charge rates that provide fair compensation for providing UNEs and/or schedule discounted resale services.

In 1999, the Company also received requests for interconnection from Alaska Fiber Star, L.L.C. In 2000, the Company executed interconnection agreements with Alaska Fiber Star, L.L.C. with terms tied to the Company's interconnection agreements with GCI. The Company expects other interconnection requests in the future.

For 2000, ACS Group's LECs benefiting from rural exemptions accounted for 40.2% of its consolidated operating revenues and 44.4% of its consolidated operating income. The loss of the rural exemptions, absent compensating measures, such as rate increases or market structure reforms, including the replacement of implicit subsidies by explicit support mechanisms, rate deaveraging, or regulatory flexibility, could adversely affect the Company's operating results.

PROMOTION OF UNIVERSAL SERVICE

While the 1996 Act promoted Congress' policy of ensuring that affordable service is provided to consumers universally in rural, high-cost areas of the country, the 1996 Act altered the framework for providing universal service by:

- providing for the identification of those services eligible for universal service support,

- requiring the FCC to make implicit subsidies explicit,

- expanding the types of communications carriers required to pay universal service contributions and

- allowing CLECs to be eligible for funding.

These and other provisions were intended to make provision of universal service support compatible with a competitive market.

Pursuant to the 1996 Act, federal Universal Service Fund payments are only available to carriers that are designated as eligible telecommunications carriers by a state public utilities commission. In areas served by rural

LECs, the 1996 Act provides that a state public utilities commission may designate more than one eligible telecommunications carrier, in addition to the ILEC, only after determining that the designation of an additional eligible telecommunications carrier is consistent with the public interest. As a result, an incumbent rural LEC has an opportunity to maintain its status as the sole recipient of federal Universal Service Fund payments in its service area, even if it is subsequently subjected to competition. ACSAK, ACSN and ACSF are currently the sole designated eligible telecommunications carriers in their respective service areas, although GCI has requested that the RCA designate it as an eligible telecommunications carrier in Fairbanks, Juneau, Eielson, and Fort Wainwright, all of which are currently served by the Company's subsidiaries. The addition of a second eligible telecommunications carrier in the service areas of ACS Group's properties could have the effect of reducing the amount of funds available from the federal Universal Service Fund and could materially adversely affect the Company's ability to achieve a reasonable rate of return on the capital invested in its network.

The FCC has adopted new universal service rules for non-rural LECs, such as ACSA, effective January 1, 2000. These rules, like those previously in effect, provide no federal universal service fund support to ACSA.

Rules for rural telephone companies are still being developed by the FCC, in consultation with a Federal-State Joint Board on Universal Service ("Joint Board"). The RCA Chairman is a member of this Joint Board, and the Company's remaining LEC subsidiaries are rural telephone companies as defined in the 1996 Act. In September 1997, the Joint Board created a Rural Task Force (RTF) to study universal service issues facing rural telephone companies. In September 2000, the RTF issued a recommendation to the Joint Board that, if adopted by the FCC, would largely preserve or increase existing universal service support to rural carriers. The FCC has sought comment on the RTF Plan and is expected to act on it in 2001.

Because the operating subsidiary companies of ACS Group provide interstate and international services, they are required to contribute to the federal Universal Service Fund a percentage of their revenue earned from their interstate and international services. Although the Company's rural LECs receive subsidies from the federal Universal Service Fund, they cannot be certain of how, in the future, the Company's contributions to the fund will compare to the subsidies they receive from the fund.

Separately, the FCC has conducted a rulemaking concerning ways to promote basic and advanced services to unserved and underserved areas. In June 2000, the FCC determined that all carriers, including cellular and other carriers, must first consult with the relevant state commission to determine whether the state commission or the FCC may properly designate the carrier as an eligible telecommunications carrier to receive federal universal service support for services provided on non-tribal lands. The FCC has indicated that it will act on carrier requests to be designated as an eligible telecommunications carriers for non-tribal lands only if the carrier provides a statement from the state commission or a court of competent jurisdiction that the state commission lacks authority to do so.

FCC REGULATION OF WIRELESS SERVICES

The FCC regulates the licensing, construction, operation, acquisition and sale of personal communications services and cellular systems in the United States. All cellular and personal communications services licenses have a 10-year term, at the end of which they must be renewed. Licenses may be revoked for cause, and license renewal applications may be denied if the FCC determines that renewal would not serve the public interest. In addition, all personal communications services licensees must satisfy certain coverage requirements. Licensees that fail to meet the coverage requirements may be subject to forfeiture of the license.

The FCC restricts the amount of wireless spectrum that a single entity may hold in a market. Currently, the FCC's rules prohibit an entity from holding more than 45 MHz of spectrum, except for certain rural cellular markets, in which the limit is 55 MHz. Many interested parties in the wireless industry have proposed elimination of the FCC's cap on wireless spectrum. On January 23, 2001, the FCC initiated a proceeding to examine whether conditions in wireless markets warrant elimination or modification these spectrum "cap" rules. Until this rule is relaxed or eliminated, it will limit the amount of wireless spectrum the Company can acquire in a particular market.

The Communications Act preempts state and local regulation of the entry of, or the rates charged by, any provider of commercial mobile radio service which includes personal communications services and cellular services and the FCC does not regulate such rates. The FCC imposes, however, a variety of additional regulatory requirements on commercial mobile radio service operators. These include:

- Commercial mobile radio service operators must be able to transmit 911 calls from any qualified handset without credit check or validation, are required to provide the location of the 911 caller, within an increasingly narrow geographic tolerance over time, and in the future, will be required to provide 911 service for individuals with speech and hearing disabilities.

- The FCC is considering mechanisms to permit commercial mobile radio service operators to charge the party initiating the call for the call (even if it is not a personal communications service or cellular subscriber).

FCC REGULATION OF INTERSTATE LONG DISTANCE SERVICES

The Company's long distance services are currently not subject to rate regulation by the FCC, and it is not required to obtain FCC authorization for the installation, acquisition or replacement of its domestic interexchange network facilities. However, the Company must comply with the requirements of common carriage under the Communications Act. ACS Group is subject to the general requirement that its charges and terms for its telecommunications services be "just and reasonable" and that it not make any "unjust or unreasonable discrimination" in its charges or terms, as well as to a number of other requirements of the Communications Act and the FCC's rules. The FCC has jurisdiction to act upon complaints against any common carrier for failure to comply with its statutory obligations, and it has recently levied substantial fines on carriers that have engaged in "slamming," which is the industry term for unauthorized switching of a customer's telecommunications service provider.

In 1996, the FCC issued an order that required nondominant interexchange carriers, like ACS Group, to cease filing tariffs for its domestic interexchange services. The order required mandatory detariffing and gave carriers nine months to withdraw federal tariffs and move into contractual relationships with their customers. This order subsequently was upheld by the United States Court of Appeals for the District of Columbia Circuit. As a result, all interstate interexchange carriers, including ACSLD, were required to detariff contract-type interstate, interexchange services by January 31, 2001, and must detariff interstate consumer long distance services by April 30, 2001. These rules also require ACSLD to post the rates, terms, and conditions of its service on its Internet web site, and engage in other public disclosure activities. The FCC has also proposed rules that would require nondominant international carriers to detariff international services. ACSLD is already in compliance with these current FCC requirements.

FCC POLICY ON INTERNET SERVICES

The 1996 Act establishes a distinction between telecommunications services, which are regulated by the FCC, and information services, which remain unregulated. ACS Group's Internet services are considered information services and are not regulated by the FCC. Because the regulatory boundaries in this area are somewhat unclear and subject to dispute, however, the FCC could seek to characterize some of the Company's information services as "telecommunications services." If that happens, those services would become subject to FCC regulations. The impact of a reclassification of ACS Group's Internet services is difficult to predict.

In June 2000, the United States Court of Appeals for the Ninth Circuit held that AT&T's high-speed Internet access service, delivered using cable television facilities, constituted both a "telecommunications" and an "information" service. In response to this holding, in September 2000, the FCC launched a proceeding to examine whether providers of high-speed Internet access over such cable facilities should be required to provide "open access" to their facilities to competing Internet service providers on a nondiscriminatory basis. If the FCC implements such a requirement, the Company may be able to supplement its own high-speed Internet access offerings by obtaining access to GCI's high-speed Internet access cable lines for its own Internet service provider.

OTHER REGULATORY PROCEEDINGS

In addition to the foregoing matters, a number of other FCC, state and judicial proceedings are currently pending or may be initiated in the future which could materially affect the Company's business. Some of these proceedings include:

- The 1996 Act placed statutory restrictions on the ability of telecommunications carriers to use and disclose certain types of customer information in marketing different types of services. The U.S. Court of Appeals for the Tenth Circuit has held that the FCC's rules implementing this provision of the 1996 Act were an unconstitutional abridgment of the carrier's freedom of speech. In June 2000, the United States Supreme Court denied a petition to review the Tenth Circuit's decision. The FCC has not yet acted to develop revised implementing regulations. Although the Company continues to adhere to the statutory restrictions and the FCC's former rules pending further legal developments, any further FCC action to create new implementing rules may impose significant additional restrictions on ACS Group's ability to market packaged service offerings to its customers. The FCC has adopted new rules designed to make it easier for customers to understand the bills of telecommunications carriers. These new rules, among other things, establish certain requirements regarding the formatting of bills and the information that must be included on bills. In response to several petitions for reconsideration, in March 2000, the FCC largely reaffirmed its rules.

- The FCC has adopted an order that requires telecommunications service providers to make their services accessible to individuals with disabilities, if readily achievable. It is unclear the effect that this order will have on ACS Group's businesses.

- The FCC has ordered telecommunications service providers to provide law enforcement personnel with a sufficient number of ports and technical assistance in connection with wiretaps. In August 2000, the United States Court of Appeals for the District of Columbia Circuit vacated portions of these FCC rules and remanded the matter to the FCC for further consideration. The FCC has not yet taken action on remand. The Company cannot predict its costs of complying with these rules at this time.

The foregoing is not an exhaustive list of proceedings that could materially affect ACS Group's business. The Company cannot predict the outcome of these or any other proceeding before the FCC, the RCA or the courts.

ENVIRONMENTAL REGULATIONS

ACS Group's operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to, hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of property and a generator of hazardous wastes, the Company could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. The Company believes, however, that its operations are in substantial compliance with applicable environmental laws and regulations.

Many of ACS Group's properties formerly contained, or currently contain, underground and above ground storage tanks used for the storage of fuel or wastes. Some of these tanks have leaked. The Company believes that known contamination caused by these leaks has been, or is being, investigated or remediated. The Company cannot be sure, however, that it has discovered all contamination or that the regulatory authorities will not request additional remediation at sites that have previously undergone remediation.

ACS Group's cellular and television operations are also subject to regulations and guidelines that impose a variety of operational requirements relating to radio frequency emissions. The potential connection between radio frequency emissions and negative health effects, including some forms of cancer, study by the scientific community in recent years. To date, the results of these studies have been inconclusive. Although the Company has not been named in any lawsuits alleging damages from radio frequency emissions, it is possible it could be in the future, particularly if scientific studies conclusively determine that radio frequency emissions are harmful.

ITEM 2. PROPERTIES

At December 31, 2000, ACS Group's telecommunications network includes over 485 miles of fiber optic cable, over 170 switching facilities and a statewide cellular network. In addition, the Company purchased fiber capacity in May of 1999 and in January of 2001 for high-speed links within Alaska and for termination of traffic in the lower 49 states. The Company plans to continue enhancing its network to meet customer demand for increased bandwidth and advanced services. See "Business -- Network Facilities."

Local Telephone. ACS Group's primary local telephone properties consist of 168 switching facilities serving 74 exchanges. The Company owns most of its administrative and maintenance facilities, customer service center, central office and remote switching platforms and transport and distribution network facilities. The Company's local telephone assets are located in Alaska. The ACS Group leases its corporate headquarters located in Anchorage, Alaska.

ACS Group's transport and distribution network facilities include a fiber optic backbone and copper wire distribution facilities that connect customers to remote switch locations or to the central office and to points of presence or interconnection with interexchange carriers. These facilities are located on land pursuant to permits, easements, right of ways or other agreements.

Cellular. ACS Group has three cellular switches, 89 cell sites and four repeaters that cover all major population centers and highway corridors throughout Alaska. In most cases, the Company leases the land on which these sites are located.

Internet. ACS Group has point of presence facilities in over 25 communities serving the majority of Alaska's populated areas. These communities are linked over both owned and leased facilities to the Internet at Seattle, Washington.

Interexchange network and other. ACS Group is a facilities based interexchange carrier. The Company has invested in fiber optic capacity through an indefeasible right of use that provides bandwidth between the Company's Anchorage, Fairbanks, and Juneau locations and Seattle, Washington. The Company also leases transport facilities and has arrangements with other interexchange carriers to terminate traffic in the lower 49 states.

Substantially all of the Company's assets (including those of its subsidiaries) are pledged as collateral for its senior obligations. See Note 7 "Long-term Obligations" to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Some of the legal proceedings involving regulatory matters are described under "Business -- Regulation." In addition, the ALLTEL Publishing Corporation initiated litigation alleging improper termination of certain directory publishing contracts on February 25, 2000. Following various discovery proceedings in August and September 2000, ALLTEL filed a second amended complaint on October 10, 2000, alleging new facts in connection with its cause of action. Subsequently, in December 2000, the Company negotiated an agreement with ALLTEL that released it from all claims, known or unknown, in exchange for cash consideration.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

ACS Group's Common Stock, $.01 par value, was first listed on the NASDAQ National Market on November 18, 1999 under the symbol "ALSK." Prior to November 18, 1999, there was no public market for ACS Group's Common Stock. The following table sets forth quarterly market price ranges for ACS Group's Common Stock in 2000 and in 1999 for the period during which it was publicly traded:

2000 QUARTERS	HIGH	LOW
1st	$16.7500	$12.0625
2nd	$14.5000	$9.8750
3rd	$10.8750	$5.4375
4th	$9.0000	$4.6250

1999 QUARTERS	HIGH	LOW
4th (from November 18 through December 31)	$16.0000	$12.0000

The approximate number of holders of record of Common Stock as of March 7, 2001 was 48. Management believes that actual holders exceed 1,500, including those held in the broker/dealers name on behalf of their clients.

DIVIDENDS

ACS Group has never declared or paid any cash dividends on its common stock. The Company intends to retain its earnings, if any, to finance the development and expansion of its business, and, therefore, it does not anticipate paying any cash dividends in the foreseeable future. Moreover, the Company's ability to declare and pay cash dividends on its common stock is restricted by covenants in its bank credit agreement and in the indentures governing its senior discount debentures and senior subordinated notes.

STOCK OFFERINGS

During 1999 the Company issued 21,829,273 shares of stock under Rule 144 under the Securities Act of 1933. On May 14, 1999, the Company sold 20,082,871 shares of common stock to Fox Paine Capital, its affiliates and members of management for proceeds of $121.2 million, which was used, together with proceeds of debt issued, to acquire the Predecessor Entities. On May 14, the Company also issued detachable warrants which were convertible into 828,261 shares of common stock at an exercise price of $.01 per share to a lender in connection with the issuance of $25.0 million in senior discount debentures which was also used to fund the acquisitions. The warrants were converted in a roll-up transaction into 827,670 shares of stock on November 18, 1999 in connection with the Company's initial public offering. Subsequent to the acquisitions and prior to its initial public offering, the Company also issued 1,746,402 shares of common stock to certain members of management and Cook Inlet Region, Inc. for proceeds of $10.4 million which was used to fund ACS Group's capital expenditures.

During 1999 ACS Group offered to the public 10,000,000 shares of its common stock. The effective date of the Company's registration statement (File #333-88753) filed on Form S-1 under the Securities Act of 1933, as amended, relating to ACS Group's initial public offering of common stock was November 17, 1999. Goldman, Sachs & Co., Donaldson, Lufkin and Jenrette, CIBC World Markets, Deutsche Banc Alex. Brown, and Hambrecht & Quist led the underwriting syndicate. The offering commenced on November 18, 1999 and closed on November 23, 1999, resulting in aggregate gross proceeds of $140.0 million. ACS Group's net proceeds from the offering were $127.9 million. Approximately $9.1 million of offering expenses was attributable to underwriting discounts. Proceeds of the offering we fully expended as of January 12, 2001. The proceeds were applied as follows:

- $10.6 million of the proceeds being used to retire 35% of the Company's senior discount debentures, including a $1.3 million premium for early retirement,

- $25.0 million was used to repay outstanding obligations under the Company's senior revolving credit facility and

- $92.3 million was used to fund capital expenditures and operations.

On December 3, 1999 the Company registered 6,021,489 shares under various employee and non-employee stock option plans and an employee stock purchase plan (File # 333-92091) on Form S-8 under the Securities Act of 1933. As of March 7, 2001, 4,027,999 option grants are outstanding under the employee stock option plans and 237,228 options have been exercised and converted into shares of the Company's common stock. As of March 7, 2001, 26,085 shares have been awarded under the non-employee stock plan, of which 12,970 were elected to be deferred. As of March 7, 2001, 131,612 shares have been issued under the employee stock purchase plan. See Note 12, "Stock Incentive Plans" to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected historical consolidated financial data of ACS Group. Consider the following points in connection with the table:

- The selected historical consolidated operating data for the year ended December 31, 1999 represents the consolidated results of ACS Group from May 15, 1999 through December 31, 1999. Certain reclassifications have been made to the 1999 combined operations to conform to the current presentation of ACS Group's consolidated operations.

- "EBITDA" is net income before interest expense, taxes on income, depreciation and amortization and extraordinary items. EBITDA is not intended to represent cash flow from operations as defined under generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Company's operating performance or cash flows. EBITDA is presented because management believes it is a useful financial performance measure for comparing companies in the telecommunications industry in terms of operating performance and ability to satisfy debt service, capital expenditures and working capital requirements.

- "EBITDA margin" is EBITDA divided by total operating revenues.

The selected historical consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements of ACS Group and the related notes. See Index to Financial Statements and Schedules which appears on page F-1 hereof.

	2000	1999
OPERATING DATA:		
Operating revenues:		
Local telephone	$ 251,424	$ 159,151
Cellular	39,490	24,836
Internet	9,170	2,853
Interexchange network and other	12,909	6,305
Total operating revenues	312,993	193,145
Operating expenses:		
Local telephone	144,876	106,266
Cellular	24,641	15,494
Internet	11,785	5,121
Interexchange network and other	21,207	9,671
Unusual charges	5,288	--
Depreciation and amortization	72,265	40,306
Total operating expenses	280,062	176,858
Operating income	32,931	16,287
Other income and expense:		
Interest expense	(64,710)	(39,624)
Interest income and other	6,680	1,023
Equity in loss of investments	(303)	(198)
Total other income (expense)	(58,333)	(38,799)
Loss before income taxes and extraordinary items	(25,402)	(22,512)
Income tax benefit	(197)	(301)
Loss from continuing operations	(25,205)	(22,211)
Extraordinary item - early extinguishment of debt	--	(3,267)
Net loss	$ (25,205)	$ (25,478)
Loss per share - basic and diluted:		
Loss from continuing operations	$ (0.77)	$ (0.95)
Extraordinary item	$ --	$ (0.14)
Net loss	$ (0.77)	$ (1.09)
Weighted average shares outstanding	32,654	23,396
OTHER FINANCIAL DATA:		
Cash provided by operating activities	$ 48,194	$ 44,033
Cash used by investing activities	(74,699)	(774,653)
Cash provided (used) by financing activities	(13,593)	832,614
EBITDA	111,573	57,418
EBITDA margin	35.6%	29.7%
Capital expenditures	(72,253)	(74,828)

	2000	1999
OTHER DATA (END OF PERIOD)		
Access lines in service	329,460	325,608
Cellular subscribers	75,933	72,968

SELECTED HISTORICAL COMBINED FINANCIAL DATA--CENTURYTEL'S ALASKA PROPERTIES

The following table sets forth selected historical combined financial data of CenturyTel's Alaska Properties. Consider the following points in connection with the table:

- The Company derived the selected historical combined financial data for each of the three years in the period ended December 31, 1998 and as of December 31, 1997 and 1998 from the audited combined financial statements and the related notes of CenturyTel's Alaska Properties which are included elsewhere in this Form 10-K.

- The Company derived the selected historical combined financial data as of December 31, 1996, from the unaudited combined financial statements of CenturyTel's Alaska Properties which are not included in this Form 10-K.

- CenturyTel acquired its Alaska properties on December 1, 1997 as part of its acquisition of Pacific Telecom. This acquisition was accounted for as a purchase, resulting in a pushdown of $248 million of goodwill to CenturyTel's Alaska Properties.

- The financial statements for the 11-month period ended November 30, 1997 and prior periods have been presented on Pacific Telecom's basis of accounting, while the financial statements as of December 31, 1997, the one-month period ended December 31, 1997 and subsequent periods have been presented on CenturyTel's basis of accounting.

- The financial statements of CenturyTel's Alaska Properties include the results of the City of Fairbanks Telephone Operation from October 6, 1997, the date of its acquisition. This acquisition was accounted for as a purchase.

- On December 31, 1997, the cellular operations in Fairbanks were sold to ATU. The Fairbanks cellular property had 5,497 subscribers at the time of the sale.

The selected historical combined financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements of CenturyTel's Alaska Properties and the related notes. See Index to Financial Statements and Schedules which appears on page F-1 hereof.

	CenturyTel's Alaska Properties			
	Century Telephone Enterprises, Inc.		Pacific Telecom	
	Year Ended 1998	Dec. 1, 1997 to Dec 31, 1997	Jan. 1, 1997 to Nov. 30, 1997	1996
	(Amounts in Thousands)			
OPERATING DATA:				
Operating revenues:				
Local telephone	$ 121,933	$ 10,255	$ 79,330	$ 75,950
Cellular	2,576	181	5,120	4,823
Total operating revenues	124,509	10,436	84,450	80,773
Operating expenses:				
Local telephone	72,008	6,434	42,404	41,789
Cellular	2,128	147	3,082	3,381
Depreciation and amortization	30,459	2,466	15,823	15,348
Total operating expenses	104,595	9,047	61,309	60,518
Operating income	19,914	1,389	23,141	20,255
Interest expense, net	(1,405)	(171)	(2,169)	(1,996)
Other income (expense)	356	53	(298)	(33)
Income before income taxes	18,865	1,271	20,674	18,226
Income taxes	9,218	736	7,746	6,737
Net income	$ 9,647	$ 535	$ 12,928	$ 11,489
OTHER FINANCIAL DATA:				
Cash provided by operating activities	$ 38,291	$ 5,588	$ 21,213	$ 34,589
Cash used by investing activities	(26,664)	(3,279)	(13,554)	(20,611)
Cash used by financing activities	(6,770)	(2,563)	(8,209)	(12,947)
EBITDA	50,729	3,908	38,666	35,570
EBITDA margin	40.7%	37.4%	45.8%	44.0%
Capital expenditures	26,799	1,825	14,575	20,465
OTHER DATA (END OF PERIOD):				
Access lines in service	131,858	124,869	--	82,969
Cellular subscribers	2,945	2,096	--	5,573
Cellular penetration	5.2%	3.7%	--	3.8%
BALANCE SHEET DATA (END OF PERIOD):				
Total assets	$ 472,660	$ 459,175	--	$ 162,834
Long-term debt including current portion	43,408	42,950	--	44,294
Stockholders' equity	400,962	391,314	--	92,137

SELECTED HISTORICAL FINANCIAL DATA--ATU

The following table sets forth selected historical financial data of ATU. Consider the following points in connection with the table:

- ACS Group derived the selected historical financial data for each of the three years in the period ended December 31, 1998 and as of December 31, 1997 and 1998 from the audited financial statements and the related notes of ATU which are included elsewhere in this Form 10-K.

- ACS Group derived the selected historical financial data as of December 1996 from the audited financial statements of ATU, which are not included in this Form 10-K.

- "Other income (expense)" includes the equity in earnings (losses) from minority investments.

- During the periods presented, ATU was a public utility of the Municipality of Anchorage and was exempt from federal and state taxes on income.

- Net cash data includes information from ATU financial statements prepared in accordance with governmental accounting standards. The differences between governmental accounting standards and the standards promulgated by the Financial Accounting Standards Board, and their impact on ATU's financial statements are discussed in Note 1 to the financial statements of Municipality of Anchorage Telephone Utility Fund which are included elsewhere in this Form 10-K.

- On June 1, 1999, as part of the consolidation of its operating and billing systems, ACS Group conformed the methodology by which the number of access lines is calculated across all of its local exchanges to that used for CenturyTel's Alaska Properties. If the number of ATU's access lines in service at December 31, 1998 was computed under this same method, the number of access lines at ATU would increase by 4,940 and the total number of access lines would equal 305,334 and the combined growth percentage would be 6.6% for 1999. Due to limited data available to ACS Group, no adjustments to the access lines in service for any year prior to 1998 have been computed.

The selected historical financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of ATU and the related notes which are included elsewhere in this Form 10-K.

	ATU		
	1998	1997	1996
	(Amounts in Thousands)		
OPERATING DATA:			
Operating revenues:			
Local telephone	$ 121,057	$ 116,555	$ 113,415
Cellular	29,225	21,845	16,897
Long distance	6,815	1,541	2
Total operating revenues	157,097	139,941	130,314
Operating expenses:			
Local telephone	74,240	74,994	75,980
Cellular	19,961	14,455	12,379
Long distance	10,395	4,644	543
Depreciation and amortization	29,608	26,839	20,496
Total operating expenses	134,204	120,932	109,398
Operating income	22,893	19,009	20,916
Interest expense, net	(6,427)	(6,768)	(6,840)
Other income (expense)	(2,896)	(123)	(219)
Income before income taxes	13,570	12,118	13,857
Income taxes	--	--	--
Net income	$ 13,570	$ 12,118	$ 13,857
OTHER FINANCIAL DATA:			
Cash provided by operating activities	$ 53,207	$ 46,641	$ 42,120
Cash used by investing activities	(5,659)	(3,665)	(787)
Cash used by financing activities	(33,580)	(46,916)	(30,095)
EBITDA	49,605	45,725	41,193
EBITDA margin	31.6%	32.7%	31.6%
Capital expenditures	29,644	35,187	24,958
OTHER DATA (END OF PERIOD):			
Access lines in service	168,536	158,486	154,752
Cellular subscribers	63,627	53,035	37,651
Cellular penetration	15.8%	13.3%	12.6%
BALANCE SHEET DATA (END OF PERIOD):			
Total assets	$ 350,245	323,124	$ 308,810
Long-term debt including current portion	172,521	151,945	146,412
Stockholders' equity	141,884	136,414	132,596

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS AND ANALYSTS' REPORTS

This report contains forward looking statements within the meaning of the federal securities laws, including statements concerning future rates, revenues, costs, capital expenditures, and financing needs and availability and statements of management's expectations and beliefs. Actual results could differ materially from these statements as a result of many factors, including future economic, regulatory and political conditions in Alaska and the United States.

Investors should also be aware that while ACS Group does, at various times, communicate with securities analysts, it is against ACS Group's policy to disclose to them any material non-public information or other confidential information. Accordingly, shareholders should not assume that ACS Group agrees with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of ACS Group.

INTRODUCTION

This discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information included elsewhere in this Form 10-K.

ALASKA COMMUNICATIONS SYSTEMS GROUP

ACS Group was formed in 1998 by Fox Paine & Company, members of the former senior management team of Pacific Telecom, Inc., and other experienced telecommunications industry executives. In May 1999, the Company acquired CenturyTel's Alaska Properties and Anchorage Telephone Utility or ATU. CenturyTel's Alaska Properties were the incumbent provider of local telephone services in Juneau, Fairbanks and more than 70 rural communities in Alaska and provided Internet services to customers statewide. CenturyTel's Alaska Properties included ACS of Fairbanks, Inc., ACS of Alaska, Inc., and ACS of the Northland, Inc. ATU was the largest LEC in Alaska and provided local telephone and long distance services primarily in Anchorage and cellular services statewide. ATU provided long distance services through ATU Long Distance, Inc. and cellular services through MACtel, Inc. These companies are now known as ACS of Anchorage, Inc., ACS Long Distance, Inc. and ACS Wireless, Inc. On October 29, 1999, the Company changed its name from ALEC Holdings, Inc. to Alaska Communications Systems Group, Inc.

The financial statements for the ACS Group represent the operations of the following entities:

- Alaska Communications Systems Group, Inc.

- Alaska Communications Systems Holdings, Inc.

- ACS of Alaska, Inc. (formerly Telephone Utilities of Alaska, Inc.)

- ACS of the Northland, Inc. (formerly Telephone Utilities of the Northland, Inc.)

- ACS of Fairbanks, Inc. (formerly PTI Communications of Alaska, Inc.)

- ACS of Anchorage, Inc. (formerly Alaska Communications Systems, Inc.)

- ACS Wireless, Inc. (formerly MACtel, Inc.)

- ACS Long Distance, Inc. (formerly ATU Long Distance, Inc.)

- ACS Television, L.L.C. (formerly Alaskan Choice Television, L.L.C.)

- ACS Internet, Inc. (formerly PTINet, Inc.)

- Internet Alaska, Inc.

Prior to the consummation of the acquisitions of CenturyTel's Alaska Properties and ATU in May 1999, ACS Group had no operations. Accordingly, the following discussion should be read in conjunction with the Company's consolidated financial statements and the related notes, the combined financial statements and the related notes of CenturyTel's Alaska Properties and the financial statements and the related notes of ATU included herein.

Today, ACS Group generates revenue through:

- the provision of local telephone services, including:

- basic local service to retail customers within ACS Group's service areas,

- wholesale service to CLECs,

- network access services to interexchange carriers for origination and termination of interstate and intrastate long distance phone calls,

- enhanced services,

- ancillary services, such as B&C, and

- universal service payments;

- the provision of wireless services;

- the provision of Internet services; and;

- the provision of interexchange network services and other services, including:

- the provision of long distance services and

- the provision of wireless cable television services.

ACS Group also recognizes its proportionate share of the net income or loss of its minority-owned investments.

Within the telecommunications industry, LECs have historically enjoyed stable revenue and cash flow from local exchange operations resulting from the need for basic telecommunications services, the highly regulated nature of the telecommunications industry and, in the case of rural LECs, the underlying cost recovery settlement and support mechanisms applicable to local exchange operations. Basic local service is generally provided at a flat monthly rate and allows the user to place unlimited calls within a defined local calling area. Access revenues are generated by providing interexchange carriers access to the LEC's local network and its customers. Universal service revenues are a subsidy paid to rural LECs to support the high cost of providing service in rural markets. Other service revenue is generated from ancillary services, enhanced services and Internet access.

Changes in revenue are largely attributable to changes in the number of access lines, local service rates and minutes of use. Other factors can also impact revenue, including:

- intrastate and interstate revenue settlement methodologies,

- authorized rates of return for regulated services,

- whether an access line is used by a business or residential subscriber,

- intrastate and interstate calling patterns,

- customers' selection of various local rate plan options,

- selection of enhanced calling services, such as voice mail, or other packaged products, such as cellular and Internet and

- other subscriber usage characteristics.

LECs have three basic tiers of customers:

- business and residential customers located in their local service areas that pay for local phone service,

- interexchange carriers that pay for access to long distance calling customers located within its local service areas and

- CLEC's that pay for wholesale access to the Company's network in order to provide competitive local service on either a wholesale or UNE basis as prescribed under the 1996 Act.

LECs provide access service to numerous interexchange carriers and may also bill and collect long distance charges from interexchange carrier customers on behalf of the interexchange carriers. The amount of access charge revenue associated with a particular interexchange carrier varies depending upon long distance calling patterns and the relative market share of each long distance carrier.

ACS Group's local service rates for end users are authorized by the RCA. Authorized rates are set by the FCC and the RCA for interstate and intrastate access charges, respectively, and may change from time to time.

RESULTS OF OPERATIONS

The following unaudited table summarizes ACS Group's operations for the years ended December 31, 2000, 1999 and 1998. For the year ended December 31, 1999, the summary information represents the historical combined operating results of the Predecessor Entities-- prior to their ownership by ACS Group, from January 1, 1999 through May 14, 1999, plus the consolidated results of ACS Group from May 15, 1999 through December 31, 1999. For the year ended December 31, 1998, the summary information represents the historical combined operating results of the Predecessor Entities -- prior to their ownership by ACS Group. Certain reclassifications have been made to the 1999 and 1998 combined operations to conform to the current presentation of ACS Group's consolidated operations.

	YEAR ENDED DECEMBER 31,		
	CONSOLIDATED	COMBINED	
	2000	1999	1998
	(in thousands)		
Operating revenues			
Local telephone:			
Local network service	$ 92,420	$ 94,499	$ 93,079
Network access revenue	105,172	105,366	98,578
Directory advertising	32,056	27,911	26,507
Deregulated revenue and other	21,776	21,198	19,644
Total local telephone	251,424	248,974	237,808
Cellular	39,490	36,041	31,801
Internet	9,170	4,948	5,182
Interexchange network and other	12,909	9,946	6,815
Total operating revenues	312,993	299,909	281,606
Operating expenses			
Local telephone	144,876	160,200	141,933
Cellular	24,641	23,748	22,089
Internet	11,785	7,612	4,315
Interexchange network and other	21,207	14,509	10,395
Unusual charges	5,288	--	--
Depreciation and amortization	72,265	63,487	60,067
Total operating expenses	280,062	269,556	238,799
Operating income	32,931	30,353	42,807
Other income and expense:			
Interest expense	(64,710)	(44,150)	(12,982)
Interest income and other	6,680	3,496	5,555
Equity in loss of investments	(303)	(1,569)	(2,945)
Total other income (expense)	(58,333)	(42,223)	(10,372)
Income (loss) before income taxes and extraordinary item	(25,402)	(11,870)	32,435
Income tax expense (benefit)	(197)	3,643	9,218
Income (loss) from continuing operations	(25,205)	(15,513)	23,217
Extraordinary item - early extinguishment of debt	--	(3,267)	--
Net income (loss)	$ (25,205)	$ (18,780)	$ 23,217

TWELVE MONTHS ENDED DECEMBER 31, 2000 COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 1999

OPERATING REVENUES

Operating revenues increased $13.1 million, or 4.4%, for the year ended December 31, 2000 compared to the year ended December 31, 1999. Local telephone, cellular, Internet and interexchange network and other revenues all increased compared to the prior period.

Local Telephone

Local telephone revenues, which consist of local network service, network access revenue, directory advertising and deregulated and other revenues, increased $2.5 million, or 1.0%, for the year ended December 31, 2000 compared to the same period in 1999.

The local network service component of local telephone revenues was $92.4 million during 2000 compared with $94.5 million during 1999. Revenue decreased $2.1 million or 2.2% from the prior year, despite growth in average total access lines in service of 4.6% and increased penetration of enhanced features. The net decrease was due primarily to charges for uncollectible accounts and increased market penetration of lower margin wholesale lines in the Anchorage market. The charges for uncollectible accounts recorded against local network service revenue in 2000 were $4.1 million in excess of those recorded during 1999, accounting for more than 100% of the decrease in local network service revenue. The charges for uncollectible accounts were also approximately $2.6 million in excess of industry average collection rates. Collection processes have been improved and management expects that charges for uncollectible accounts will be in line with industry benchmarks going forward. Management also believes that the continued loss of market share experienced in the Anchorage market is attributable to below cost interconnection rates for UNEs currently in place. The RCA has recently approved arbitrated interconnection rates for UNEs for the Company's Fairbanks and Juneau markets which, in the opinion of management, are also below cost. See "Business - Regulation" under Item 1 of Part I of this report for further discussion.

Network access revenues decreased by $0.2 million, or 0.2%, from $105.4 million in 1999 to $105.2 million in 2000. Network access revenues were reduced by $3.6 million in the third quarter of as a result of a complaint filed with the FCC during the third quarter alleging that one of the Company's subsidiaries exceeded their federally authorized rate of return. See "Business - Regulatory" under Item 1 of Part I of this report for further discussion of this matter. Network access revenues are based on a regulated return on rate base and recovery of allowable expenses associated with the origination and termination of toll calls. The decrease in telephone access revenues from the corresponding period in 1999 is due primarily to changes relating to cost allocation factors, rate base and expenses from period to period. Management expects that network access revenues will decline as a component of local telephone revenues for the foreseeable future.

Directory advertising revenues increased by $4.1 million from $27.9 million in 1999 to $32.1 million in 2000. This growth corresponds with the growth in average access lines in service during 2000 over 1999 from 313,001 during 1999 to 327,534 during 2000, or an increase of 4.6%, combined with additional penetration for the current directory phone book cycles.

Deregulated and other revenues, which grew $0.6 million, or 2.7% over 1999, consists principally of B&C services, space and power rents, deregulated equipment sales, paystation revenues and other miscellaneous telephone revenues. The revenue increase was due primarily to increased deregulated equipment sales in 2000.

Cellular

Cellular revenues increased $3.4 million, or 9.6%, to $39.5 million for the year ended December 31, 2000 compared to $36.0 million for the year ended December 31, 1999. This growth in revenue is due to growth in average cellular subscribers to 74,501 in 2000 from 69,820 in 1999, or 6.7%, and an increase in average revenue per unit from $43.02 in 1999 to $44.17 in 2000. The increase in average revenue per unit is due to the rollout of statewide digital service during 2000 and the introduction of new statewide and national pricing programs.

Internet

Internet revenues increased from $4.9 million in 1999 to $9.2 million in 2000 -- an increase of $4.2 million, or 85.3%. This increase is primarily due to the additional revenues from IAI, which was acquired in June of 2000. Internet revenues were also impacted by growth in DSL and dial-up subscribers.

Interexchange Network and Other

Interexchange network and other revenues include long distance and wireless cable revenues. These revenues increased from $9.9 million in 1999 to $12.9 million in 2000 -- an increase of $3.0 million, or 29.8%. Long distance revenues increased from $9.6 million in 1999 to $11.8 million in 2000 due to increases in long distance minutes of use from 67.7 million to 95.3 million and increases in circuit rent revenues, coupled with the rollout of competitive long-distance product offerings. Wireless cable revenues also increased $0.8 million due to the additional revenues from ACSTV, which was acquired in September of 1999.

OPERATING EXPENSES

Operating expenses increased $10.5 million, or 3.9%, from $269.6 million for the year ended December 31, 1999 to $280.1 million for the year ended December 31, 2000.

Local Telephone

The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense. Depreciation and amortization associated with the operation of the local telephone segment is included in total depreciation and amortization. Local telephone expenses decreased from $160.2 million for the year ended December 31, 1999 to $144.9 million for the year ended December 31, 2000 -- a decrease of $15.3 million or 9.6%. During 1999, the Company incurred one-time and transaction related costs associated with the acquisitions of the Predecessor Entities of $7.1 million. The Company also incurred $5.7 million of compensation expense related to telephone operations as a result of options granted below fair value at the date of grant, which vested fully upon the completion of ACS Group's initial public offering. Adjusted for these non-recurring items, telephone operating expenses would have been $147.4 million for 1999. As a percentage of revenue, local telephone expense decreased from 59.2% for 1999, adjusted for the non-recurring items, to 57.6% for 2000. This change in local telephone expense as a percentage of local telephone revenue improved despite approximately $4.1 million in charges for uncollectible accounts recorded against revenues during 2000 in excess of those recorded during 1999, as previously discussed. During 2000, ACS Group also incurred $1.1 million of local telephone expense resulting from interconnection proceedings with CLECs for which comparable costs were not incurred during the corresponding year of 1999. Management expects to incur similar additional costs associated with interconnection proceedings during 2001.

Cellular

Cellular expenses increased $0.9 million, or 3.8%, for the year ended December 31, 2000 compared to the year ended December 31, 1999. Cellular expense was 65.9% of cellular revenues for 1999 and 62.4% of cellular revenues for 2000.

Internet

Internet expenses increased by $4.2 million, or 54.8%, and decreased as a percentage of revenue from 153.8% in 1999 to 128.5% in 2000. The increase in Internet expenses was due to the acquisition in June of 2000 of IAI for which comparable costs are not included for 1999, and costs associated with developing the Company's statewide Internet infrastructure and the rollout of the DSL product.

Interexchange Network and Other

Interexchange network, data services and other expenses increased by $6.7 million, or 46.2%, and increased as a percentage of revenue from 145.9% in 1999 to 164.3% in 2000. The majority of this increase was the result of additional circuit and other costs associated with developing the Company's statewide network and increases in minutes of use for long distance as discussed above. Wireless cable expenses also increased due to the acquisition of ACSTV, which was completed in September 1999.

Unusual charges

During the year ended December 31, 2000, ACS Group recorded $5.3 million of unusual charges, consisting of the write-off of approximately $1.5 million of costs related to the attempted acquisition of Matanuska Telephone Association, $0.8 million in a legal settlement and $3.0 million related to severance and restructuring plans. Employee force reductions resulting from these restructuring plans are expected to total approximately 300 by their completion, of which approximately 100 were completed by December 31, 2000. The reduction in workforce, along with other cost structure improvements, is expected to result in expense reductions for 2001 of between $12 and $15 million.

Depreciation and Amortization

Depreciation and amortization expense increased $8.8 million, or 13.8%, due principally to increases in plant in service for the year ended December 31, 2000 over the corresponding period of 1999.

INTEREST EXPENSE

Interest expense increased $20.6 million, or 46.6%, for the year ended December 31, 2000 as compared to the year ended December 31, 1999. This increase is due to $611.6 million of debt incurred by ACS Group in connection with the acquisitions on May 14, 1999 of substantially all of its operations.

INCOME TAXES

ACS Group has fully reserved the income tax benefit resulting from the consolidated losses it has incurred since May 14, 1999 - the date of the acquisition of substantially all of its operations. Income taxes reflected in the combined financial statements are substantially those of the Predecessor Entities.

NET INCOME

The decrease in net income is primarily a result of the factors discussed above.

TWELVE MONTHS ENDED DECEMBER 31, 1999 COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 1998

OPERATING REVENUES

Operating revenues increased $18.3 million, or 6.5% for the twelve months ended December 31, 1999 compared to the twelve months ended December 31, 1998. Local telephone, cellular and interexchange network and other revenues all increased compared to the prior twelve-month period.

Local Telephone

Local telephone revenues, which consist of local network service, network access revenue, directory advertising and deregulated and other revenues, increased $11.2 million, or 4.7%, for the twelve months ended December 31, 1999 compared to the twelve months ended December 31, 1998.

The local service revenue component of local telephone revenues was $94.5 million during 1999 compared with $93.1 million during 1998 -- an increase of $1.4 million or 1.5% over the prior year. This increase corresponds with the growth in average total access lines in service of 6.7%, partially offset by the growth in lower margin wholesale and UNE lines as a component of access line growth in the Anchorage market.

Network access revenues increased by $6.8 million, or 6.9%, from $98.6 million in 1998 to $105.4 million in 1999. Approximately $3.7 million of this increase is due to the recording by ATU of $1.9 million of 1998 revenue true-ups in 1999, prior to its acquisition by ACS Group.

Directory advertising revenues increased by $1.4 million, or 5.3%, from $26.5 million in 1998 to $27.9 million in 1999. This growth corresponds with the growth in average access lines in service during 1999 over 1998 from 295,580 during 1998 to 315,471 during 1999, or an increase of 6.7%.

Deregulated and other revenues, consists principally of B&C services, space and power rents, deregulated equipment sales, paystation revenues and other miscellaneous telephone revenues.

Cellular

Cellular revenues increased $4.2 million, or 13.3%, to $36.0 million for the twelve months ended December 31, 1999 compared to $31.8 million for the twelve months ended December 31, 1998. This growth in revenue is due to growth in average cellular subscribers in service to 69,820 during 1999 from 60,852 during 1998, or a growth rate of 14.7%.

Internet

Internet revenues decreased from $5.2 million in 1998 to $4.9 million in 1999, reflecting increased competition.

Interexchange Network and Other

Interexchange network and other revenues include long distance and wireless cable service revenues. These revenues increased from $6.8 million in 1998 to $9.9 million in 1999 -- an increase of $3.1 million, or 45.9%. This increase is primarily due to an increase in long distance minutes of use from 41.5 million minutes to 67.7 million minutes for 1998 and 1999, respectively.

OPERATING EXPENSES

Operating expenses increased $30.8 million, or 12.9 %, from $238.8 million for the twelve months ended December 31, 1998 to $269.6 million for the twelve months ended December 31, 1999. Operating expenses increased to 89.9% of revenues for the twelve months ended December 31, 1999 from 84.8% of revenues for the twelve months ended December 31, 1998. During 1999, the Company incurred one-time and transaction related costs associated with the acquisitions of the Predecessor Entities of $8.2 million. The Company also incurred $6.1 million of compensation expense in connection with options granted below fair value at the date of grant, which vested fully upon the completion of ACS Group's initial public offering. Adjusted for these non-recurring items, operating expenses would have been $255.3 million for 1999 compared with $238.8 million for 1998, or 84.4% and 85.1% of revenues for 1999 and 1998, respectively.

Local Telephone

The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense. Depreciation and amortization associated with the operation of the local telephone segment is included in total depreciation and amortization. Local telephone expenses increased from $141.9 million for the year ended December 31, 1998 to $160.2 million for the year ended December 31, 1999 -- an increase of $18.3 million, or 12.9%. These expense categories included the one-time and transaction related costs associated with the acquisitions of $7.1 million and approximately $5.7 of the compensation expenses as described in the preceding paragraph. Without these non-recurring costs and compensation expense, local telephone expense would have been approximately $147.4 million for 1999 compared to $141.9 million in 1998, or an increase of $5.5 million or 3.9%. As adjusted, local telephone expense represented 59.7% of local telephone revenue for 1998 and 59.2% for 1999.

Cellular

Cellular expenses increased $1.7 million, or 7.5%, for the twelve months ended December 31, 1999 compared to the twelve months ended December 31, 1998. Cellular expenses included approximately $.3 million of compensation expense as previously described. Adjusted for the compensation expense, cellular expense was $23.4 million in 1999 compared to $22.1 million in 1998 -- an increase of $1.3 million or 5.9% from 1998 to 1999. Cellular expense was 69.5% of cellular revenues for 1998 and, as adjusted for compensation expense, 65.1% of cellular revenues for 1999.

Internet

Internet expenses increased by $3.3 million, or 76.4%. The increase was the result of costs associated with developing the Company's statewide Internet infrastructure and marketing costs incurred to acquire additional customers.

Interexchange Network and Other

Interexchange network and other expenses increased by $4.1 million, or 39.6%, and decreased as a percentage of revenue from 152.5% in 1998 to 145.9% in 1999. The increase was the result of additional circuit and other costs associated with developing the Company's statewide network and increases in minutes of use for long distance as discussed above.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased $3.4 million, or 5.7%, due principally to increases in plant in service for the twelve months ended December 31, 1999 over the corresponding period of 1998.

INTEREST EXPENSE

Interest expense increased $31.2 million, or 240.1%, for the twelve months ended December 31, 1999 as compared to the year ended December 31, 1998 due to $611.6 million of debt incurred in connection with the acquisitions of CenturyTel's Alaska Properties and ATU.

EXTRAORDINARY ITEM -- EARLY EXTINGUISHMENT OF DEBT

During the fourth quarter of 1999, ACS Group retired 35% of its 13% senior discount debentures with proceeds generated from the Company's initial public offering, resulting in extraordinary expense of $3.3 million. See Note 11, "Extraordinary Item," to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

INCOME TAXES

ACS Group has fully reserved the income tax benefit resulting from the consolidated losses incurred since the date of the acquisitions of the Predecessor Entities. Income taxes reflected in the combined financial statements are substantially those of the Predecessor Entities. See Note 10, "Income Taxes," to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

NET INCOME

The decrease in net income is primarily a result of the factors discussed above and, in particular, the decrease in operating margin of $12.5 million and the increase in interest expense of $31.2 million as a result of the financing of the acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

ACS Group has satisfied its operational and capital cash requirements primarily through internally generated funds, the sale of stock and debt financing. For the twelve months ended December 31, 2000 the Company's cash flows from operating activities were $48.2 million. At December 31, 2000, the Company had approximately $53.1 million in working capital, with approximately $61.9 million in cash and cash equivalents. As of December 31, 2000 the Company had $75.0 million of remaining capacity under its revolving credit facility, representing 100% of available capacity.

The Company has a $435.0 million bank credit agreement ("Senior Credit Facility"), $150.0 million in 9.375% senior subordinated notes due 2009 and $17.3 million in 13% senior discount debentures due 2011, representing substantially all of the Company's long-term debt of $614.0 million as of December 31, 2000. Interest on ACS Group's senior discount debentures and the senior subordinated notes is payable semiannually. Interest on borrowings under the Senior Credit Facility is payable monthly, quarterly or semi-annually at the Company's option. The Senior Credit Facility requires annual principal payments commencing on May 14, 2002.

The Company employs an interest rate hedge transaction, which fixes at 5.99% the underlying variable rate on one-half of the borrowings under the Senior Credit Facility, or $217.5 million, expiring in June 2002. The underlying variable rate for the Senior Credit Facility is based on the London Interbank Offer Rate ("LIBOR"), which is adjusted at each monthly, quarterly or semi-annual rollover date.

The local telephone network requires the timely maintenance of plant and infrastructure. ACS Group's local network is of high quality, is technically advanced and will have relatively predictable annual capital needs. The Company's historical capital expenditures have been significant. The construction and geographic expansion of ACS Group's cellular network has required significant capital. The implementation of the Company's interexchange network and data services strategy is also capital intensive. In 1999, the Company purchased fiber capacity for $19.5 million, which was funded with monies borrowed to finance the acquisition of substantially all of its operations. Capital expenditures for 2000 were $72.3 million, including $3.2 million in capital leases. ACS Group anticipates total capital spending in 2001 to be approximately $75.0 million, including the purchase of additional fiber capacity for $19.5 million in January 2001. The Company intends to fund its future capital expenditures with cash on hand, through internally generated cash flows, and if necessary, through additional borrowings under the revolving credit facility.

ACS Group's capital requirements may change, however, due to, among other things: the Company's decision to pursue specific acquisition opportunities, changes in technology, the effects of competition or changes in the Company's business strategy. ACS Group's ability to satisfy its capital requirements will be dependent upon its future financial performance, which is, in turn, subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

On September 30, 1999, the Company acquired an additional one-third interest in Alaskan Choice Television (now ACSTV) for $1.9 million, increasing its ownership to a two-thirds majority interest. On October 6, 1999, the Company entered into an agreement to acquire the remaining one-third interest and on February 14, 2000, the Company completed the acquisition of the remaining one-third interest in ACSTV for $3.0 million.

On June 16, 2000, ACS Group acquired all outstanding shares of IAI, an Internet service provider with over 25,000 customers in Alaska. The acquisition was funded entirely with cash on hand.

ACS Group believes that it will have sufficient working capital provided by operations and available borrowing capacity under the existing revolving credit facility to fund its operations and capital expenditures over the next 12 months. ACS Group's ability to satisfy its capital requirements will be dependent upon its future financial performance, which is, in turn, subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

EFFECT OF NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. This statement, as amended, is effective for the Company on January 1, 2001. Currently, the Company believes that adoption of this statement will not have a material impact on its consolidated statements of financial position, results of operations or cash flows.

OUTLOOK

ACS Group expects the demand for telecommunications services in Alaska to grow, particularly as a result of:

- continuing growth in demand for core telephone services and enhanced service offerings,

- increased line demand from expected growth in the Alaskan economy and population growth in ACS Group's service areas,

- increases in demand for cellular services and

- growth in demand for DSL and Internet access services due to higher business and consumer bandwidth needs for Internet and data services.

The Company believes that it will be able to capitalize on this demand through its diverse service offerings on its owned facilities and new sales and marketing initiatives directed toward basic, enhanced and data services.

There are currently a number of regulatory proceedings underway at the state and federal levels that could have a significant impact on the Company's operations.

The Company cannot predict with certainty the impact of current or future regulatory developments on any of its businesses. See "Business -- Regulation" under Part I, Item 1 of this report for further discussion.

The telecommunications industry is extremely competitive, and ACS Group expects competition to intensify in the future. As the ILEC, the Company faces competition mainly from resellers, local providers who lease UNEs from ACS Group and, to a lesser degree, from facilities-based providers of local telephone services. In addition, as a result of the RCA's recent affirmation of the APUC's termination of the Company's rural exemptions, ACS Group may be required to provide interconnection elements and/or wholesale discounted services to competitors in all or some of its rural service areas. Moreover, while cellular telephone services have historically complemented traditional LEC services, the Company anticipates that existing and emerging wireless technologies may increasingly compete with LEC services. In cellular services, ACS Group currently competes with at least one other cellular provider in each of its cellular service areas. In long distance, the Company currently has less than 5% of total long distance revenues in Alaska and faces competition from the two major long distance providers in Alaska. In the highly competitive business for Internet access services, ACS Group currently competes with a number of established online service companies, interexchange carriers and cable companies.

The telecommunications industry is subject to continuous technological change. ACS Group expects that new technological developments in the future will generally serve to enhance its ability to provide service to its customers. However, these developments may also increase competition or require the Company to make significant capital investments to maintain its leadership position in Alaska.

IMPACT OF INFLATION

The effect of inflation on ACS Group's financial results has not been significant in the periods presented.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has issued senior discount debentures, senior subordinated notes and has entered into a bank credit facility. These on-balance sheet financial instruments, to the extent they provide for variable rates of interest, expose the Company to interest rate risk, with the primary interest rate risk exposure resulting from changes in LIBOR or the prime rate, which are used to determine the interest rates that are applicable to borrowings under the Company's bank credit facilities. The Company uses off-balance sheet derivative financial instruments, in particular an interest rate swap agreement, to partially hedge variable interest transactions. The Company's derivative financial instrument transaction has been entered into for hedging purposes only. The terms and characteristics of the derivative financial instruments are matched with the underlying on-balance sheet instrument or anticipated transactions and do not constitute speculative or leveraged positions independent of these exposures.

The information below summarizes the Company's sensitivity to market risk associated with fluctuations in interest rates as of December 31, 2000. To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented within each market risk category in the table below. The table presents principal cash flows and related interest rates by year of maturity for the Company's senior discount debentures, bank credit facilities, senior subordinated notes and capital leases and other long-term obligations in effect at December 31, 2000. The LIBOR rate used in the variable rate calculation to forecast expected interest for 2001 and beyond was 6.40%, which was the three month LIBOR rate on December 31, 2000. The cash flows related to the variable portion of the interest rate swap is determined by comparing the December 31, 2000 three month LIBOR to the underlying contract rate and applying the spread to the nominal amount. For the interest rate swap agreement, the table presents the notional amount and the related reference interest rates by year of maturity. Fair values included herein have been determined based on (i) quoted market prices for senior subordinated notes; (ii) the carrying value for the bank credit facility at December 31, 2000, as interest rates are reset periodically; and (iii) by discounting expected cash flows to their present value for the interest rate swap using the weighted average interest rate of the Company's variable debt in effect at December 31, 2000. Alaska Communications Systems Group, Inc.'s Consolidated Financial Statements contain descriptions of the senior discount debentures, senior subordinated notes, credit facility, capital leases and other long-term obligations and the interest rate swap agreement and should be read in conjunction with the table below.

	2000	2001	2002	2003	2004	2005	THERE-AFTER
Interest Rate Sensitivity:							
Senior Discount Debentures:							
Interest Amount	$ 2,255	$ 2,251	$ 2,251	$ 2,251	$ 2,251	$ 2,251	$12,090
Average interest rate (fixed)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Credit Facility - Tranche A:							
Interest Amount	$13,940	$13,948	$13,826	$13,687	$13,585	$13,408	$11,566
Average interest rate (variable)	9.29%	9.30%	9.15%	9.15%	9.15%	9.15%	9.15%
Credit Facility - Tranche B:							
Interest Amount	$14,428	$14,328	$14,203	$14,061	$13,956	$13,775	$25,390
Average interest rate (variable)	9.62%	9.55%	9.40%	9.40%	9.40%	9.40%	9.40%
Credit Facility - Tranche C:							
Interest Amount	$13,328	$13,237	$13,123	$12,991	$12,894	$12,727	$29,651
Average interest rate (variable)	9.87%	9.81%	9.65%	9.65%	9.65%	9.65%	9.65%
Senior Subordinated Notes:							
Interest Amount	$14,090	$14,051	$14,051	$14,051	$14,090	$14,051	$47,388
Average interest rate (fixed)	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%
Capital leases and other							
Interest Amount	$ 1,449	$1,118	$ 976	$ 907	$ 845	$ 777	$ 4,117
Average interest rate (fixed)	8.91%	8.47%	8.60%	8.56%	8.54%	8.50%	10.36%
Credit Facility - $75 Million Revolver							
Interest Amount	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Average interest rate (variable)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commitment fee	$ 381	$ 380	$ 380	$ 380	$ 381	$ 380	$ 140
Average interest rate (fixed)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Variable to Fixed Interest Rate Swap -- Credit Facility:							
Notional amount - $217,500							
Interest received	$ 1,060	$ 935	$ 432	$ --	$ --	$ --	$ --
Interest paid	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Average receive rate	0.49%	0.43%	0.41%	0.00%	0.00%	0.00%	0.00%
Average pay rate	--	--	--	--	--	--	--

	TOTAL PAID	FAIR VALUE
Interest Rate Sensitivity:		
Senior Discount Debentures:		$ 21,665
Interest Amount	$ 25,600	
Average interest rate (fixed)	13.00%	
Credit Facility - Tranche A:		$150,000
Interest Amount	$ 93,960	
Average interest rate (variable)	9.19%	
Credit Facility - Tranche B:		$150,000
Interest Amount	$110,141	
Average interest rate (variable)	9.45%	
Credit Facility - Tranche C:		$135,000
Interest Amount	$107,951	
Average interest rate (variable)	9.70%	
Senior Subordinated Notes:		$126,375
Interest Amount	$131,772	
Average interest rate (fixed)	9.38%	
Capital leases and other		$ 14,641
Interest Amount	$ 10,189	
Average interest rate (fixed)	8.85%	
Credit Facility - $75 Million Revolver		$ --
Interest Amount	$ --	
Average interest rate (variable)	0.00%	
Commitment fee	$ 2,423	
Average interest rate (fixed)	0.50%	
Variable to Fixed Interest Rate Swap -- Credit Facility:		$ (1,243)
Notional amount - $217,500		
Interest received	$ 2,427	
Interest paid	$ --	
Average receive rate	0.44%	
Average pay rate	0.00%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Combined and consolidated financial statements of Alaska Communications Systems Group, Inc. and Subsidiaries, Alaska Communications Systems Holdings, Inc., CenturyTel's Alaska Properties, and Municipality of Anchorage Telephone Utility Fund are submitted as a separate section of this Form 10-K. See Index to Financial Statements and Schedules which appears on page F-1 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except for the following information regarding ACS Group's executive officers and directors, the information required by this item will be included in ACS Group's definitive proxy statement for its 2001 Annual Meeting of Stockholders (the "Proxy Statement"), or by an amendment to this report to be filed on or before April 30, and such information is incorporated herein by reference.

EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

Set forth below are the executive officers and directors of ACS Group as of the date hereof:

NAME	AGE	POSITION
Charles E. Robinson	67	Chairman and Chief Executive Officer
Wesley E. Carson	50	President and Chief Administrative Officer
John R. Ayers	58	Executive Vice President and Chief Operating Officer
Kevin P. Hemenway	40	Senior Vice President, Treasurer and Chief Financial Officer
Leonard A. Steinberg	47	General Counsel and Secretary
Carl H. Marrs	51	Director
Byron I. Mallott	58	Director
W. Dexter Paine, III	40	Director
Saul A. Fox	47	Director
Wray T. Thorn	29	Director
Brian Rogers	50	Director

CHARLES E. ROBINSON, ACS Group's Chairman and Chief Executive Officer since May 1999, has over four decades of experience in the telecommunications industry. Mr. Robinson was instrumental in creating Alaska's long distance communications systems, including the White Alice Communications System, beginning in the late 1950's. Between 1979 and 1982, Mr. Robinson served as President of Alascom, the state's primary long distance carrier at the time. Under his guidance, Alascom developed the first statewide long distance service network in Alaska, connecting with more than 27 independent local companies. Mr. Robinson served as President and Chief Operating Officer of Pacific Telecom from 1981 until its sale to CenturyTel in 1997 and was appointed Chairman and Chief Executive Officer in 1989. Mr. Robinson remained as President and Chief Executive officer at Pacific Telecom until February 1999. Mr. Robinson has been a member of the National Security Telecommunications Advisory Committee for the last 18 years, having been appointed by President Reagan. Mr. Robinson has also served on the Board of Directors of the United States Telecommunications Association from 1993 to 1995 and from 1999 to the present. Since January 2000, Mr. Robinson has served on the Board of Directors of WJ Communications, Inc.

WESLEY E. CARSON, ACS Group's President and Chief Administrative Officer, has been with the Company since its inception. Mr. Carson has held his current position since November 2000. On October 7, 1999, Mr. Carson (previously an Executive Vice President) was appointed President and Chief Operating Officer, and served in that capacity until assuming his current role. Mr. Robinson had previously held the title of President. Mr. Carson has over 20 years of telecommunications experience. He began his career in telecommunications in 1980 with TRT Telecommunications Corporation, an international data and voice carrier located in Washington, D.C. that was acquired by Pacific Telecom in 1988. From 1989 to 1998, Mr. Carson served as the Vice President of Human Resources for Pacific Telecom. From July 1998 to May 1999, Mr. Carson served as the Executive Vice President of LEC Consulting. Mr. Carson holds a B.A. in International Relations from Brigham Young University, a Master of Public Administration degree from the University of Illinois-Springfield and a J.D. from Georgetown University.

JOHN R. AYERS is Executive Vice President and Chief Operating Officer, a position he has held since November 2000. Mr. Ayers joined ACS Group as Senior Vice President of Marketing and Sales in May 1999 and served in that capacity until assuming his current role. Mr. Ayers has more than 20 years of experience in the telecommunications industry. As President and co-founder of e.Net, Ltd. in 1996, Mr. Ayers served as a consultant to a variety of established and start-up businesses. From February 1983 through March 1996, Mr. Ayers held various leadership positions with Pacific Telecom and its subsidiaries, including Executive Vice President of Pacific Telecom Services Company, with responsibility for strategic planning, marketing and business development, and Executive Vice President and General Manager of Alascom, Inc., Alaska's largest interexchange carrier. Mr. Ayers holds a bachelor's degree in management from Golden Gate University.

KEVIN P. HEMENWAY is Senior Vice President, Treasurer and Chief Financial Officer, a position he has held since November 2000. Mr. Hemenway joined ACS Group as Vice President and Treasurer in July 1999 and served in that capacity until assuming his current role. Mr. Hemenway has over 10 years of prior experience in the telecommunications industry. Before joining the Company, Mr. Hemenway served as the Chief Financial Officer and Treasurer of Atlantic Tele-Network, Inc. based in the U.S. Virgin Islands. From January 1990 to October 1998, as an independent consultant, Mr. Hemenway performed financial, accounting, management and rate making consulting services for the telecommunications industry, principally for Atlantic Tele-Network, Inc. and its subsidiaries. From 1986 through 1989, Mr. Hemenway was employed by Deloitte & Touche LLP as a CPA and manager, performing both audit and consulting services and from 1983 to 1986, was employed by Grant Thornton as a CPA and senior staff accountant. Mr. Hemenway graduated from Creighton University in 1982 with a B.S.B.A., majoring in accounting, and is a non-practicing CPA certificate holder registered in the State of Nebraska.

LEONARD A. STEINBERG is General Counsel and Secretary, a position he has held since January 2001. Mr. Steinberg left private practice in June 2000 to join ACS Group as a Senior Attorney in the Corporate Legal Department. From 1998 to 2000, Mr. Steinberg used his expertise in regulatory and administrative matters to represent telecommunications and energy clients of Brena, Bell & Clarkson, P.C., an Anchorage, Alaska law firm. Prior to that, Mr. Steinberg was a Partner in the firm of Hoise, Wes, Sacks & Brelsford with offices in Anchorage, Alaska and San Francisco, California. Mr. Steinberg practiced in the firm's Anchorage office from 1996-1998 and in the firm's San Francisco office from 1988-1996 where he primarily represented large clients in oil and gas royalty and tax disputes. Mr. Steinberg holds a Masters in Public Administration degree from Harvard University's Kennedy School of Government, Masters of Business Administration degree from U.C. Berkeley's Haas School of Business and a J.D. from the University of California's Hastings College of Law.

CARL H. MARRS, a director since July 1999, is President and Chief Executive Officer of Cook Inlet Region, Inc. Mr. Marrs has been with of Cook Inlet Region, Inc. for approximately 25 years. During that period Mr. Marrs has been employed in a series of management positions, culminating in his appointment as President in 1986. Mr. Marrs attended the Stanford University School of Business for Executives in 1983 and the Amos Tuck School of Business at Dartmouth College in 1986.

BYRON I. MALLOTT, a director since January 2000, is the President and Chief Executive Officer of the First Alaskans Foundation. From 1995 until January 2000, Mr. Mallott served as the Executive Director of the Alaska Permanent Fund Corporation. Prior to joining the Alaska Permanent Fund Corporation, Mr. Mallott served in various capacities, including Director, Chairman and President and Chief Executive Officer of Sealaska Corporation over a period of nearly 20 years. Mr. Mallott has also served in various political appointments and elected positions.

W. DEXTER PAINE, III, a director since July 1998, was a co-founder and has been President of Fox Paine & Company since its inception in 1997. From 1994 until founding Fox Paine, Mr. Paine served as a senior partner of Kohlberg & Company. Prior to joining Kohlberg & Company, Mr. Paine served as a general partner at Robertson Stephens & Company. Mr. Paine has a B.A. in economics from Williams College. Since January 2000, Mr. Paine has served as the Chairman of the Board of Directors of WJ Communications, Inc.

SAUL A. FOX, a director since May 1999, was a co-founder and has been Chief Executive Officer of Fox Paine & Company since its inception in 1997. From 1984 until founding Fox Paine & Company, Mr. Fox was at Kohlberg Kravis & Roberts & Co. Prior to joining KKR, Mr. Fox was an attorney at Latham & Watkins, a law firm headquartered in Los Angeles, California. Mr. Fox has a B.S. in communications and computer science from Temple University and a J.D. from the University of Pennsylvania Law School. Since January 2000, Mr. Fox has served on the Board of Directors of WJ Communications, Inc.

WRAY T. THORN, a director since January 2000, has also been a director with Fox Paine & Company since January 2000. From 1996 until joining Fox Paine & Company, Mr. Thorn was a principal and founding member of Dubilier & Company. Prior to joining Dubilier & Company, Mr. Thorn was an associate in the Acquisition Finance Group of Chase Securities, Inc. Mr. Thorn is a graduate of Harvard University. Since January 2000, Mr. Thorn has served on the Board of Directors of WJ Communications, Inc.

BRIAN ROGERS, a director since February 2001, is currently Principal Consultant and Chief Financial Officer for Information Insights, Inc., a management and public policy consulting firm. Mr. Rogers served as Vice President of Finance for the University of Alaska Statewide System from 1988 to 1995. Mr. Rogers is a former state legislator, who served in the Alaska State House of Representatives from 1979 to 1982. Mr. Rogers chaired the State of Alaska Long-Range Planning Commission during 1995 and 1996, and currently, as a Regent of the University of Alaska, serves as Chair of the University's Audit Committee. He holds a Master in Public Administration degree from the Kennedy School of Government, Harvard University.

DONN T. WONNELL, Executive Vice President, General Counsel and Secretary since June 1999, left the Company in December 2000 for personal reasons unrelated to ACS Group.

MICHAEL E. HOLMSTROM, Senior Vice President and Chief Financial Officer since February 1999, left the Company in November 2000 for personal reasons unrelated to ACS Group.

F. SCOTT DAVIS, Senior Vice President of Non-Regulated Operations since February 2000, retired in June 2000.

JASON B. HURWITZ, a director since October 1999, left the board in January 2000 for personal reasons unrelated to ACS Group.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

Combined and consolidated financial statements of ACS Group and its Predecessor Entities are submitted as a separate section of this Form 10-K. See Index to Combined and Consolidated Financial Statements and Schedules which appears on page F-1 hereof.

2. Financial Statement Schedule

Financial statement schedules for ACS Group and its subsidiaries are submitted as a separate section of this Form 10-K. See Index to Combined and Consolidated Financial Statements and Schedule which appears on page F-1 hereof.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2000.

(c) Exhibits

EXHIBIT NO.	DESCRIPTION
2.1	Purchase Agreement, dated as of August 14, 1998, as amended, by and among ALEC Acquisition Sub Corp., CenturyTel of the Northwest, Inc. and CenturyTel Wireless, Inc.*
2.2	Asset Purchase Agreement, dated as of October 20, 1998, by and between Alaska Communications Systems, Inc. and the Municipality of Anchorage*
3.1	Amended and Restated Certificate of Incorporation of the Registrant*****
3.2	Amended and Restated By-Laws of the Registrant*****
4.1	Specimen of Common Stock Certificate*****
4.2	Stockholders' Agreement, dated as of May 14, 1999, by and among the Registrant and the Investors listed on the signature pages thereto*
4.3	First Amendment to Stockholders' Agreement, dated as of July 6, 1999, by and among the Registrant and the Stockholders listed on the signature pages thereto*
4.4	Second Amendment to Stockholders' Agreement, dated as of November 16, 1999 by and among the Registrant and the Stockholder's listed on the signature pages thereto*****
4.5	Indenture, dated as of May 14, 1999, by and between Alaska Communications Systems Holdings, Inc., the Guarantors (as defined therein) and IBJ Whitehall Bank & Trust Company*
4.6	Purchase Agreement, dated as of May 11, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation*
4.7	Indenture, dated as of May 14, 1999, by and between the Registrant and The Bank of New York*
4.8	First Amendment, dated as of October 29, 1999, to Indenture listed as Exhibit No. 4.7**
4.9	Form of Second Amendment dated as of November 17, 1999 to Indenture listed as Exhibit No. 4.7*****
4.10	Purchase Agreement, dated as of May 11, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II, L.P.*
10.1	Exchange and Registration Rights Agreement, dated as of May 14, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation*
10.2	Exchange and Registration Rights Agreement, dated as of May 14, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II L.P.*

10.3 Credit Agreement, dated as of May 14, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant, the
financial
institutions Lenders party thereto, The Chase Manhattan Bank,
Credit
Suisse First Boston and Canadian Imperial Bank of Commerce*

10.4 Amendment No. 1, dated as of October 19, 1999 to Credit Agreement listed as Exhibit No. 10.3**

10.5 Employment Agreement, dated as of March 12, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant and Charles E. Robinson*

10.6 Employment Agreement, dated as of March 12, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant and Wesley E. Carson*

10.7 ALEC Holdings, Inc. 1999 Stock Incentive Plan*

10.8 Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan*****

10.9 Alaska Communications Systems Group, Inc. 1999 Non-Employee
Director
Compensation Plan*****

10.10 Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan*****

12.1 Statements Re: Computation of Ratios

21.1 Subsidiaries of the Registrant

23.1 Consent of Deloitte & Touche LLP relating the audited financial statements of Alaska Communications Systems Group, Inc. as of December 31, 2000 and 1999

23.2 Consent of Deloitte & Touche LLP relating to the audited financial statements of Alaska Communications Systems Holdings, Inc. and subsidiaries as of December 31, 1998 and for the period from June 16, 1998 (date of inception) through December 31, 1998 (included in Exhibit No. 23.1)

23.3 Consent of KPMG LLP relating to the audited combined financial statements of CenturyTel's Alaska Properties as of December 31,
1998
and for the year then ended

23.5 Consent of KPMG LLP relating to the audited financial statements of Municipality of Anchorage Telephone Utility Fund as of December 31, 1997 and 1998 and for each of the years in the three-year period ended December 31, 1998

23.6 Consent of Deloitte & Touche LLP relating to the audited combined financial statements of CenturyTel Alaska Properties as of December 31, 1997 and for the year ended December 31, 1996, the eleven
months
ended November 30, 1997 and the one month ended December 31, 1997 (included in Exhibit No. 23.1)

24.1 Powers of Attorney (included on signature page)***

* Filed as an exhibit to the Registrant's Registration Statement on Form S-4 file No. 333-82361 and incorporated by reference thereto.

** Filed as an exhibit to the Registrant's Form 8-K filed on November 5, 1999 and incorporated by reference thereto.

*** Previously filed on October 8, 1999 and incorporated by reference thereto.

**** Previously filed on November 1, 1999 and incorporated by reference thereto.

***** Previously filed as an exhibit to the Registrant's Registration Statement on Form S-1/A file No. 333-888753 filed on November 17, 1999 and incorporated by reference thereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

SIGNATURE	TITLE	DATE
/s/ Charles E. Robinson Charles E. Robinson	Chief Executive Officer and Chairman of the Board	March 14, 2001
/s/ Wesley E. Carson Wesley E. Carson	President and Chief Administrative Officer	March 14, 2001
/s/ John R. Ayers John R. Ayers	Executive Vice President and Chief Operating Officer	March 14, 2001
/s/ Kevin P. Hemenway Kevin P. Hemenway	Senior Vice President, Treasurer and Chief Financial Officer (Principal Accounting Officer)	March 14, 2001
/s/ Leonard A. Steinberg Leonard A. Steinberg	General Counsel and Secretary	March 14, 2001
/s/ Carl A. Marrs Carl A. Marrs	Director	March 14, 2001
/s/ Byron I. Mallott Byron I. Mallott	Director	March 14, 2001
/s/ Brian Rogers Brian Rogers	Director	March 14, 2001
/s/ W. Dexter Paine, III W. Dexter Paine, III	Director	March 14, 2001
/s/ Saul A. Fox Saul A. Fox	Director	March 14, 2001
/s/ Wray T. Thorn Wray T. Thorn	Director	March 14, 2001

INDEX TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.	
Independent Auditors' Report	F-2
Consolidated Balance Sheets -- December 31, 2000 and 1999	F-3
Consolidated Statements of Operations -- Years Ended December 31, 2000 and 1999	F-4
Consolidated Statements of Stockholders' Equity -- Years Ended December 31, 2000 and 1999	F-5
Consolidated Statements of Cash Flows -- Years Ended December 31, 2000 and 1999	F-6
Notes to Consolidated Financial Statements -- Years Ended December 31, 2000 and 1999	F-7
Schedule II- Valuation and Qualifying Accounts	F-27
ALASKA COMMUNICATIONS SYSTEMS HOLDINGS, INC.	
Independent Auditors' Report	F-28
Consolidated Balance Sheets--December 31, 1998	F-29
Consolidated Statements of Cash Flows--Period from July 16, 1998 (Date of Inception) through December 31, 1998	F-30
Notes to Consolidated Financial Statements--Period from July 16, 1998 (Date of Inception) through December 31, 1998	F-31
CENTURYTEL ALASKA PROPERTIES	
Independent Auditors' Reports	F-33
Combined Balance Sheets--December 31, 1997 and December 31, 1998	F-35
Combined Statements of Income and Retained Earnings--Year Ended December 31, 1996, Eleven Months Ended November 30, 1997, One Month Ended December 31, 1997 and Year Ended December 31, 1998	F-36
Combined Statements of Cash Flows--Year Ended December 31, 1996, Eleven Months Ended November 30, 1997, One Month Ended December 31, 1997 and Year Ended December 31, 1998	F-37
Notes to Combined Financial Statements--Year Ended December 31, 1996, Eleven Months Ended November 30, 1997, One Month Ended December 31, 1997 and Year Ended December 31, 1998	F-38
MUNICIPALITY OF ANCHORAGE TELEPHONE UTILITY FUND	
Independent Auditors' Report	F-48
Balance Sheets--December 31, 1997 and December 31, 1998	F-49
Statements of Revenues, Expenses, and Changes in Retained Earnings--Years Ended December 31, 1996, 1997 and 1998	F-50
Statements of Cash Flows--Years Ended December 31, 1996, 1997 and 1998	F-51
Notes to Financial Statements--Years Ended December 31, 1996, 1997 and 1998	F-52

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Alaska Communications Systems Group, Inc. Anchorage, Alaska

We have audited the consolidated balance sheets of Alaska Communications Systems Group, Inc. and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2000 and 1999. Our audits included the financial statement schedule listed in Item 14(a)2 of Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, and their cash flows for the years ended December 31, 2000 and 1999 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
February 20, 2001

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999
(In Thousands Except Per Share Amounts)

ASSETS	2000	1999
Current assets:		
Cash and cash equivalents	$ 61,896	$ 101,994
Accounts receivable-trade, net of allowance of $9,831 and $5,203	46,337	49,323
Materials and supplies	11,103	5,923
Prepayments and other current assets	4,304	4,327
Total current assets	123,640	161,567
Investments	1,370	1,673
Property, plant and equipment	953,557	902,131
Less: Accumulated depreciation and amortization	492,822	452,304
Property, plant and equipment, net	460,735	449,827
Goodwill, net of accumulated amortization of $11,753 and $4,243	258,236	250,346
Other assets	64,304	71,030
Total assets	$ 908,285	$ 934,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	2,586	4,845
Accounts payable-trade	31,969	30,688
Accounts payable-affiliate	1,145	610
Advance billings and customer deposits	8,689	7,521
Accrued and other current liabilities	26,146	21,280
Total current liabilities	70,535	64,944
Long-term obligations, net of current portion	611,418	607,911
Unamortized investment tax credits	197	394
Other deferred credits and long-term liabilities	10,755	13,226
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock, no par, 5,000 authorized, no shares issued and outstanding	--	--
Common stock, $.01 par value; 145,000 shares authorized, 33,000 and 32,657 shares issued and 31,468 and 32,657 outstanding, respectively	330	327
Treasury stock, 1,532 and 0 shares, respectively, at cost	(9,735)	--
Paid in capital in excess of par value	275,468	273,119
Accumulated deficit	(50,683)	(25,478)
Total stockholders' equity	215,380	247,968
Total liabilities and stockholders' equity	$ 908,285	$ 934,443

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2000 AND 1999
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	2000	1999
Operating revenues:		
Local telephone	$ 251,424	$ 159,151
Cellular	39,490	24,836
Internet	9,170	2,853
Interexchange network and other	12,909	6,305
Total operating revenues	312,993	193,145
Operating expenses:		
Local telephone	144,876	106,266
Cellular	24,641	15,494
Internet	11,785	5,121
Interexchange network and other	21,207	9,671
Unusual charges	5,288	--
Depreciation and amortization	72,265	40,306
Total operating expenses	280,062	176,858
Operating income	32,931	16,287
Other income and expense:		
Interest expense	(64,710)	(39,624)
Interest income and other	6,680	1,023
Equity in loss of investments	(303)	(198)
Total other income (expense)	(58,333)	(38,799)
Loss before income taxes and extraordinary item	(25,402)	(22,512)
Income tax benefit	197	301
Loss from continuing operations	(25,205)	(22,211)
Extraordinary item - early extinguishment of debt	--	(3,267)
Net loss	$ (25,205)	$ (25,478)
Loss per share - basic and diluted:		
Loss from continuing operations	$ (0.77)	$ (0.95)
Extraordinary item	$ --	$ (0.14)
Net loss	$ (0.77)	$ (1.09)
Weighted average shares outstanding	32,654	23,396

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2000 AND 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COMMON STOCK	PAID IN CAPITAL IN EXCESS OF PAR	ACCUMULATED DEFICIT	TREASURY STOCK	STOCKHOLDERS' EQUITY
Balance, December 31, 1998	$ --	$ --	$ --	$ --	$ --
Issuance of 32,657 shares of common stock, $.01 par	327	261,885	--	--	262,212
Fair value of warrants issued in conjunction with long term debt	--	5,089	--	--	5,089
Stock based compensation	--	6,145	--	--	6,145
Net loss	--	--	(25,478)	--	(25,478)
Balance, December 31, 1999	327	273,119	(25,478)	--	247,968
Issuance of 343 shares of common stock, $.01 par	3	2,349	--	--	2,352
Net loss	--	--	(25,205)	--	(25,205)
Purchase of 1,532 shares of treasury stock	--	--	--	(9,735)	(9,735)
Balance, December 31, 2000	$330	$275,468	$(50,683)	$(9,735)	$ 215,380

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999
(IN THOUSANDS)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (25,205)	$ (25,478)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	72,265	40,306
Amortization of debt issuance costs	4,573	3,193
Amortization of deferred compensation - stock options	--	6,145
Investment tax credits	(197)	(301)
Capitalized interest	(1,096)	(860)
Other deferred credits	(1,141)	2,987
Changes in components of working capital:		
Accounts receivable and other current assets	(5,649)	3,154
Accounts payable and other current liabilities	3,560	15,544
Other	1,084	(657)
Net cash provided by operating activities	48,194	44,033
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and capital expenditures, net of capitalized interest	(69,101)	(74,088)
Cost of acquisitions, net of cash received	(5,598)	(697,732)
Other assets	--	(2,833)
Net cash used by investing activities	(74,699)	(774,653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of long-term debt	--	616,597
Payments on long-term debt	(6,210)	(12,590)
Debt issuance costs	--	(37,900)
Issuance of common stock and warrants	2,352	266,507
Purchase of treasury stock	(9,735)	--
Net cash provided (used) by financing activities	(13,593)	832,614
Increase (decrease) in cash	(40,098)	101,994
Cash and cash equivalents at beginning of the year	101,994	--
Cash and cash equivalents at the end of the year	$ 61,896	$ 101,994
SUPPLEMENTAL CASH FLOW DATA:		
Interest paid	$ 59,672	$ 31,840
Income taxes paid	--	--
SUPPLEMENTAL NONCASH TRANSACTIONS:		
Property acquired under capital leases	$ 3,152	$ 740
Note payable in connection with acquisition	2,250	--

See Notes to Consolidated Financial Statements

1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alaska Communications Systems Group, Inc. and Subsidiaries (the "Company" or "ACS Group") (formerly ALEC Holdings, Inc.), a Delaware corporation, is engaged principally in providing local telephone, wireless, Internet and interexchange network and other services to its customers in the State of Alaska through its telecommunications subsidiaries. The Company was formed in October of 1998 for the purpose of acquiring and operating telecommunications properties.

The consolidated financial statements for the Company represent the operating results of the following legal entities from the date of their respective acquisition (see Note 2, Acquisitions):

- Alaska Communications Systems Group, Inc.

- Alaska Communications Systems Holdings, Inc. ("ACS Holdings")

- ACS of Alaska, Inc. ("ACSAK") (formerly Telephone Utilities of Alaska, Inc.)

- ACS of the Northland, Inc. ("ACSN") (formerly Telephone Utilities of the Northland, Inc.)

- ACS of Fairbanks, Inc. ("ACSF") (formerly PTI Communications of Alaska, Inc.)

- ACS of Anchorage, Inc. ("ACSA") (formerly Alaska Communications Systems, Inc.)

- ACS Wireless, Inc. ("ACSW") (formerly MACtel, Inc.)

- ACS Long Distance, Inc. ("ACSLD") (formerly ATU Long Distance, Inc.)

- ACS Television, L.L.C. ("ACSTV") (formerly Alaskan Choice Television, L.L.C.)

- ACS Internet, Inc. (formerly PTINet, Inc.)

- Internet Alaska, Inc. ("IAI")

A summary of significant accounting policies followed by the Company is set forth below:

Basis Of Presentation

The accompanying consolidated financial statements are as of and for the years ended December 31, 2000 and 1999 and include the operations of the Company and ACS Holdings, ACSAK, ACSN, ACSF, ACSA, ACSW, ACSLD, and ACS Internet, Inc. since their acquisition on May 14, 1999, ACSTV since its acquisition on September 30, 1999, and IAI since its acquisition on June 16, 2000. Prior to the completion of the acquisitions on May 14, 1999, the Company's balance sheet was comprised of 100 shares of common stock and the Company had no operations.

The consolidated financial statements include all majority-owned subsidiaries. All significant intercompany balances have been eliminated.

Certain reclassifications have been made to the 1999 financial statements to make them conform to the current presentation, including a reduction of operating revenues and operating expenses of $474 to conform to the current practice of eliminating intersegment revenue and expense.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated balance sheets and statements of cash flows, the Company generally considers all investments with a maturity at acquisition of three months or less to be cash equivalents.

Materials and Supplies

Materials and supplies are carried in inventory at the lower of weighted average cost or market.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in unconsolidated subsidiaries and other investees in which the Company has 20% to 50% interest or otherwise exercises significant influence are accounted for under the equity method.

Investments carried at equity consists of the following at December 31, 2000:

Company:	Carrying value	Percent Owned
Alaska Network Services, Inc.	$1,370	47.0%

Investments carried at equity consists of the following at December 31, 1999:

Company:	Carrying value	Percent Owned
Alaska Network Services, Inc.	$1,614	47.0%
Internet Alaska, Inc.	59	28.5%
	$1,673	

Alaska Network Services, Inc. (ANS) by vote of its Board of Directors has elected to wind up its operations and dissolve, which it expects to complete during 2001. During 2000 the Company wrote down its investment in ANS to its expected realizable value.

The Company acquired all outstanding shares of IAI on June 16, 2000.

Property, Plant and Equipment

Telephone plant is stated substantially at original cost of construction. Telephone plant retired in the ordinary course of business, together with cost of removal, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Renewals and betterments of telephone plant are capitalized while repairs, as well as renewals of minor items, are charged to operating expense as incurred. The Company provides for depreciation of telephone plant on the straight-line method, using rates approved by the regulatory authorities. The composite annualized rate of depreciation for all classes of property, plant, and equipment was 6.6% and 6.5% for 2000 and 1999, respectively.

The company is the lessee of equipment and buildings under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for 2000 and 1999.

Non-Telephone plant is stated at purchased cost and, when sold or retired, a gain or loss is recognized. Depreciation of such property is provided on the straight-line method over its estimated service life ranging from three to 20 years.

Cellular, PCS, and UHF Licenses

Cellular, PCS, and UHF licenses are stated at purchased cost. Amortization is computed on the straight-line method over an estimated useful life of 40 years. These licenses are renewable at the Company's option in perpetuity. The amortization expense for 2000 and 1999 was $606 and $347, respectively.

Goodwill

Goodwill represents the excess of cost of companies acquired over the fair value of their net assets at dates of acquisition. Goodwill associated with the purchase of telephone properties is amortized on the straight-line method over 40 years. Goodwill associated with non-regulated properties is amortized using the straight-line method over 15 years. The amortization expense for 2000 and 1999 was $7,510 and $4,243, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issue Costs

Legal, accounting and financing fees, printing costs, and other expenses associated with the senior credit facility, senior subordinated notes, and discount debentures are being amortized on the straight-line method over the term of the debt, which approximates the effective interest method. Amortization expense included in interest expense for 2000 and 1999 was $4,573 and $2,899.

Treasury Stock

During 2000, the Company was authorized by its Board of Directors to repurchase up to $10,000 of its common stock, to be completed by December 31, 2000. ACS Group acquired 1,532 shares of its common stock for $9,735. This treasury stock is being held for general corporate purposes.

Revenue Recognition

Recurring local service revenues are billed one month in advance and are deferred until earned. Nonrecurring revenues are billed in arrears and are recognized when earned. Additionally, the Company establishes estimated bad debt reserves against uncollectible revenues incurred during the period. During 2000 and 1999, no customer accounted for more than 10% of the consolidated revenues of the Company.

Access revenues are recognized when earned. The Company participates in toll revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the Regulatory Commission of Alaska ("RCA") within the intrastate jurisdiction and the Federal Communications Commission ("FCC") within the interstate jurisdiction. Much of the interstate access service revenue is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent information available about achieved rates of return. These estimates are subject to adjustment in future accounting periods as refined operational information becomes available. To the extent that disputes arise over revenue settlements, the Company's policy is to defer revenue collected until settlement methodologies are resolved and finalized.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes reflect the temporary differences between the financial and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is unlikely they will be realized. One of the acquired companies had a remaining unamortized regulatory investment tax credit of $695 at May 14, 1999, of which $301 was amortized against income in 1999, $197 was amortized against income in 2000 leaving a remaining balance of $197 at December 31, 2000.

Regulatory Accounting and Regulation

The local telephone exchange operations of the Company account for costs in accordance with the accounting principles for regulated enterprises prescribed by Statements of Financial Accounting Standards ("SFAS") No. 71, Accounting for the Effects of Certain Types of Regulation. This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, under SFAS No. 71, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Depreciable lives of plant and equipment approximate their estimated economic lives. Unregulated revenues and costs incurred by the local telephone exchange operations and non-regulated operations of the Company are not accounted for under SFAS No. 71 principals. The effect of adopting SFAS 101 , Regulated Enterprises -- Accounting for the Discontinuation of Application of FASB Statement No. 71, would not be material to the Company's financial position, results of operations or cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulatory Accounting and Regulation, continued

The local telephone exchange activities of the Company are subject to rate regulation by the FCC for interstate telecommunication service, and the RCA for intrastate and local exchange telecommunication service. The Company, as required by the FCC, accounts for such activity separately. Long distance services of the Company are subject to rate regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the RCA for intrastate telecommunication services. Cellular operations are not subject to rate regulation.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of property, plant and equipment and intangibles if events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable on the undiscounted cash flow basis of the underlying business.

Comprehensive Income (Loss)

The Company's comprehensive loss is equal to its net loss for all periods presented.

Earnings Per Share

Dilutive common equivalent shares from stock options and warrants are calculated using the treasury stock method (dilutive earnings per share). Due to the Company's reported net loss, common equivalent shares, which consisted of 3,998 and 3,154 options granted to employees, were anti-dilutive for the years ended December 31, 2000 and 1999, respectively. For 1999 earnings per share is based on the weighted average number of shares of common stock outstanding from May 14, 1999 through December 31, 1999 (basic earnings per share). The weighted average number of shares outstanding during 1999 is calculated from May 14, 1999 because the Company had no significant operations or outstanding shares prior to that date.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. This statement, as amended, is effective beginning for the Company's fiscal year ending December 31, 2001. Currently, the Company believes that adoption of this statement will not have a material impact on its consolidated statements.

2. ACQUISITIONS

On May 14, 1999, the Company acquired ACS Holdings who acquired Century Telephone Enterprise, Inc.'s Alaska holdings, including ACSAK, ACSN, ACSF, Pacific Telecom of Alaska PCS, Inc., and Pacific Telecom Cellular of Alaska, Inc., excluding the assets, liabilities and equity of Alaska RSA#1 (collectively, "CenturyTel's Alaska Properties"). On the same date, ACS Holdings also acquired from the Municipality of Anchorage ACSA and its subsidiaries, ACSW and ACSLD (collectively, "ATU"). These holdings include local area exchange service, long distance service, Internet service and cellular operations throughout rural Alaska and Anchorage. Both acquisitions were accounted for under the purchase method of accounting. The financial statements reflect the allocation of the purchase price and assumption of certain liabilities and include the operating results of both ATU and CenturyTel's Alaska Properties from the date of acquisition. In total, the Company paid Century Telephone Enterprise $411,784 for the CenturyTel's Alaska Properties and the Municipality of Anchorage $265,115 for the assets acquired. Acquisition expenses totaling $19,216 were also allocated to the purchase price.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

2. ACQUISITIONS (CONTINUED)

The following reflects the allocation of the purchase price and the sources of funds to finance the purchase.

	CenturyTel Alaska properties	ATU	Total
Current assets	$ 16,882	$ 42,146	$ 59,028
Property, plant and equipment	157,758	248,648	406,406
Other assets	13,680	20,665	34,345
Liabilities assumed	(19,746)	(41,177)	(60,923)
Net assets acquired	168,574	270,282	438,856
Goodwill	250,323	6,936	257,259
Total cost of acquisition	418,897	277,218	696,115
Acquisition expenses	(7,113)	(12,103)	(19,216)
Total purchase price paid	$ 411,784	$ 265,115	$ 676,899

Net assets acquired were purchased for cash provided from the following sources:

Senior credit facility revolving loan	$ 6,700
Senior credit facility term loans	435,000
9-3/8% senior subordinated notes due 2009	150,000
13% senior discount debentures due 2011	19,911
Issuance of common stock and warrants	126,289
Total sources	$737,900

These sources also provided $12,601 of working capital and included $48,400 of transaction fees and expenses.

The following are the unaudited pro forma results for the years ended December 31, 1999 and 1998, giving effect to the acquisitions as if they had occurred at the beginning of the periods.

	1999	1998
Revenues	$299,909	$281,606
Loss from continuing operations	(26,749)	(17,276)
Net loss	(30,016)	(17,276)
Loss from continuing operations per share	$ (0.82)	$ (0.53)
Net loss per share (basic and dilutive)	$ (0.92)	$ (0.53)

On September 30, 1999, the Company acquired a majority interest in Alaskan Choice Television, LLC ("ACTV'"). The cash purchase price was approximately $1,900. On February 14, 2000, the Company purchased the remaining one-third interest of ACTV for $3,042, including a $2,250 note payable which calls for accelerated principal payments based on the achievement of certain subscriber goals in the future. This acquisition is not included in the pro forma results above, as it would not have had a significant effect.

On June 16, 2000, the Company acquired a 100% interest in IAI. It previously held a minority interest of 28.5%. This acquisition is not included in the pro forma results above, as it would not have had a significant effect.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

3. ACCOUNTS RECEIVABLE

Accounts receivable - trade at December 31, 2000 and 1999 is comprised of the following:

	2000	1999
Accounts receivable - trade:		
Customers	$39,594	$36,163
Connecting companies	13,410	14,261
Other	3,164	4,102
	56,168	54,526
Less allowance for doubtful accounts	9,831	5,203
Accounts receivable - trade, net	$46,337	$49,323

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at December 31, 2000 and 1999 is comprised of the following:

	2000	1999
Property, plant, and equipment:		
Land, buildings and support assets	$144,500	$143,806
Central office switching and transmission	286,714	256,805
Outside plant cable and wire facilities	455,213	437,813
Cellular switching and transmission systems	34,738	21,861
Other	5,311	6,316
Construction work in progress	27,081	35,530
	953,557	902,131
Less accumulated depreciation and amortization	492,822	452,304
Property, plant and equipment, net	$460,735	$449,827

The following is a summary of property held under capital leases included in the above property, plant and equipment:

	2000	1999
Property held under capital leases:		
Land, buildings and support assets	$ 9,230	$8,974
Outside plant cable and wire facilities	2,710	--
Other	856	--
	12,796	8,974
Less accumulated depreciation and amortization	1,250	325
Property held under capital leases, net	$11,546	$8,649

Amortization on assets under capital leases included in depreciation expense in 2000 and 1999 is $925 and $325, respectively.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company leases various land, buildings, right-of-ways, and personal property under operating lease agreements. Rental expenses under operating leases for 2000 and 1999 were $4,055 and $1,030, respectively. Future minimum payments under these leases for the next five years and thereafter are as follows:

2001	$ 3,126
2002	2,743
2003	2,213
2004	1,277
2005	804
Thereafter	5,837

	$16,000
	=======

5. OTHER ASSETS

Other assets at December 31, 2000 and 1999 was comprised of the following:

	2000	1999
Debt issue costs, net of accumulated amortization of $7,766 and $3,193, respectively	$30,128	$34,701
Cellular, PCS, and UHF licenses, net of amortization of $953 and $347, respectively	24,943	25,431
Prepaid pension asset	3,862	3,530
Deferred charges and other assets	5,371	7,368
	$64,304	$71,030

6. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities at December 31, 2000 and 1999 was comprised of the following:

	2000	1999
Accrued payroll, benefits, and related liabilities	$ 6,028	$ 7,928
Accrued personal time off	5,241	4,506
Accrued interest	3,365	2,904
Refundable access revenue	6,756	--
Other	4,756	5,942
	$26,146	$21,280

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31, 2000 and 1999:

	2000	1999
Senior credit facility term loan - tranche A	$ 150,000	$ 150,000
Senior credit facility term loan - tranche B	150,000	150,000
Senior credit facility term loan - tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	150,000
13% senior discount debentures due 2011	17,313	17,598
Original issue discount - 13% senior discount debentures due 2011	(2,950)	(3,249)
Capital leases and other long-term obligations	14,641	13,407
	614,004	612,756
Less current portion	2,586	4,845
Long-term obligations, net of current portion	$ 611,418	$ 607,911

The aggregate maturities of long-term obligations for each of the five years and thereafter subsequent to December 31, 2000 are as follows:

	Total
2001	$ 2,586
2002	4,911
2003	4,729
2004	4,787
2005	4,859
Thereafter	592,132
	$614,004

Senior Credit Facility

On May 14, 1999, the Company entered into a credit agreement with a syndicate of commercial banks which provide the Company's senior credit facility. The senior credit facility provides $435 million of term loans and a revolving credit facility with a $75 million line of credit. The Company's obligations under the senior credit facility are unconditionally and irrevocably guaranteed, joint and severally, by the Company and its subsidiaries, and secured by collateral that includes substantially all of the Company and its subsidiaries' assets. The senior credit facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and the payment of dividends, and requires the Company to achieve certain financial ratios. As of December 31, 2000 and 1999 the Company was in compliance with all of the covenants of the senior credit facility except one at December 31, 1999 relating to the manner in which licenses are held, for which a waiver was obtained.

The tranche A term loan of $150 million is repayable in annual principal payments of 1% of outstanding principal commencing on May 14, 2002 with the balance due on November 14, 2006. The loan bears interest at an annual rate equal (at the Company's option) to: (1) an adjusted London inter-bank offered rate ("LIBOR") plus 2.75% or (2) a rate equal to 1.75% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%, in each case subject to reduction based on the Company's financial performance. The rate of interest in effect at December 31, 2000 and 1999 was 9.25% and 8.94%, respectively, and is based on the LIBOR rate option.

The tranche B term loan of $150 million is repayable in annual principal payments of 1% of outstanding principal commencing on May 14, 2002 with the balance due on November 14, 2007. The loan bears interest at an annual rate equal (at the Company's option) to: (1) LIBOR plus 3.00% or (2) a rate equal to
2.00% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December 31, 2000 and 1999 was 9.50% and 9.19%, respectively, and is based on the LIBOR rate option.

7. LONG-TERM OBLIGATIONS (CONTINUED)

The tranche C term loan of $135 million is repayable in annual principal payments of 1% of outstanding principal commencing on May 14, 2002 with the balance due on May 14, 2008. The loan bears interest at an annual rate equal (at the Company's option) to: (1) LIBOR plus 3.25% or (2) a rate equal to 2.25% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December 31, 2000 and 1999 was 9.75% and 9.44%, respectively, and is based on the LIBOR rate option.

The senior credit facility also provides a revolving credit facility in the amount of $75 million which is available, in part, for up to $25 million in letters of credit and up to $10 million in the form of swingline loans. This revolving facility is available for seven years and outstanding balances thereunder will bear interest at an annual interest rate option equivalent to that provided under tranche A.

On July 24, 1999 the Company entered into a interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. This agreement fixed at 5.99% the underlying variable rate on one-half the borrowings under the senior credit facility, or $217.5 million, for a three-year period. The differential to be paid or received is recorded as interest expense in the consolidated statement of operations in the period in which it is recognized. The Company is exposed to credit losses from counterparty nonperformance, but does not anticipate any losses from its agreement.

Senior Subordinated Notes

On May 14, 1999, the Company issued $150 million in aggregate principal amount of 9 3/8 % senior subordinated notes due 2009. Interest on the notes is payable semi-annually on May 15 and November 15, commencing November 15, 1999. The notes will mature on May 15, 2009, and are redeemable, in whole or in part, at the option of the Company, at any time on or after May 15, 2004 at 104.688% of the principal amount declining to 100% of the principal amount on or after May 15, 2007. The notes contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December 31, 2000 and 1999 the Company was in compliance with all the covenants of the notes.

Senior Discount Debentures

On May 14, 1999 the Company issued $46.9 million in aggregate principal amount of senior discount debentures due 2011 and 828 warrants, for gross proceeds of $25 million. As amended on October 29, 1999, interest accrues at 13.00% and is payable at the Company's option semiannually on May 15 and November 15, commencing May 15, 2000 until May 15, 2004 when the Company will be required to semiannually pay interest. After the consummation of the Company's offering of common stock, in December 1999 the Company redeemed 35% ($9,321) of the aggregate principal amount of the discount debentures original issues, at a price equal to their accreted value plus a premium of one year's interest at the stated rate. The debentures will mature on May 15, 2011, and are redeemable, in whole or in part, at the option of the Company, at any time on or after May 15, 2004 at 106.5% of the principal amount declining to 100% of the principal amount on or after May 15, 2009. The debentures contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December 31, 2000 and 1999 the Company was in compliance with all the covenants of the debentures.

The original issue discount of $5,089 resulted from the issuance of detachable warrants in connection with the 13.00% senior discount debentures. These detachable warrants were exercisable into 828 shares of common stock at any time from May 14, 1999 through May 15, 2011 at $0.01 per share. The original issue discount represents the difference between the exercise price and the fair value of the underlying shares at the date of issue. On November 18, 1999, these warrants were exercised in a roll-up transaction resulting in 828 shares of stock being issued.

Capital leases and other long-term obligations

The Company has entered into various capital leases and other debt agreements totaling $14,641 and $13,407 with a weighted average interest rate of
8.91% and 8.978 % at December 31, 2000 and 1999, respectively.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

8. LOCAL TELEPHONE OPERATING REVENUE

Local telephone operating revenues consisted of the following at December 31, 2000 and 1999:

	2000	1999
Local network service	$ 92,420	$ 59,891
Network access revenue	105,172	67,174
Directory advertising	32,056	17,713
Deregulated revenue and other	21,776	14,373
Total local telephone operating revenues	$251,424	$159,151

9. UNUSUAL CHARGES

During 2000, the Company recorded $5,288 of unusual charges, consisting of the following:

	2000
Costs incurred in attempted acquisition	$1,451
Severance and restructuring costs	3,019
Legal settlement	818
	$5,288

During 2000, the Company attempted to acquire the Matanuska Telephone Association, a cooperative telephone association located in Alaska. The acquisition was subject to approval by a vote of the membership of the cooperative association requiring a super majority, which was held in September of 2000. The membership of the association voted to approve the acquisition but failed to achieve the required super majority. The Company had incurred $1,451 of legal, consulting and other out of pocket costs associated with the attempted acquisition which were charged to expense during September 2000.

The Company recorded $3,019 related to severance and restructuring charges under several plans adopted during 2000. Employee force reductions resulting from these restructuring plans are expected to total approximately 300 by their completion, which is expected to be during the fourth quarter of 2001. Employee groups located in Alaska within the local telephone, cellular and Internet operations are all included within the scope of the severance and restructuring plans. The plans also call for the closure of a branch operation in Vancouver, Washington. As of December 31, 2000, $962 has been paid under the plans and approximately 100 employees have been terminated.

In December 2000, the Company settled out of court a claim by a vendor that arose from an undisclosed contractual obligation it incurred in the purchase of the Company's operations in May 1999, resulting in a charge to expense of $818.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

10. INCOME TAXES

The Company's combined federal income and state effective income tax rate from continuing operations was a benefit of 0.8% and 1.3% in 2000 and 1999, respectively. The difference between taxes calculated as if the statutory federal rate of 35% was applied to loss from continuing operations before income tax and the recorded tax benefit is reconciled as follows:

	2000	1999
Computed federal income taxes at the 35% statutory rate	$ (8,891)	$(7,774)
Increase (reduction) in tax resulting from		
State income taxes (net federal benefit)	(1,494)	(1,407)
Original issue discount interest	211	908
Amortization of investment tax credits	(197)	(301)
Valuation allowance - book net operating loss	10,205	7,965
Other	(31)	308
Total income tax benefit	$ (197)	$ (301)

The benefit for income taxes is summarized as follows:

	2000	1999
Current:		
Federal income tax	$ --	$ --
State income tax	--	--
Total current	--	--
Deferred:		
Federal income tax	--	--
State income tax	--	--
Total deferred	--	--
Amortization of investment tax credits	(197)	(301)
Total income tax benefit	$(197)	$(301)

The effect of significant items comprising the Company's net deferred tax liability were as follows:

	2000	1999
Deferred tax liabilities - long-term:		
Property, plant and equipment	$(16,338)	$ (4,427)
Intangibles	(7,235)	(80)
Other	(169)	--
Total long-term deferred tax liabilities	(23,742)	(4,507)
Deferred tax assets:		
Current:		
Accrued compensation	5,329	1,433
Accrued bad debts	4,825	997
Deferred investment tax credit	80	162
Regulatory liabilities FASB 109	70	113
Extraordinary net operating loss	--	1,343
Total current deferred tax assets	10,304	4,048
Long-term:		
Net operating loss carryforwards from operations	32,598	10,042
Original issue discount	503	--
Total long-term deferred tax assets	33,101	10,042
Total deferred tax assets	43,405	14,090
Valuation allowance	(19,513)	(9,308)
Net deferred tax asset	$ 150	$ 275

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

10. INCOME TAXES (CONTINUED)

The company has available at December 31, 2000 unused operating loss carryforwards of $79,295 that may be applied against future taxable income and that expire as follows:

Year of Expiration Carryforwards	Unused Operating Loss
2019	$20,390
2020	58,905
	$79,295

11. EXTRAORDINARY ITEM

On December 3, 1999 the Company retired 35% ($9,321) of the senior discount debentures due in 2011 with a portion of the proceeds from its initial public offering ("IPO") of common stock in November 1999. The Company paid a premium of 13% of the retired principal in the amount of $1,219. Additionally, 35% of the debt issue costs and original issue discount resulting from the warrants associated the senior discount debentures were written off in the amounts of $294, and $1,754, respectively. The transaction resulted in an extraordinary charge of $3,267 ($0.14 per share). The income tax benefit of $1,343 was offset by a valuation allowance.

12. STOCK INCENTIVE PLANS

Under various plans, ACS Group, through the Compensation Committee of the Board of Directors, may grant stock options, stock appreciation rights and other awards to officers, employees and non-employee directors. At December 31, 2000, ACS Group has reserved a total of 6,060 shares of authorized common stock for issuance under the various plans. In general, options under the plans vest ratably over three, four or five years and the plans terminate in approximately 10 years.

The Company applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," in accounting for its plans. Accordingly, no compensation cost has been recognized for options with exercise prices equal to or greater than fair value on the date of grant. If compensation costs had been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation", the Company's net loss and net loss per share on a pro forma bases for 2000 and 1999 would have been as follows:

	2000	1999
Net loss:		
As reported	$(25,205)	$(25,478)
Pro forma	(26,867)	(26,144)
Net loss per share - basic and diluted:		
As reported	$ (0.77)	$ (1.09)
Pro forma	(0.82)	(1.12)

The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted average assumptions for grants:

	2000	1999
Risk free rate	5.5%	5.5%
Dividend yield	0.0%	0.0%
Expected volatility factor	52.5%	40.3%
Expected option life (years)	6.1	7.0

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

12. STOCK INCENTIVE PLANS (CONTINUED)

ALEC Holdings, Inc. 1999 Stock Incentive Plan

ACS Group has reserved 3,410 shares under this plan, which was adopted in connection with the completion of the acquisitions on May 14, 1999 (see Note 2, Acquisitions). At December 31, 2000 3,928 options have been granted, 785 have been forfeited, 237 have been exercised and 267 are available for grant under the plan. The plan allows forfeited options to be reissued. The plan will terminate on May 14, 2009.

During May, June and July of 1999, 2,919 of these options were granted at an exercise price equivalent to the then fair value of the underlying stock as evidenced by sales to third parties. Of the options granted in May, 654 are variable plan performance vesting options granted to certain officers and management of the Company. These performance vesting options became vested upon completion of ACS Group's IPO in November 1999, and resulted in the recording of $4,148 of compensation expense. Compensation expense recorded for these options represents the difference between the IPO price of $14.00 and the exercise price of $6.1542. The remaining options granted during May, June and July of 1999 generally vest ratably over five years or after nine years subject to acceleration upon the attainment of certain performance goals.

During September, October, and November 1999, 504 options were granted, all at exercise prices below the fair value of the underlying stock at the time of issuance, which was an average of $10.12 per share. These options vested upon completion of ACS Group's IPO in November of 1999, and resulted in the recording of compensation expense of $1,997. Compensation expense recorded for these options represents the difference between the fair value of the underlying stock of $10.12 and the exercise price of $6.1542.

On November 20, 2000, the Board of Directors approved the grant of options under the plan to purchase 505 shares to certain members of management at an exercise price of $5.50 per share, generally vesting over four years ratably.

Information on outstanding options for the years ended December 31, 2000 and 1999 is summarized as follows:

	2000		1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding January 1	3,154	$6.15	--	$ --
Granted	505	5.50	3,423	6.15
Exercised	(198)	6.15	(39)	6.15
Canceled or expired	(555)	6.08	(230)	6.15
Outstanding December 31	2,906	6.05	3,154	6.15
Options exercisable at December 31	1,541	6.12	1,255	6.15
Weighted average fair value of options granted		3.09		3.88

The outstanding options at December 31, 2000 have the following characteristics:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$5.50 - $6.15	2,906	7.85	$6.05	1,541	$6.12

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

12. STOCK INCENTIVE PLANS (CONTINUED)

Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan

This plan was adopted by ACS Group in November 1999 in connection with its IPO. At December 31, 2000 1,247 options have been granted, 155 have been forfeited, and 408 are available for grant under the plan. The plan allows forfeited options to be reissued. The term of options granted under the plan may not exceed 10 years. Unless otherwise determined by the Compensation Committee of the Board of Directors, options will vest ratably on each of the first four anniversaries after the grant date and will have an exercise price equal to the fair market value of the common stock on the date of grant.

No shares were awarded under this plan during 1999. On February 9, 2000, the Board of Directors approved the grant of options under the plan to purchase 887 shares to certain members of management at an exercise price of $14.1354 per share. On June 20, 2000, the Board of Directors approved the grant of options under the plan to purchase 28 shares to certain members of management at an exercise price of $12.625 per share. On September 7, 2000, the Board of Directors approved the grant of options under the plan to purchase 2 shares to a member of management at an exercise price of $8.5819 per share. On October 20, 2000, the Board of Directors approved the grant of options under the plan to purchase 5 shares to certain members of management at an exercise price of $6.438 per share. On November 20, 2000, the Board of Directors approved the grant of options under the plan to purchase 315 shares to certain members of management at an exercise price of $5.50 per share. On November 28, 2000, the Board of Directors approved the grant of options under the plan to purchase 10 shares to certain members of management at an exercise price of $6.125 per share.

Information on outstanding options for the year December 31, 2000 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding January 1	--	$ --
Granted	1,247	11.86
Exercised	--	--
Canceled or expired	(155)	14.20
Outstanding December 31	1,092	11.53
Options exercisable at December 31	186	11.66
Weighted average fair value of options granted		6.55

The outstanding options at December 31, 2000 have the following characteristics:

Range of Exercise Prices	Outstanding Options: Number of Shares	Outstanding Options: Weighted Average Remaining Life (Years)	Outstanding Options: Weighted Average Exercise Price	Exercisable Options: Number Exercisable	Exercisable Options: Weighted Average Exercise Price
$5.50 - $6.44	330	9.89	$ 5.53	53	$ 5.51
$8.58 - $12.63	30	9.49	12.29	5	12.29
$14.20	732	9.12	14.20	128	14.20

12. STOCK INCENTIVE PLANS (CONTINUED)

ACS Group, Inc. 1999 Non-Employee Director Stock Compensation Plan

The non-employee director stock compensation plan was adopted by ACS Group in connection with its IPO. ACS Group has reserved 150 shares under this plan. At December 31, 2000 26 shares have been awarded and 124 shares are available for grant under the plan. Directors are required to receive not less than 25% of their annual retainer and meeting fees in the form of ACS Group's stock, and may elect to receive up to 100% of director's compensation in the form of stock.

During the year ended December 31, 2000, 26 shares under the plan were awarded to directors, of which 13 were elected to be deferred until termination of service by the directors.

Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan

This plan was also adopted in connection with ACS Group's IPO in November 1999. At December 31, 2000, 868 shares are available for issuance and sale. The plan will terminate on December 31, 2009. All ACS Group employees and all of the employees of designated subsidiaries generally will be eligible to participate in the purchase plan, other than employees whose customary employment is 20 hours or less per week or is for not more than five months in a calendar year, or who are ineligible to participate due to restrictions under the Internal Revenue Code.

On June 30, 2000, 65 shares were issued under the plan. On December 29, 2000, 67 shares were issued under the plan.

A participant in the purchase plan may authorize regular salary deductions of a maximum of 15% and a minimum of 1% of base compensation. The fair market value of shares which may be purchased by any employee during any calendar year may not exceed $25. The amounts so deducted and contributed will be applied to the purchase of full shares of common stock at 85% of the lesser of the fair market value of such shares on the date of purchase or on the offering date for such offering period. The offering dates will be January 1 and July 1 of each purchase plan year, and each offering period will consist of one six-month purchase period. The first offering period under the plan commenced on January 1, 2000. Shares will be purchased on the open market or issued from authorized but unissued shares on behalf of participating employees on the last business days of June and December for each purchase plan year and each such participant will have the rights of a stockholder with respect to such shares. During the year ended December 31, 2000 approximately 36% of eligible employees elected to participate in the plan.

13. RETIREMENT PLANS

Pension benefits for substantially all of the Company's employees are provided through the Alaska Electrical Pension Plan ("AEPP"). The Company pays a contractual hourly amount based on employee classification or base compensation. As a multi-employer defined benefit plan, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer. The Company's portion of the plan's pension cost for 2000 and 1999 was $10,978 and $6,099, respectively.

The Company also has a separate defined benefit plan that covers certain employees previously employed by Century Telephone Enterprise, Inc. ("CenturyTel Plan"). This plan was transferred to The Company in connection with the acquisition of the CenturyTel's Alaska Properties. Existing plan assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan on September 1, 1999. Accrued benefits under the ACS Retirement Plan were determined in accordance with the provisions of the CenturyTel Plan. Upon completion of the transfer to The Company, covered employees ceased to accrue benefits under the plan. On November 1, 2000 the ACS Retirement Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPP. As a result of this amendment, prior service cost of $1,992 was recorded and will be amortized over the expected service life of the plan participants at the date of the amendment. The Company uses the traditional unit credit method for the determination of pension cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974. Since the plan is adequately funded, no contribution was made in 2000 or 1999.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

13. RETIREMENT PLANS (CONTINUED)

The following table represents the net periodic pension expense (benefit) for the ACS Retirement Plan for 2000 and 1999:

	2000	1999
Service cost	$ --	$ --
Interest cost	447	149
Expected return on plan assets	(813)	(170)
Net amortization and deferral	34	--
Net periodic pension benefit	$(332)	$ (21)

The following is a reconciliation of the beginning and ending balances for 2000 and 1999 for the projected benefit obligation and the plan assets for the ACS Retirement Plan:

	2000	1999
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 5,724	$ --
Acquisition	--	5,780
Plan amendments	1,992	--
Amortization of prior service cost	(34)	--
Service cost	--	--
Interest cost	447	149
Actuarial (gain) loss	501	(205)
Benefits paid	(30)	--
Projected benefit obligation at end of year	$ 8,600	$ 5,724
Change in plan assets		
Fair value of plan assets at beginning of year	$ 9,564	$ --
Acquisition	--	9,289
Return on plan assets	(277)	275
Employer contributions	--	--
Benefits paid	(30)	--
Fair value of plan assets at end of year	$ 9,257	$ 9,564

The following table represents the funded status of the ACS Retirement Plan at December 31, 2000 and 1999:

	2000	1999
Projected benefit obligation	$(8,600)	$(5,724)
Plan assets at fair value	9,257	9,564
Funded Status	657	3,840
Unrecognized net prior obligation	--	--
Unrecognized prior service cost	1,958	--
Unrecognized net loss (gain)	1,247	(310)
Pension asset at end of year	$ 3,862	$ 3,530

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

13. RETIREMENT PLANS (CONTINUED)

The actuarial assumptions used to account for the plan as of December 31, 2000 and 1999 are as follows:

	2000	1999
Discount rate	7.50%	7.90%
Expected return on assets	8.50%	5.50%
Rate of compensation increase	0.00%	0.00%

The Company also provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary matching contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. There was no matching contribution for 2000 or 1999.

14. BUSINESS SEGMENTS

The Company has three reportable segments: local telephone, which provides landline telecommunications services, and consists of local telephone service, network access, directory advertising, deregulated and other revenues; cellular, which provides wireless telecommunications service; and Internet, which is being reported as a separate segment in the current year due to the growth and acquisition of IAI. Each reportable segment is a strategic business under separate management and offering different services than those offered by the other segments. The Company also has interexchange network and television services segments which do not meet the criteria for a reportable segment and are therefore included in "All Other" below. The Company also incurs interest expense, interest income, equity in earnings of investments and other non operating income and expense at the corporate level which are not allocated to the business segments, nor are they evaluated by the chief operating decision maker in analyzing the performance of the business segments. These non operating income and expense items are provided in the accompanying table under the caption "All Other" in order to assist the users of these financial statements in reconciling the operating results and total assets of the business segments to the consolidated financial statements. Common use assets are held at either the Company or ACS Holdings and are allocated below based on operating revenues. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2000:

	Local Telephone	Cellular	Internet	All Other	Eliminations	Total
Operating revenues	$ 251,424	$ 39,540	$ 9,172	$ 20,904	$(8,047)	$ 312,993
Depreciation and amortization	56,912	5,029	1,495	8,829	--	72,265
Operating income (loss)	46,906	6,414	(8,760)	(11,629)	--	32,931
Interest expense	(1,046)	(11)	(109)	(63,544)	--	(64,710)
Interest income	105	215	--	6,498	--	6,818
Income tax provision (benefit)	14,127	2,703	--	(17,027)	--	(197)
Net income (loss)	31,755	3,944	(8,863)	(52,041)	--	(25,205)
Total assets	709,823	114,077	26,740	57,645	--	908,285
Capital expenditures	53,974	11,505	3,252	3,522	--	72,253

Operating revenues disclosed above include intersegment operating revenues of $9,840 for local telephone, $937 for cellular, and $13,210 for all other. In accordance with SFAS 71, intercompany revenues between local telephone and non local telephone operations are not eliminated above.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

14. BUSINESS SEGMENTS (CONTINUED)

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 1999:

	Local Telephone	Cellular	Internet	All Other	Eliminations	Total
Operating revenues	$ 159,151	$ 24,882	$ 2,853	$ 6,733	$(474)	$ 193,145
Depreciation and amortization	32,881	2,159	219	5,047	--	40,306
Operating income (loss)	19,784	6,801	(2,267)	(8,031)	--	16,287
Interest expense	(240)	(10)	--	(39,374)	--	(39,624)
Interest income	682	88	--	851	--	1,621
Income tax provision (benefit)	7,793	2,890	--	(10,984)	--	(301)
Net income (loss)	11,930	4,056	(2,267)	(39,197)	--	(25,478)
Extraordinary item	--	--	--	(3,267)	--	(3,267)
Total assets	773,405	114,654	5,201	41,183	--	934,443
Capital expenditures	44,310	10,962	--	19,520	--	74,792

Operating revenues disclosed above include intersegment operating revenues of $3,177 for local telephone, $479 for cellular, and $853 for all other. In accordance with SFAS 71, intercompany revenues between local telephone and non local telephone operations are not eliminated above.

15. RELATED PARTY TRANSACTIONS

Fox Paine & Company, ACS Group's majority stockholder, receives an annual management fee in the amount of 1% of the Company's net income before interest expense, interest income, income taxes, depreciation and amortization, and equity in loss of investments, calculated without regard to the fee. The management fee expense for 2000 is $1,169 of which $1,145 was payable at December 31, 2000. The management fee expense for 1999 is $610 all of which was payable at December 31, 1999.

In addition, in 1999, Fox Paine & Company received aggregate advisory fees in the amount of $14,200 upon consummation of the acquisitions of CenturyTel's Alaska Properties and ATU and were reimbursed for pre-closing costs of $9,941.

In connection with stock grants, the company loaned officers of the company $757 with an interest rate of the federal funds rate or 8%, whichever is greater. The loans are secured by shares of ACS Group's common stock owned by the individual officers. At December 31, 1999 the balances of the officer loans were $794. These loans were repaid in their entirety on January 3, 2000.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and short-term investments, accounts receivable and payable, and other short-term assets and liabilities approximate carrying values due to their short-term nature.

The fair value for the Company's senior subordinated notes is estimated based on quoted market prices. The fair value of the Company's term loan facilities approximates carrying values due to the variable interest rate nature of the debt. The fair value of the Company's senior discount debentures is estimated based on market interest rates currently available to the Company. The Company employs an interest rate swap agreement to manage interest rate exposure. Amounts payable or receivable under the agreement are recognized as adjustments to interest expense in the periods in which they accrue. The fair value of the Company's interest rate swap agreement represents the estimated amount the Company would receive or pay to terminate the agreement, calculated based on the present value of expected payments or receipts based on the current market interest rate.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the Company's carrying values and fair values of the debt components of its financial instruments at December 31, 2000:

	Carrying Value	Fair Value
Senior credit facility term debt - tranche A	$150,000	$ 150,000
Senior credit facility term debt - tranche B	150,000	150,000
Senior credit facility term debt - tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	126,375
13% senior discount debentures due 2011	14,363	21,665
Interest Rate Swap Agreement	--	(1,243)
Capital leases and other long-term obligations	14,641	14,641
	$614,004	$ 596,438

The following table summarizes the Company's carrying values and fair values of the debt components of its financial instruments at December 31, 1999:

	Carrying Value	Fair Value
Senior credit facility term debt - tranche A	$150,000	$ 150,000
Senior credit facility term debt - tranche B	150,000	150,000
Senior credit facility term debt - tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	145,500
13% senior discount debentures due 2011	14,349	21,408
Interest Rate Swap Agreement	--	(923)
Capital leases and other long-term obligations	13,407	13,407
	$612,756	$ 614,392

17. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the Company had a commitment to acquire additional fiber optic circuit capacity in the first quarter of 2001 at a purchase price of $19,500. This commitment was fulfilled on January 12, 2001.

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

18. CONSOLIDATED QUARTERLY OPERATING INFORMATION (UNAUDITED)

	Quarterly Financial Data			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Operating revenue	$ 77,091	$ 81,863	$ 74,866	$ 79,173
Operating income	11,234	11,949	3,326	6,422
Net loss	(3,138)	(2,696)	(10,876)	(8,495)
Loss per share - basic and diluted:	(0.10)	(0.08)	(0.33)	(0.26)
1999				
Operating revenue	$ --	$ 38,282	$ 75,540	$ 79,323
Operating income	--	2,374	10,602	3,311
Loss from continuing operations	--	(5,746)	(4,914)	(11,551)
Extraordinary item	--	--	--	(3,267)
Net loss	--	(5,746)	(4,914)	(14,818)
Loss per share - basic and diluted:				
Net loss before extraordinary item	--	(0.29)	(0.23)	(0.43)
Extraordinary item	--	--	--	(0.12)
Net loss	--	(0.29)	(0.23)	(0.55)

Certain reclassifications have been made to the quarterly information previously presented in order to make them conform to the current presentation. The first quarter 2000 operating revenue previously reported in the Company's first quarter 2000 10-Q at $78,324, has been reduced by $1,233 to reflect the current practice of eliminating intersegment revenue and expense. The second quarter, third quarter, and fourth quarter 1999 operating revenues previously reported in the Company's 1999 10-K at $38,330, $75,747, and $79,542, respectively, have been reduced by $48, $207 and $219, respectively, to reflect the current practice of eliminating intersegment revenue and expense. The Company had no operations prior to the acquisitions of Alaska Communications Systems Holdings, Inc., CenturyTel's Alaska Properties, and ATU on May 14, 1999. Fourth quarter operating income for 1999 included stock based compensation expense of $6,145.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
SCHEDULE II- VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to other accounts (1)	Deductions (2)	Balance at End of Period
2000 Allowance for doubtful accounts	$ 5,203	$7,839	$ 751	$3,962	$9,831
1999 Allowance for doubtful accounts	$ --	$1,130	$4,798	$ 725	$5,203

(1) Represents the allowance for doubtful accounts at the date of acquisition, and reserve for accounts receivable collected on the behalf of others.

(2) Represents credit losses written off during the period, less collection of amounts previously written off.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Alaska Communications Systems Holdings, Inc. Anchorage, Alaska

We have audited the consolidated balance sheet of Alaska Communications Systems Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 1998, and the related consolidated statement of cash flows for the period from July 16, 1998 (date of inception) through December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alaska Communications Systems Holdings, Inc. and Subsidiaries as of December 31, 1998, and their cash flows for the period from July 16, 1998 (date of inception) through December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
March 24, 1999

ALASKA COMMUNICATIONS SYSTEMS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1998
ASSETS	
CURRENT ASSETS:	
Cash	$281,236
Receivable from employees and related party (Note 2)	41,771
Total current assets	323,007
PROPERTY, PLANT, AND EQUIPMENT, Net (Notes 1 and 3)	36,536
DEFERRED ACQUISITION AND FINANCING COSTS (Note 1)	248,637
DEPOSITS	11,820
	$620,000
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Accrued Liabilities	$ -
Advances payable to stockholder (Note 2)	620,000
Total current liabilities	620,000
COMMITMENTS AND CONTINGENCIES (Notes 4 and 5)	-
STOCKHOLDER'S EQUITY:	
Common stock, $.01 par value; authorized, 1,000 shares; outstanding, 1 share	-
	$620,000

See Notes To Consolidated Financial Statements.

ALASKA COMMUNICATIONS SYSTEMS HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from July 16, 1998 (Date of Inception) Through December 31, 1998
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments for property, plant, and equipment	$ (36,536)
Deferred acquisition costs	(248,637)
Deposits	(11,820)
Accounts receivable from employees and related party	(41,771)
Accrued liabilities	--
Net cash used in investing activities	(338,764)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from advances from stockholder	620,000
NET (DECREASE) INCREASE IN CASH	281,236
CASH, BEGINNING OF PERIOD	--
CASH, END OF PERIOD	$ 281,236

See notes to consolidated financial statements.

ALASKA COMMUNICATIONS SYSTEMS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JULY 16, 1998 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for Alaska Communications Systems Holdings, Inc. and Subsidiaries (the "Company") represent the operating results of the following three legal entities:

Alaska Communications Systems Holdings, Inc. (formerly ALEC Acquisition Corporation)

ALEC Acquisition Sub Corp., Inc.

Alaska Communications Systems, Inc.

The Company was organized in 1998 as the principal entity to acquire and manage telecommunication operations in Alaska. The principal activities in 1998 were the preparation of systems and obtaining financing for pending acquisitions (see Note 5). In May 1999, the Company was acquired and became a wholly owned subsidiary of ALEC Holdings, Inc.

A summary of significant accounting policies followed by the Company is set forth below:

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

PROPERTY, PLANT, AND EQUIPMENT is stated at cost. At December 31, 1998, the Company was in the early stages of opening its Corporate Headquarters in Anchorage. No depreciation was claimed in 1998 since the assets in service were acquired at year end.

DEFERRED ACQUISITION AND FINANCING COSTS are stated at cost and are direct costs incurred in connection with the Company's acquisitions and related financings.

REVENUES--No revenues or expenses have been generated since the Company was not in operation as of December 31, 1998.

2. TRANSACTIONS WITH RELATED PARTIES

Fox Paine Capital Fund, the majority stockholder of the Company's parent, ALEC Holdings, Inc., has advanced cash to allow the Company to operate until permanent funding is put in place at the closing of the acquisitions (see Note 5). Outstanding advances were $620,000 as of December 31, 1998. Fox Paine Capital Fund will continue to fund the Company until permanent funding is obtained at the closing of the acquisitions.

The Company advanced cash to a related party to perform certain consulting services in connection with the Company's pending acquisitions. Cash used is capitalized as deferred acquisition costs. Any unused cash that was advanced to this related party is to be repaid to the Company. As of December 31, 1998, the total amount of unused cash was $41,771.

3. PROPERTY, PLANT, AND EQUIPMENT

The balances by category of property, plant, and equipment, at December 31, 1998 are:

Office furniture, equipment, and other	$ 3,049
Construction work in progress	33,487
Total property, plant, and equipment	36,536
Less: Accumulated depreciation	--
Property, plant, and equipment - net	$36,536

4. LEASES

The Company has entered into an operating lease for office space in Anchorage, Alaska for its corporate headquarters. The lease is for 60 months and, under this lease agreement, future minimum annual rental payments are as follows:

1999	$278,772
2000	139,060
2001	141,841
2002	144,678
2003	147,571
Total	$851,922

5. COMMITMENTS AND CONTINGENCIES

The Company has announced two purchase agreements that will allow the Company to enter the telecommunications industry. The first agreement involves the acquisition of CenturyTel's Alaska holdings including Telephone Utilities of Alaska, Inc., Telephone Utilities of the Northland, Inc., PTI Communications of Alaska, Inc., Pacific Telecom of Alaska PCS, Inc., and Pacific Telecom Cellular of Alaska, Inc. and the second is with the Municipality of Anchorage to acquire all of its telecommunication investments. Upon completion of these two contracts, the Company will have in excess of 300,000 local telephone, 70,000 cellular, 20,000 long distance, and 16,000 Internet access lines. The combined purchase price is approximately $700 million. The Company is being funded by a $145 million equity contribution from its parent, ALEC Holdings, Inc., and the remainder with bank financed debt.

It is currently anticipated that by mid-1999 all regulatory approvals will have been granted and the acquisitions will be completed. At that time, the Company's primary business will be to provide traditional local telephone, long distance, cellular, and Internet service throughout the state of Alaska. Until the completion of the acquisitions, the Company is incurring costs to facilitate certain transition and financing activities.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Century Telephone Enterprises, Inc.:

We have audited the accompanying combined balance sheet of CenturyTel's Alaska Properties as of December 31, 1998, and the related combined statement of income and retained earnings, and cash flows for the year then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of CenturyTel's Alaska Properties as of December 31, 1998, and the results of their operations and their cash flows for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Shreveport, Louisiana
February 26, 1999

INDEPENDENT AUDITORS' REPORT

Board of Directors
Century Telephone Enterprises, Inc.
Monroe, Louisiana

We have audited the combined balance sheet of CenturyTel Alaska Properties as of December 31, 1997, and the related combined statements of income and retained earnings and of cash flows for the year ended December 31, 1996, eleven months ended November 30, 1997, and one month ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of CenturyTel Alaska Properties as of December 31, 1997, and the results of their operations and their cash flows for the year ended December 31, 1996, eleven months ended November 30, 1997, and one month ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
March 25, 1999

CENTURYTEL ALASKA PROPERTIES
COMBINED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 1997	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 871	$ 5,728
Accounts receivable:		
Customers, less allowance for doubtful accounts of $376, and $164 at December 31, 1997 and 1998, respectively	5,071	8,446
Affiliates (Note 8)	20,404	31,922
Connecting companies	4,146	10,984
Receivable from sale of cellular license	5,022	--
Miscellaneous accounts receivable and other	2,760	1,213
Material and supplies (at cost)	2,653	2,072
Prepayments	1,513	610
Total current assets	42,440	60,975
PROPERTY, PLANT, AND EQUIPMENT - Net (Note 4)	158,590	161,710
OTHER ASSETS:		
Excess cost of net assets acquired, less accumulated amortization of $5,056, and $6,853 at December 31, 1997 and 1998, respectively (Note 1)	248,948	242,632
Investments, at cost	997	976
Other, net	8,200	6,367
Total other assets	258,145	249,975
TOTAL ASSETS	$ 459,175	$ 472,660
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 5)	$ 1,316	$ 1,427
Accounts payable	3,275	5,322
Accrued expenses and other accrued liabilities:		
Salaries and benefits	2,434	1,949
Taxes	1,123	1,008
Other	684	1,849
Advance billings and customer deposits (Note 1)	1,643	2,019
Total current liabilities	10,475	13,574
LONG TERM DEBT (Note 5)	41,634	41,981
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes (Note 6)	11,297	13,523
Deferred investment tax credits	1,421	909
Other	3,034	1,711
Total deferred credits and other liabilities	15,752	16,143
SHAREHOLDER'S EQUITY:		
Common stock (103 and 104 shares authorized and 23 and 24 issued and outstanding, respectively)	23	24
Paid-in capital	393,026	393,026
Retained earnings	(1,735)	7,912
Total shareholder's equity	391,314	400,962
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 459,175	$ 472,660

See accompanying notes to combined financial statements.

CENTURYTEL ALASKA PROPERTIES
COMBINED STATEMENTS OF INCOME AND RETAINED EARNINGS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	ELEVEN MONTHS ENDED NOVEMBER 30, 1997	ONE MONTH ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
OPERATING REVENUES:				
Telephone	75,950	79,330	10,255	121,933
Cellular	4,823	5,120	181	2,576
Total operating revenues	80,773	84,450	10,436	124,509
OPERATING EXPENSES:				
Cost of sales and operating expenses-telephone	41,789	42,404	6,434	72,008
Cost of sales and operating expenses-cellular	3,381	3,082	147	2,128
Depreciation and amortization	15,348	15,823	2,466	30,459
Total operating expenses	60,518	61,309	9,047	104,595
OPERATING INCOME	20,255	23,141	1,389	19,914
OTHER INCOME (EXPENSE):				
Interest expense	(3,176)	(3,027)	(253)	(3,588)
Interest income (Note 8)	1,180	858	82	2,183
Other income (expense) - Net	(33)	(298)	53	356
Total other income (expense)	(2,029)	(2,467)	(118)	(1,049)
INCOME BEFORE INCOME TAX EXPENSE	18,226	20,674	1,271	18,865
INCOME TAX EXPENSE (Note 6)	6,737	7,746	736	9,218
NET INCOME	11,489	12,928	535	9,647
RETAINED EARNINGS AT BEGINNING OF PERIOD	63,216	61,079	--	(1,735)
Less dividends to shareholder	13,626	7,080	2,270	--
RETAINED EARNINGS AT END OF PERIOD	$ 61,079	$ 66,927	$ (1,735)	$ 7,912

See accompanying notes to combined financial statements.

CENTURYTEL ALASKA PROPERTIES
Combined Statements of Cash Flows
(In Thousands)

	YEAR ENDED DECEMBER 31, 1996	ELEVEN MONTHS ENDED NOVEMBER 30, 1997	ONE MONTH ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
OPERATING ACTIVITIES:				
Net income	11,489	12,928	535	9,647
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	15,348	15,823	2,466	30,459
Deferred income taxes and unamortized investment tax credits, net	1,538	1,160	65	24
Change in current assets and liabilities:				
Accounts receivable	14,476	(1,383)	3,873	(3,644)
Accounts payable	(6,828)	(2,986)	(1,527)	1,479
Other current assets and liabilities, net	(1,434)	(4,329)	176	2,427
Other, net	--	--	--	(2,101)
Net cash provided by operating activities	34,589	21,213	5,588	38,291
INVESTING ACTIVITIES:				
Payments for property, plant, and equipment	(20,465)	(14,575)	(1,825)	(26,799)
Other, net	(146)	1,021	(1,454)	135
Net cash provided (used) by investing activities	(20,611)	(13,554)	(3,279)	(26,664)
FINANCING ACTIVITIES:				
Proceeds from issuance of long-term debt	1,739	--	--	--
Dividends paid	(13,626)	(7,080)	(2,270)	--
Payments of long-term debt	(1,060)	(1,129)	(293)	(1,322)
Change in affiliate balance	--	--	--	(5,448)
Net cash used by financing activities	(12,947)	(8,209)	(2,563)	(6,770)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,031	(550)	(254)	4,857
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	644	1,675	1,125	871
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,675	$ 1,125	$ 871	$ 5,728
SUPPLEMENTAL CASH FLOW INFORMATION:				
Net assets of acquisitions contributed as paid-in capital, including push-down of goodwill of $32,159	$ --	$ 89,132	$ --	$ --
Push-down of excess costs of Alaskan entities from CenturyTel acquisition	--	--	208,389	--
Paydown of minority interest liability through transfer of property, plant, and equipment	--	--	1,525	--
Income tax paid	5,344	4,653	3,207	600
Interest paid	3,510	2,706	261	3,434

See accompanying notes to combined financial statements.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL--The combined financial statements for CenturyTel Alaska Properties (the "Company") represent the operating results of the following legal entities ("Alaskan Entities"):

Telephone Utilities of Alaska, Inc. ("TUA")

Telephone Utilities of the Northland, Inc. ("TUN")

PTI Communications of Alaska, Inc. ("PTICA")

Pacific Telecom of Alaska PCS, Inc. ("PTAPCS")

Pacific Telecom Cellular of Alaska, Inc. ("PTCA"), excluding the assets, liabilities and equity of Alaska RSA #1

TUA, TUN, PTICA, and PTAPCS were wholly owned subsidiaries of Pacific Telecom, Inc. ("PTI") and PTCA was a wholly owned subsidiary of Pacific Telecom Cellular, Inc., which was a wholly owned subsidiary of PTI. Until December 1, 1997, PacifiCorp Holdings owned 100% of the voting securities of PTI. The Company was acquired on December 1, 1997 as a result of Century Telephone Enterprises, Inc.'s ("CenturyTel") acquisition of Pacific Telecom, Inc. (the "Acquisition") (Note 13). The financial statements beginning December 1, 1997 reflect the excess cost of net assets acquired and the subsequent amortization expense which was allocated to the Alaska properties in accordance with purchase accounting.

TUA, TUN, PTICA, and PTAPCS became wholly owned subsidiaries of CenturyTel of the Northwest, Inc. ("CNI") which is a wholly owned subsidiary of CenturyTel. PTCA is a wholly owned subsidiary of CenturyTel Wireless, Inc. ("CT Wireless") which is a wholly owned subsidiary of CenturyTel.

The Company's primary business is to provide traditional and cellular telephone service to its customers which are located in the state of Alaska. The Company was dependent on PTI and certain subsidiaries prior to the Acquisition and is dependent upon CenturyTel and certain CenturyTel subsidiaries to provide construction and maintenance services, materials and supplies and managerial, technical and accounting services. Inter-company billings include a return on investment to the related company.

The Company's telephone operations are regulated in nature and its telephone accounting records are maintained in accordance with the rules and regulations of the Alaska Public Utilities Commission ("APUC") which substantially adhere to the rules and regulations of the Federal Communications Commission. The Company's regulated operations are subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, Accounting For The Effects Of Certain Types Of Regulation.

ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

REVENUE RECOGNITION--Revenues are recognized when earned. The Company participates in toll revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the APUC within the intrastate jurisdiction and the Federal Communications Commission within the interstate jurisdiction. Much of the interstate toll service revenue earned through various pooling processes is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent rate of return published by the National Exchange Carriers Association. These estimates are subject to subsequent adjustment in future accounting periods as refined operational information becomes available. Any subsequent adjustments have not been material.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT, AND EQUIPMENT--Telephone plant is stated substantially at original cost of construction. Telephone plant retired in the ordinary course of business, together with cost of removal, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Renewals and betterments of telephone plant are capitalized while repairs, as well as renewals of minor items, are charged to operating expense.

The Company provides depreciation for telephone plant on the straight-line method, using rates approved by the regulatory authorities. Depreciation expense for telephone plant amounted to $13,774, $14,406, $1,737, and $23,550 for the year ended December 31, 1996, eleven months ended November 30, 1997, one month ended December 31, 1997, and year ended December 31, 1998, respectively. Included in 1998 expense is additional depreciation of approximately $1,506 which was approved by the regulatory authorities. The composite depreciation rate was 5.7% for the year ended December 31, 1996, 5.8% for the eleven months ended November 30, 1997 and the one month ended December 31, 1997, and 6.1% for the year ended December 31, 1998.

Non-telephone plant is stated at cost and, when sold or retired, a gain or loss is recognized. Depreciation of such property is provided on the straight-line method over its estimated service lives ranging from 7 to 15 years. Depreciation for non-telephone plant amounted to $1,198, $922, $190, and $583 for the year ended December 31, 1996, eleven months ended November 30, 1997, one month ended December 31, 1997, and the year ended December 31, 1998, respectively.

LONG-LIVED ASSETS AND EXCESS COST OF NET ASSETS ACQUIRED (GOODWILL)--The carrying value of long-lived assets, including allocated goodwill, is reviewed for impairment at least annually, or whenever events or changes in circumstances indicate that such carrying value may not be recoverable, by assessing the recoverability of such carrying value through estimated undiscounted future net cash flows expected to be generated by the assets. The excess cost of net assets acquired is being amortized over 40 years. Amortization expense was $333 for the year ended December 31, 1996, $455 during the eleven months ended November 30, 1997, $537 during the one month ended December 31, 1997, and $6,326 for the year ended December 31, 1998.

INCOME TAXES--Prior to the Acquisition, the Company was included in the consolidated federal income tax return of PacifiCorp Holdings and CenturyTel in subsequent periods. For financial accounting purposes, federal income taxes are computed and recorded as if the Company filed a separate federal income tax return, except that, (i) in the event the Company generates a net tax loss which is utilized in the respective consolidated return, the Company will be given the benefit of such loss, and (ii) income taxes are calculated based upon the statutory tax rate in effect for PacifiCorp prior to the Acquisition and CenturyTel and its subsidiaries for subsequent periods on a consolidated basis. The Company periodically settles amounts owed to CenturyTel for federal income taxes. The Company is included in a consolidated Alaska state income tax return.

The Company uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are established for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Investment tax credits related to plant have been deferred and are being amortized as a reduction of federal income tax expense over the estimated useful lives of the assets giving rise to the credits.

Pursuant to SFAS 71, the regulatory liability, net of the related tax impact, is being amortized as a reduction of federal income tax expense over the estimated remaining lives of the assets which generated the deferred taxes.

CASH EQUIVALENTS--For purposes of the statement of cash flows, the Company considers all demand deposits, central depository bank account ("CDA") deposits, and all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

INVESTMENTS--The Rural Telephone Bank ("RTB") requires borrowers of RTB funds to purchase RTB stock as a percentage of loan funds provided. These investments have been accounted for using the cost method.

ADVANCE BILLINGS--Advance billings creditable to revenue accounts in future months are recorded in advance billings until the service is rendered.

(IN THOUSANDS)

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS PER SHARE--The common stock of the Company is not traded in a public market; therefore, earnings per share amounts are not presented in accordance with SFAS 128, EARNINGS PER SHARE.

2. PCS LICENSE ACQUISITION COSTS

In early 1997, the Company was awarded three 10 MHz licenses to provide personal communications services ("PCS") in Alaska. The Company paid $3,023 for such licenses, which will be amortized over the useful economic lives once construction is complete. At this time, construction has not yet begun. These licenses are included in Other Assets on the balance sheet.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND CUSTOMER DEPOSITS--The carrying amount approximates the fair value due to the short maturity of these instruments.

OTHER INVESTMENTS--The Company's other investments are represented by its investment in RTB stock. The carrying amount of such investment approximates the fair market value of these instruments.

LONG-TERM DEBT--The carrying value of the Company's long-term debt had a fair value of $42,669 at December 31, 1997 and $45,853 at December 31, 1998. The fair value was estimated by discounting the scheduled payment streams to present value based upon rates currently offered to the Company for debt of similar remaining maturities. Prepayment penalties and other costs of debt retirement are not reflected in the estimates.

4. PROPERTY, PLANT, AND EQUIPMENT, NET

The following table summarizes the major classes of property, plant, and equipment as of December 31, 1997 and 1998:

	1997	1998
General Support	$ 33,508	$ 31,811
Central office	113,040	120,613
IOT	21,283	5,652
Cable and wire	221,428	232,819
Construction in progress	5,633	9,345
Non-regulated and other	677	8,452
Telephone property, plant, and equipment	395,569	408,692
Less accumulated depreciation	(238,228)	(248,915)
Net telephone property, plant, and equipment	157,341	159,777
Wireless property, plant, and equipment	1,340	2,617
Less accumulated depreciation	(91)	(684)
Net wireless property, plant, and equipment	1,249	1,933
Property, plant, and equipment, net	$ 158,590	$ 161,710

The Company retired approximately $1,762 of telephone property, plant, and equipment and a like amount of accumulated depreciation in

1998.

(IN THOUSANDS)

5. LONG-TERM DEBT

Long-term debt as of December 31, 1997 and 1998 is summarized below:

	1997	1998
First mortgage notes:		
5.0%-6.5%, due in installments to 2027	$ 29,226	$ 28,546
7.2%-9.4%, due in installments to 2020	10,820	10,588
10.1%-11.8%, due in installments to 2017	2,904	2,672
Unsecured note at 3%, due in installments to 2007	--	1,602
Subtotal	42,950	43,408
Less current maturities	(1,316)	(1,427)
Total long-term debt, excluding current maturities	$ 41,634	$ 41,981

The approximate annual debt maturities for the five years subsequent to December 31, 1998 are as follows: 1999, $1,427; 2000, $1,527; 2001, $1,637; 2002, $1,755; and 2003, $1,551.

At December 31, 1998, under the most restrictive covenant of the Company's long-term debt agreement, all of the Company's retained earnings were available for the payment of cash dividends.

Substantially all of the Company's telephone property, plant, and equipment is pledged to secure the first mortgage notes.

6. INCOME TAXES

Income tax expense consists of the following components:

	YEAR ENDED DECEMBER 31, 1996	ELEVEN MONTHS ENDED NOVEMBER 30, 1997	ONE MONTH ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
Federal:				
Current	$ 4,733	$ 5,689	$ 575	$ 7,093
Deferred	265	109	(12)	(177)
State:				
Current	1,388	1,708	170	2,101
Deferred	351	240	3	201
Income tax expense	$ 6,737	$ 7,746	$ 736	$ 9,218

(IN THOUSANDS)

6. INCOME TAXES (Continued)

The following is a reconciliation from the statutory federal income tax rate to the Company's effective income tax rate:

	YEAR ENDED DECEMBER 31, 1996	ELEVEN MONTHS ENDED NOVEMBER 30, 1997	ONE MONTH ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Sate income taxes, net of federal income tax benefit	6.00%	6.00%	8.44%	7.90%
Amortization of nondeductible excess cost of net assets acquired	--	--	14.20%	10.10%
Amortization of excess deferred income taxes	(1.67)%	(1.32)%	(2.18)%	(1.60)%
Amortization of deferred investment tax credits	(3.15)%	(2.27)%	(3.76)%	(2.70)%
Other, net	0.78%	0.06%	6.20%	0.20%
Effective income tax rate	36.96%	37.47%	57.90%	48.90%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1998 were as follows:

	1997	1998
Deferred tax assets:		
Regulatory liability	$ 18	$ 388
Deferred investment tax credits	991	374
Other	829	567
Total gross deferred tax assets	1,838	1,329
Less: Valuation allowances	--	--
Net Deferred tax assets	1,838	1,329
Deferred tax liabilities:		
Property, plant, and equipment, primarily due to depreciation differences	(13,088)	(14,112)
Excess costs of net assets acquired	(47)	(740)
Total gross deferred tax liabilities	(13,135)	(14,852)
Net deferred tax liability	$(11,297)	$(13,523)

(IN THOUSANDS)

7. EMPLOYEE BENEFIT PLANS

Substantially all employees of the Company, except those who are members of the International Brotherhood of Electrical Workers ("IBEW"), are covered by a pension plan (the "Plan") which is sponsored by PTI before the Acquisition and CNI subsequently which includes other affiliated companies. The Plan provides benefits based upon employees' total years of service and the highest five years compensation during their last 10 years of service. The Company's portion of pension income was $57 during the year ended December 31, 1996, $219 during the eleven months ended November 30, 1997, $23 during the one month ended December 31, 1997, and $384 for the year ended December 31, 1998. Because actuarial information regarding the status of the Plan is computed for the Plan in total, the Company does not separately determine its portion of the actuarial present value of the accumulated plan benefits, projected benefit obligation, or net assets available for benefits.

In accordance with the purchase agreement with Alaska Communications Systems Holdings, Inc., formerly known as ALEC Acquisition Corporation ("ALEC") (see Note 13), the Plan assets and obligations will be valued at the closing date. Based on this valuation, assets equaling the actuarial present value of the accrued benefits of the Company's employees, plus an additional $250, will be transferred to a replacement plan.

The Company participates in a post retirement health care and insurance plan (the "PRB Plan") which is sponsored by PTI prior to acquisition and by CNI subsequently which includes other affiliated companies.

The Company recognizes the cost of other post retirement benefits over the active service period of its employees. PTI's policy was to fund annually an amount of the post retirement benefit liability that will systematically reduce that liability using available funds and allow deductibility for federal income tax purposes. Due to income tax regulations that restrict the deductibility of certain contributions for post retirement benefits, PTI elected to make non-tax contributions to meet funding requirements imposed by state regulatory commissions. PTI recognized the transition obligation, which represents the previously unrecognized prior service cost, over a period of 20 years. Because actuarial information regarding the status of the PRB Plan is computed for the PRB Plan in total, PTI did not separately determine its portion of the actuarial present value of the accumulated plan benefit, projected benefit obligations or net assets available for benefits. At December 31, 1997, the date of the latest actuarial evaluation for the PRB Plan, plan assets were less than the projected benefit obligation by approximately $46,246 and the unamortized portion of the transition obligation was $26,099. The Company's portion of the net periodic post-retirement benefit cost was $846 during the year ended December 31, 1996, $485 during the eleven months ended November 30, 1997, $41 during the one month ended December 31, 1997, and $471 during the year ended December 31, 1998, as follows:

Service cost	$ 183
Interest cost	392
Amortization of transition obligation	116
Amortization of unrecognized prior service cost	(4)
Expected return on assets	(216)
Net periodic postretirement benefit cost	$ 471

At the time of adoption of SFAS 106, Employers' Accounting For Postretirement Benefits Other Than Pensions, the Company elected to amortize the transition obligation, at the date of implementation, over 20 years.

In accordance with the purchase agreement with ALEC (see Note 13), the purchaser assumes the liability for post retirement benefits related to employees that retire subsequent to the closing date.

8. CERTAIN TRANSACTIONS

The Company purchases certain plant materials and other services (including certain operating expenses) from PTI, CenturyTel, and other affiliated companies. Materials and services purchased by the Company from PTI prior to acquisition and CenturyTel and its subsidiaries subsequently totaled approximately $9,227 for the year ended December 31, 1996, $8,581 for the eleven months ended November 30, 1997, $1,626 for the one month ended December 31, 1997, and $29,306 (which included $15,648 of operating expenses) during the year ended December 31, 1998. Many of the costs that are allocated to the Alaska companies are based on time distribution and are, therefore, representative of what costs would have been on a stand-alone basis. General and administrative costs are allocated based on expense levels of all companies. Such costs, when allocated to the subsidiaries, include a reasonable rate of return on investment to the related affiliate and, therefore, are representative of what costs would have been on a stand-alone basis.

Prior to the Acquisition, short-term advances were made to PTI under an agreement providing interest at the prime commercial rate for funds held more than 90 days. Interest income on these advances was $1,052 during the year ended December 31, 1996, $797 during the eleven months ended November 30, 1997, and $81 during the one month ended December 31, 1997.

Subsequent to the Acquisition, the Company participates in a Central Depository Account ("CDA") with CenturyTel and other affiliates. The Company is assessed or receives interest on the net amount of its CDA balance and the net accounts receivable or payable to CenturyTel and its affiliates. Related interest income amounted to $2,156 for the year ended December 31, 1998. The rate used to calculate the related interest income was the three month U.S. T-Bill rate. Related interest expense amounted to $637 for the year ended December 31, 1998. The rate used to calculate the related interest expense was the weighted average rate of CenturyTel's debt.

9. BUSINESS AND CREDIT CONCENTRATIONS

The Company provides telephone services to customers (business and residential) located in the state of Alaska. Receivables from connecting companies represent the amounts due from various long distance carriers such as AT&T and the Bell operating companies.

The ultimate realization of the Company's balance in the CDA discussed above is dependent upon the financial resources of CenturyTel.

10. COMMITMENTS AND CONTINGENCIES

Expenditures for property, plant, and equipment are anticipated to be approximately $19,469 for telephone operations and $615 for wireless operations during 1999.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of the matters will not have a material adverse effect on the Company's financial position or results of operations.

The Company's operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to, hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of property and a generator of hazardous wastes, the Company could be subject to certain environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. The Company believes, however, that its operations are in substantial compliance with applicable environmental laws and regulations and that there is no material exposure to loss related to environmental issues.

(IN THOUSANDS)

10. COMMITMENTS AND CONTINGENCIES (Continued)

Many of the Company's properties formerly contained, or currently contain, underground and aboveground storage tanks used for the storage of fuel or wastes. Some of these tanks have leaked. The Company believes that known contamination caused by these leaks has been, or is being, investigated or remediated. The Company cannot be sure, however, that it has discovered all contamination or that the regulatory authorities will not request additional remediation at sites that have previously undergone remediation.

11. BUSINESS SEGMENTS

The Company is engaged in providing local exchange telephone services and cellular telephone services in Alaska. The following tables illustrate selected financial data for each segment:

YEAR ENDED DECEMBER 31, 1996	TELEPHONE	CELLULAR	TOTAL
Operating revenues	$ 75,950	$ 4,823	$ 80,773
Depreciation and amortization	14,383	965	15,348
Operating income	19,778	477	20,255
Capital expenditures	19,694	771	20,465

ELEVEN MONTHS ENDED NOVEMBER 30, 1997	TELEPHONE	CELLULAR	TOTAL
Operating revenues	$ 79,330	$ 5,120	$ 84,450
Depreciation and amortization	15,090	733	15,823
Operating income	21,836	1,305	23,141
Capital expenditures	14,225	350	14,575

ONE MONTH ENDED DECEMBER 31, 1997	TELEPHONE	CELLULAR	TOTAL
Operating revenues	$ 10,255	$ 181	$ 10,436
Depreciation and amortization	2,375	91	2,466
Operating income	1,446	(57)	1,389
Capital expenditures	1,732	93	1,825
Total assets	450,155	9,020	459,175

YEAR ENDED DECEMBER 31, 1998	TELEPHONE	CELLULAR	TOTAL
Operating revenues	$ 121,933	$ 2,576	$ 124,509
Depreciation and amortization	29,734	725	30,459
Operating income (loss)	20,190	(276)	19,914
Capital expenditures	26,664	135	26,799
Total assets	470,649	2,011	472,660

(IN THOUSANDS)

11. BUSINESS SEGMENTS (Continued)

The following is a reconciliation of operating income to income before income tax expense:

	YEAR ENDED DECEMBER 31, 1996	ELEVEN MONTHS ENDED NOVEMBER 30, 1997	ONE MONTH ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998
Operating income	$ 20,255	$ 23,141	$ 1,389	$ 19,914
Interest expense	(3,176)	(3,027)	(253)	(3,588)
Interest income	1,180	858	82	2,183
Other income (expense), net	(33)	(298)	53	356
Income before income tax expense	$ 18,226	$ 20,674	$ 1,271	$ 18,865

12. ACCOUNTING FOR THE EFFECTS OF REGULATION

The Company currently accounts for its regulated telephone operations in accordance with the provisions of SFAS 71. While the ongoing applicability of SFAS 71 to the Company's telephone operations is being monitored due to the changing regulatory, competitive, and legislative environments, the Company believes that SFAS 71 still applies. However, it is possible that changes in regulation or legislation or anticipated changes in competition or in the demand for regulated services or products could result in the Company's telephone operations not being subject to SFAS 71 in the near future. In that event, implementation of SFAS 101, Regulated Enterprises--Accounting For The Discontinuance Of Application Of FASB Statement No. 71, would require the write-off of previously established regulatory assets and liabilities, along with an adjustment of certain accumulated depreciation accounts to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the Company's telephone operations not been subject to rate regulation. Regulatory assets were $45,600,000, and regulatory liabilities were $880,000. Such discontinuance of the application of SFAS 71 would result in a material, noncash charge against earnings which would be reported as an extraordinary item. While the effect of implementing SFAS 101 cannot be precisely estimated at this time, management believes that the noncash, after-tax, extraordinary charge would be between $25,000 and $28,000.

(IN THOUSANDS)

13. ACQUISITIONS AND DISPOSITIONS

On September 8, 1997, the Company acquired the outstanding stock of Polarnet, Inc., an Internet service provider. The purchase price was approximately $1,100 and was accounted for by the purchase method. The excess of the purchase price over the estimated fair value of net assets acquired amounted to approximately $968, which is included in goodwill. The results of operations of Polarnet, Inc. from September 8, 1997 are included in the statement of income.

On October 6, 1997, PTI acquired the net assets of the local exchange utilities ("PTI-Fairbanks") from the City of Fairbanks. The purchase price was approximately $87 million and was accounted for by the purchase method. The excess of the purchase price over the estimated fair value of net assets acquired amounted to approximately $31 million, which is included in goodwill. The results of operations of PTI-Fairbanks from October 6, 1997 are included in the statements of income. Assets and liabilities acquired were as follows:

Fair value of assets acquired	$ 86,750
Cash paid for net assets	(85,000)

Liabilities assumed	$ 1,750
	========

On December 1, 1997, PTI was sold to CenturyTel for approximately $2.2 billion (including assumed debt). As a result of this transaction, the Company recorded all previously retained earnings as paid-in capital and pushed down excess costs of approximately $208 million to the Alaskan entities to reflect the change from PTI's to CenturyTel's basis of accounting.

In August 1998 CNI and CT Wireless entered into a definitive agreement to sell the stock of the Company to ALEC for approximately $409 million, subject to certain adjustments. The transaction is anticipated to close in 1999 subject to regulatory approvals and various closing conditions.

14. YEAR 2000 (Unaudited)

The Company has initiated a plan ("Year 2000 Plan") to identify, assess, and remediate "Year 2000" issues within each of its significant computer programs and certain equipment which contain micro-processors. The Year 2000 Plan is addressing the issue of computer programs and embedded computer chips being unable to distinguish between the year 1900 and the year 2000, if a program or chip uses only two digits rather than four to define the applicable year. The Company has divided the Year 2000 Plan into four major phases--assessment, planning, implementation, and testing. After completing the assessment and planning phases earlier this year, the Company is currently in the implementation and testing phases. Systems which have been determined not to be Year 2000 compliant are being either replaced or reprogrammed, and thereafter tested for Year 2000 compliance. The Year 2000 Plan anticipates that by October 1999 the implementation and testing phases will be completed.

The Company is identifying and contacting critical suppliers and customers whose computerized systems interface with the Company's systems, regarding their plans and progress in addressing their Year 2000 issues. The Company has received varying information from such third parties on the state of compliance or expected compliance. Contingency plans are being developed in the event that any critical supplier or customer is not compliant.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's operations, liquidity, and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether consequences of Year 2000 failures will have a material impact on the Company's operations, liquidity, or financial condition.

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Assembly Municipality of Anchorage:

We have audited the accompanying balance sheets of the Municipality of Anchorage Telephone Utility Fund (Utility) as of December 31, 1998 and 1997, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the Municipality of Anchorage Telephone Utility Fund and are not intended to present fairly the financial position and results of operations of the Municipality of Anchorage in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Anchorage Telephone Utility Fund as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Anchorage, Alaska
February 19, 1999

MUNICIPALITY OF ANCHORAGE
TELEPHONE UTILITY FUND
BALANCE SHEETS
(IN THOUSANDS)

	December 31, 1997	December 31, 1998
ASSETS		
CURRENT ASSETS		
Cash	$ 10,474	$ 25,755
Accounts receivable, net of uncollectibles of $1,586 and $1,343 in 1998 and 1997	21,216	23,733
Inventories	4,415	3,074
Total current assets	36,105	52,562
RESTRICTED CASH	2,067	754
RESTRICTED INVESTMENTS	12,895	14,838
NET TELEPHONE PLANT	250,669	257,703
OTHER ASSETS		
Cellular licenses	9,670	16,315
Minority investments	7,983	5,535
Other	3,735	2,538
Total other assets	21,388	24,388
TOTAL ASSETS	$323,124	$350,245
FUND EQUITY AND LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 23,211	$ 24,366
Accrued interest	1,730	2,227
Compensated absences payable	3,297	2,786
Accrued employee benefits	2,141	1,938
Advance billings and customer deposits	4,386	4,523
Current installments of long-term obligations	16,719	17,614
Total current liabilities	51,484	53,454
LONG-TERM OBLIGATIONS	135,226	154,907
FUND EQUITY		
Retained Earnings	136,414	141,884
TOTAL FUND EQUITY AND LIABILITIES	$323,124	$350,245

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE
TELEPHONE UTILITY FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
OPERATING REVENUES			
Local telephone	$ 113,415	$ 116,555	$ 121,057
Cellular	16,897	21,845	29,225
Long distance	2	1,541	6,815
Total operating revenue	130,314	139,941	157,097
OPERATING EXPENSES			
Cost of sales and operating expenses--local	75,980	74,994	74,240
Cost of sales and operating expenses--cellular	12,379	14,455	19,961
Cost of sales and operating expenses--long distance	543	4,644	10,395
Depreciation and amortization	20,496	26,839	29,608
Total operating expenses	109,398	120,932	134,204
OPERATING INCOME	20,916	19,009	22,893
Interest expense	(9,187)	(9,308)	(9,394)
Equity in earnings (loss) of minority investments	(45)	158	(2,945)
Interest income	2,347	2,540	2,967
Other income (expense), net	(174)	(281)	49
Net other expense	(7,059)	(6,891)	(9,323)
NET INCOME	13,857	12,118	13,570
RETAINED EARNINGS, JANUARY 1	126,839	132,596	136,414
Utility Revenue Distribution to Municipality of Anchorage	(8,100)	(8,300)	(8,100)
RETAINED EARNINGS, PERIOD END	$ 132,596	$ 136,414	$ 141,884

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE
TELEPHONE UTILITY FUND
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations	$ 20,477	$ 19,005	$ 22,548
Adjustments to reconcile income from operations to net cash provided by operating activities			
Depreciation and amortization	20,496	26,839	29,608
Provision for uncollectible accounts	1,112	1,113	1,643
Loss on disposition of fixed assets	288	100	174
Non-regulated income and other	439	43	95
Changes in assets and liabilities which increase (decrease) cash			
Accounts receivable	(996)	(4,040)	(4,160)
Inventory of materials, supplies, and goods for resale	159	(504)	1,341
Other assets	(364)	120	1,244
Accounts payable	(25)	4,172	1,155
Accrued employee benefits and compensated absences payable	1,198	194	(713)
Customer deposits	(620)	(262)	(292)
Advance billings	306	558	428
Other liabilities	(350)	(697)	136
Net cash provided by operating activities	42,120	46,641	53,207
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash flows from noncapital financing activities			
Utility revenue distribution--Municipality of Anchorage	(8,100)	(8,300)	(8,100)
Cash flows from capital and related financing activities			
Acquisition of telephone plant	(24,958)	(35,187)	(29,644)
Short-term advance from Municipality of Anchorage General Fund	(12,000)	--	--
Principal payments on long-term obligations	(22,002)	(19,617)	(17,340)
Bond issuance	43,659	24,790	29,592
Interest payments on long-term obligations	(6,513)	(7,952)	(8,011)
Cost of removal of telephone plant	(181)	(650)	(77)
Net cash provided (used) by capital and related financing activities	(21,995)	(38,616)	(25,480)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests	2,347	2,325	2,968
Minority investments	(2,398)	(5,227)	(7,283)
Proceeds from sale of restricted investments	12,865	12,109	13,912
Purchase of restricted investments	(13,601)	(12,872)	(15,256)
Net cash used by investing activities	(787)	(3,665)	(5,659)
NET CHANGE IN CASH	11,238	(3,940)	13,968
CASH, JANUARY 1	5,243	16,481	12,541
CASH, PERIOD END (including Restricted Cash (see Note 1))	$ 16,481	$ 12,541	$ 26,509
NON-CASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES			
Retirement of telephone plant	$ 7,124	$ 9,077	$ 3,401
Write down of long-term investments	--	--	1,888
Financed equipment purchased	--	--	6,655
Total Non-cash Capital, Financing, and Investing Activities	$ 7,124	$ 9,077	$ 11,944

See accompanying notes to financial statements.

(IN THOUSANDS)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description Of Business

The accompanying financial statements include the activities of the Telephone Utility Fund (Utility), a public utility of the Municipality of Anchorage (Municipality), ATU Communications, Inc. (ACI), a holding company, MACtel, Inc. (MACtel) and ATU Long Distance, Inc. (ATU LD), wholly owned subsidiaries of ACI. All significant intercompany transactions have been eliminated.

The regulated arm of the Utility provides local telecommunications service and access to long distance telecommunications service to the Anchorage Bowl area and to Girdwood and other small communities in the area south of the Anchorage Bowl both inside and outside the boundaries of the Municipality. The nonregulated arm of the Utility sells, rents, and leases customer premise equipment to customers throughout the State of Alaska. MACtel is a wholesale/retail cellular service provider that operates in Anchorage, the Kenai Peninsula, and the North Star and North Slope Boroughs. ATU LD provides long distance service to customers in Anchorage, Fairbanks, Juneau, the Kenai Peninsula and the Matanuska Valley. Approximately 70% of the Utility's employees are covered under a labor contract with the International Brotherhood of Electrical Workers (IBEW) which expires on August 31, 1999.

On January 5, 1998, MACtel acquired certain assets of Pacific Telecom Cellular of Alaska RSA #1, Inc. and stock of Prudhoe Communications, Inc., collectively d/b/a Cellulink, a cellular service company in Fairbanks, Alaska for $8,900.

The purchase price was allocated as follows:

Property and equipment	$	1,817
Cellular licenses		7,083

	$	8,900
		=======

Results of operations for the acquired companies have been included in 1998 operations since the date of acquisition. Pro forma information for prior periods is not presented because it is not material.

Sale Of Utility

During 1998, the Municipal Assembly accepted a bid in the amount of $295,000 from Alaska Communications Systems, Inc. to acquire substantially all of the assets and assume substantially all of the liabilities of the Utility. The sale will become effective after review and approval by the Alaska Public Utilities Commission (APUC), the Federal Communications Commission (FCC), and non-action by the United States Department of Justice under the Hart-Scott-Rodino Act. The sales price will be adjusted based upon levels of cash and net plant on the closing date.

Regulation

The Utility is subject to rate regulation by the FCC for interstate telecommunication service, and the APUC for intrastate and local exchange telecommunication service. The Utility, as required by the FCC, accounts for such activity separately.

The services of ATU LD are subject to rate regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the APUC for intrastate telecommunication services. The operations of MACtel are not subject to rate regulation.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis Of Accounting

The accounting records of the Utility conform to Part 32 Uniform System of Accounts as prescribed by the FCC and the APUC.

The accompanying financial statements are prepared on the accrual basis of accounting. The accounting policies of the Utility are in conformity with the requirements of the FCC and the APUC. The Utility prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". Accounting under SFAS No. 71 is appropriate as long as rates are established by or subject to approval by independent third-party regulators; rates are designed to recover the specific enterprise's cost-of-service; and in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be collected from customers.

Under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting And Financial Reporting For Proprietary Funds And Other Governmental Entities That Use Proprietary Fund Accounting, the Utility applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins, unless they conflict with or contradict GASB pronouncements. ATU follows the provisions of GASB Statement No. 27 to account for pension and post-retirement costs, which differs from FAS Statement No. 87 and FAS Statement No. 106 regarding the methodology for calculation of such costs and how they are recorded and disclosed. Specifically, GASB Statement No. 27 requires that annual pension cost be equal to the annual required contributions of the employer (ARC) to the plan for that year calculated via an actuarial valuation performed in accordance with specific parameters. These parameters address such matters as the frequency of actuarial valuations, acceptable actuarial cost methods, asset valuation methodology, minimum and maximum amortization periods and the amortization method. Generally, employers are required to record a net pension obligation (NPO) if the ARC calculated in accordance with the parameters exceeds actual contributions made. Annual pension cost is calculated as the ARC, one year's interest on the NPO, and certain required adjustments. Under GASB Statement No. 27, employers are permitted to apply the measurement and recognition requirements of GASB Statement No. 27 to postemployment healthcare benefits.

Pursuant to GASB Statement No. 27, the Municipality of Anchorage Telephone Utility Fund recorded annual pension cost of $1,041,000 for the year ended December 31, 1998, of which $749,520 related to pension benefits and $291,480 related to postemployment healthcare benefits. As of December 31, 1998 and 1997, there is no NPO.

Under FASB Statement No. 87, Employers' Accounting For Pensions, the following components are included in the net pension cost recognized for a period by an employer sponsoring a defined benefit pension plan:

- Service cost

- Interest cost

- Actual return on plan assets, if any

- Amortization of unrecognized prior service cost, if any

- Gain or loss (including the effects of changes in assumptions) to the extent recognized

- Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of FASB Statement No. 87.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The service component of net periodic pension cost, the projected benefit obligation, and the accumulated benefit obligation are based on an attribution of pension benefits to periods of employee service and on the use of actuarial assumptions to calculate the actuarial present value of those benefits. Actuarial assumptions reflect the time value of money (discount rate) and the probability of payments (assumptions as to mortality, turnover, early retirement, and so forth).

Under FASB Statement No. 87, a liability (unfunded accrued pension cost) is recognized if net periodic pension cost recognized pursuant to FASB Statement No. 87 exceeds amounts the employer has contributed to the plan. An asset (prepaid pension cost) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.

If the accumulated benefit obligations exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation. Recognition of an additional minimum liability is required in certain other circumstances.

Accounting for post retirement benefits pursuant to FASB Statement No. 106, Employers' Accounting For Postretirement Benefits Other Than Pensions, is similar to the accounting proscribed for pension benefits in accordance with FASB Statement No. 87.

It is not practicable to quantify the differences between the statements without an additional complete actuarial valuation because the actuarial calculations for FAS Statement No. 87 purposes require different assumptions and represent different measurement bases. Other differences between GASB and FAS have been evaluated and have been determined not to be material for the periods presented.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

Cash Pools And Restricted Investments

The Municipality uses a central treasury to account for all cash and investments to maximize interest income. Interest income from cash pool investments is allocated to the Utility based on its monthly closing cash pool equity balance. Restricted investments are recorded at fair value. All amounts in the cash pools and in restricted investments are interest bearing and consist primarily of repurchase agreements, banker's acceptances or U.S. Government securities. The Utility adopted GASB Statement No. 31, Accounting And Financial Reporting For Certain Investments And For External Investment Pools, during 1998. The impact of adopting this statement was not material to the financial statements.

Under GASB Statement No. 3, Deposits With Financial Institutions, Investments (Including Repurchase Agreements), And Reverse Repurchase Agreements, the Utility's cash and investments are classified in credit risk category 1 because they are insured or registered or are securities held by the Utility or its agent in the Utility's name.

Statement Of Cash Flows

The Utility has adopted GASB Statement No. 9, Reporting Cash Flows Of Proprietary And Nonexpendable Trust Funds And Governmental Entities That Use Proprietary Fund Accounting. For purposes of the statement of cash flows, the Utility has defined cash as the demand deposits and investments maintained in the general and construction cash pools, including restricted and unrestricted balances, as well as cash balances maintained separately from the cash pools. Maturity periods of investments have been disregarded, since the Utility uses the general and construction cash pools as demand deposit accounts.

(IN THOUSANDS)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash consists of the following at December 31:

	1996	1997	1998
Equity in general cash pool	14,427	9,401	19,254
Cash	963	1,073	6,501
Total cash	15,390	10,474	25,755
Amounts included with restricted investments:			
Equity in construction cash pool	--	927	--
Equity in general cash pool reserved for customer deposits	1,091	830	537
Cash included in revenue bond reserve investments	--	310	217
	$16,481	$12,541	$26,509

Inventories

The Utility's inventories, consisting primarily of parts and supplies, are valued at the lower of weighted average cost or market.

Telephone Plant

Telephone plant is stated at cost. The additions to telephone plant in service are recorded at the original cost of contracted services, direct materials and labor, and indirect overhead charges. When property is retired, the cost of the property unit, plus removal costs, less salvage, is charged to accumulated depreciation. Gain or loss on the retirement of regulated telephone plant is not recognized except for extraordinary retirements.

The Utility's depreciation is computed using the straight-line method over the estimated lives of the assets. Current rates on regulated plant were implemented January 1, 1997 and were based on APUC Docket U-96-78. MACtel and ATU LD property and equipment are depreciated using the straight-line and declining balance methods over the estimated useful asset lives.

The estimated life in years of major plant and equipment categories follows:

PLANT AND EQUIPMENT	ESTIMATED LIFE
Buildings	56
Central office equipment	9-10
Cable, wire and conduit	12-46
Furniture, computers and support equipment	7-22
Vehicles	11-19
Leasehold improvements	2-3
Nonregulated	3-10

Minority Investments

Minority investments consist of investments in companies which are accounted for using the equity method.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cellular Licenses

Cellular licenses are stated at net book value. Amortization is computed on the straight-line method over an estimated useful life of 40 years.

Discount On Revenue Bonds Payable

The discount on revenue bonds payable is amortized over the life of the related bond issue using the effective interest method.

Revenue Recognition

Recurring revenues are billed one month in advance and are deferred until the month earned. Nonrecurring revenues are billed in arrears and are recognized when earned.

During 1998 the Utility participated in both interstate and intrastate common line pooled settlements. During 1998 the Utility did not participate in any traffic-sensitive pools. Pooled revenues are based on settlements with the applicable pool's administrator. Intrastate pooled revenues are settled on a monthly basis with the Alaska Exchange Carrier Association (AECA) and are final at the time of settlement. Participation in the AECA pool was discontinued effective January 1, 1999. Interstate pooled revenues are settled on a monthly basis with the National Exchange Carrier Association (NECA). The NECA settlements may be adjusted for a period of up to twenty-four months. Interstate traffic sensitive revenue is based on rates and charges defined in the Utility's interstate tariff approved by the FCC. Interstate traffic sensitive revenue is recognized when earned for both recurring and nonrecurring charges.

To the extent that disputes arise over revenue settlement procedures, the Utility's policy is to defer revenue collected until settlement methodologies are resolved and finalized.

Municipal Utility Service Assessment

The Municipal Utility Service Assessment (MUSA) is assessed by the Municipality and is calculated based on the net book value of telephone plant in the prior year. Net book value for each tax district is multiplied by the current mill rate to determine the assessment. The Utility also pays a gross receipt tax, which is 1.25% of gross operating revenues, excluding nonregulated revenues.

Advertising

Advertising costs are expensed in the period in which they are incurred.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Utility is a public utility of the Municipality and is therefore exempt from federal and state income taxes. ACI and its subsidiaries are exempt from federal and state income taxes because ACI is a holding company owned 100% by the Utility.

(IN THOUSANDS)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB NO. 27

The Utility adopted GASB Statement No. 27, Accounting For Pensions By State And Local Governmental Employers, during 1998. GASB No. 27 establishes standards for the measurement, recognition and display of pension expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers. The impact of adopting GASB No. 27 was not material to the financial statements.

Impairment Of Long-Lived Assets

The Utility has adopted FASB Statement No. 121, Accounting For The Impairment Of Long-Lived Assets And For Long-Lived Assets To Be Disposed Of. Under the provisions of this statement, the Utility has evaluated its long-lived assets for financial impairments and will continue to evaluate them if events or changes in circumstance indicate the carrying amount of such assets may not be fully recoverable.

Reclassifications

Certain reclassifications have been made to the December 31, 1997 and 1996 financial statements to conform to the current year's presentation.

(2) TELEPHONE PLANT

A summary of telephone plant and equipment at December 31, follows:

	1997	1998
Plant in Service		
Cable, wire and conduit	$ 166,055	$ 169,705
Central office equipment	124,199	126,364
Buildings	43,908	44,207
Furniture, computers and support equipment	21,580	21,380
Non-regulated equipment	30,413	36,269
Vehicles	7,523	7,499
Land	5,101	5,168
Leasehold improvements	468	741
	399,247	411,333
Less accumulated depreciation	(162,990)	(187,179)
Net plant in service	236,257	224,154
Construction work in progress	14,412	33,549
Net telephone plant	$ 250,669	$ 257,703

(IN THOUSANDS)

(3) LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31:

Bonds payable:

	1997	1998
1993 Series, effective interest rate of 5.49%, due in 2013	$ 17,390	$ 16,670
1994 Series, effective interest rate of 4.38%, due in 2010	66,210	54,265
1996 Series, effective interest rate of 5.71%, due in 2016	42,745	41,430
1997 Series, effective interest rate of 5.18%, due in 2017	25,000	24,275
1998 Series, effective interest rate of 4.44%, due in 2010	--	30,000
	151,345	166,640
Less: Unamortized loss on refunding	(2,295)	(1,643)
Less: Current portion	(14,705)	(16,370)
Less: Unamortized discount	(257)	(226)
Less: Unamortized premium	238	678
Net long-term revenue bonds payable	134,326	149,079
Equipment financing obligations, interest rates range from approximately 4-5%, final payment due in 2004	--	6,034
Less: Current portion	--	(1,071)
Net equipment financing obligations	--	4,963
Note payable:		
Note payable, effective interest rate of 5.98%, due in 1999	2,187	173
Less: Current portion	(2,014)	(173)
Net note payable	173	--
Arbitrage payable	727	865
Total long-term obligations	$ 135,226	$ 154,907

Debt service requirements are the following for the years ended December 31:

Long-Term Obligations

	PRINCIPAL	INTEREST	TOTAL
1999	$ 17,614	$ 8,272	$ 25,886
2000	17,686	7,592	25,278
2001	18,381	6,853	25,234
2002	19,176	6,063	25,239
2003	9,989	5,152	15,141
2004-2008	41,461	18,580	60,041
2009-2013	30,825	9,164	39,989
2014-2017	17,715	1,720	19,435
	$ 172,847	$ 63,396	$ 236,243

(3) LONG-TERM OBLIGATIONS (CONTINUED)

The 1993 revenue bond covenants require the establishment of reserves over a five-year period equal to the maximum annual debt service on all outstanding bonds. The 1994 refunding bond covenants require establishment of a reserve in the amount of $9,750. The 1996 revenue bond covenants require an amount equal to the lesser of $4,400 or the maximum annual debt service to be funded in equal installments over four years. The 1997 revenue bond covenants require an amount equal to the lesser of $2,500 or the maximum annual debt service to be funded in equal installments over four years. The 1998 revenue bond covenants require an amount equal to the lesser of $3,000 or the maximum annual debt service to be funded in equal installments over four years. The revenue bond covenants further stipulate that revenues less expenses will be equal to at least 1.4 times the debt service requirements for that year. Expenses are defined as costs for operation and maintenance of the system, excluding depreciation and MUSA for each year. For the years ended December 31, 1998, 1997 and 1996, the Utility complied with the revenue bond covenants.

(4) REFUNDING OF LONG-TERM OBLIGATIONS

In 1994, the Utility issued refunding bond issues for the purpose of redeeming certain bond issues when they become due or callable. The net proceeds of the refunding bond issue were used to purchase US Government securities which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. Since payment of these advance refunded issues has been provided, as described above, neither the liability nor the assets irrevocably pledged, including related interest income and expense, are reflected in the accompanying financial statements.

Defeased bonds as of December 31, 1998 total $11,390 for the 1990 issue.

(5) RETIREMENT PLANS

Substantially all employees are covered by one of the following plans.

International Brotherhood of Electrical Workers (IBEW) Plan

The IBEW Plan is a union sponsored defined benefit pension plan for members of the IBEW #1547 Union. The Utility contributed $3.67 per compensable employee hour to the Alaska Electrical Trust Fund in 1998, 1997 and 1996. Utility contributions to this plan were $3,130, $3,379 and $3,608 for the years ended December 31, 1998, 1997 and 1996, respectively. The hourly rate paid by the Utility is determined by the collective bargaining process. The Utility's obligation for IBEW employee retirement is limited to the amount paid to the Alaska Electrical Trust Fund.

State Of Alaska Public Employees' Retirement System Plan

As discussed in note 1, the Utility adopted the provisions of GASB Statement No. 27, Accounting For Pensions By State And Local Governmental Employers (GASB 27), in 1998.

State Of Alaska Public Employees' Retirement System

A. Plan Description

The Utility contributes to the State of Alaska Public Employees' Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees.

(IN THOUSANDS)

5. RETIREMENT PLANS (CONTINUED)

All full-time Utility employees not covered by the IBEW Plan are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

B. Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

The Utility's annual pension cost for the current year and the related information is as follows:

	PENSION	POST-EMPLOYMENT HEALTHCARE
Contribution rates:		
Employee	4.86%	1.89%
Employer	6.36%	2.47%
Annual pension cost	$750	$291
Contributions made	$750	$291
Actuarial valuation date	June 30, 1996	Same
Actuarial cost method	Projected unit credit	Same
Amortization method	Level dollar, open	Same
Amortization period	Rolling 25 years	Same
Asset valuation method	5-year smoothed market	Same
Actuarial assumptions:		
Inflation rate	4%	Same
Investment return	8.25%	Same
Projected salary increase	5.50%	N/A
Health cost trend	N/A	5.50%

The components of annual pension cost for the year ended December 31, 1998 are as follows:

Annual required contribution (ARC)	$1,041
Interest on the net pension obligation (NPO)	--
Adjustment to the ARC	--

Annual pension cost (APC)	1,041
Contributions made	1,041
Increase in NPO	--
NPO, beginning of year	--

NPO, end of year	$ --
	======

(IN THOUSANDS)

(5) RETIREMENT PLANS (CONTINUED)

Three year trend information follows:

	YEAR ENDED DECEMBER 31	APC	PERCENTAGE OF APC CONTRIBUTED	NPO
Pension	1996	$ 1,032	100%	$ --
	1997	827	100%	--
	1998	750	100%	--
Post-employment healthcare	1996	$ 382	100%	$ --
	1997	306	100%	--
	1998	291	100%	--

In the current year (the transition year), the Utility determined, in accordance with provisions of GASB No. 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

Information regarding funding progress follows:

	ACTURIAL VALUATION YEAR ENDED JUNE 30	ACTURIAL VALUE OF PLAN ASSETS	ACTURIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (ASSET) (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
Pension benefits	1995	$ 5,417	$ 4,457	$ (960)	122%	$11,288	-9%
	1996	6,656	5,702	(954)	117%	11,436	-8%
	1997	10,180	7,419	(2,761)	137%	12,290	-22%
Post-employment healthcare benefits	1995	$ 2,036	$ 1,675	$ (361)	122%	11,288	-3%
	1996	2,565	2,198	(367)	117%	11,436	-3%
	1997	3,794	2,765	(1,029)	137%	12,290	-8%
Total	1995	$ 7,453	$ 6,132	$(1,321)	122%	$11,288	-12%
	1996	9,221	7,900	(1,321)	117%	11,436	-11%
	1997	13,974	10,184	(3,790)	137%	12,290	-31%

(6) OTHER EMPLOYEE BENEFITS

The Municipality offers its employees, including employees of the Utility, a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Municipal employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. It is the opinion of the Municipality's legal counsel that the Municipality has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor.

(IN THOUSANDS)

(6) OTHER EMPLOYEE BENEFITS (CONTINUED)

The municipality believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

In accordance with labor agreements, IBEW employees' medical/dental coverage is provided through the Alaska Electrical Health and Welfare Trust Fund. Utility contributions to this fund were $2,859, $3,143 and $2,888 for the years ended December 31, 1998, 1997 and 1996, respectively.

(7) MINORITY INVESTMENTS

Minority investments held consist of the following at December 31:

	1997	1998	OWNERSHIP %
Alaskan Choice Television, LLC	$ 4,627	$ 2,651	33%
Alaska Network Systems, Inc.	2,353	2,015	47%
Internet Alaska, Inc.	803	500	30%
Security One, LLC	200	369	20%
	$ 7,983	$ 5,535	

The Utility is one of three members of a limited liability company, Alaskan Choice Television, LLC (ACTV). ACTV has accumulated substantial losses since inception and is not generating sufficient cash flow to sustain operations. These factors, among others, indicate that ACTV may be unable to continue as a going concern for a reasonable period of time. ACTV's continuation as a going concern is dependent upon its ability to attain additional equity and debt financing and achieve positive cash flow and profitability. ACTV is in negotiation with a potential investor who will provide working capital. The other two members of the limited liability company have agreed to sell their interests to this investor. ACTV expects to complete this transaction in the second quarter of 1999. Additionally, ACTV is in discussion with several financial institutions to provide the necessary debt financing. Pursuant to Statement of Financial Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", the Utility assessed the recoverability of its investment in ACTV during 1998 and adjusted the carrying value of the investment to its estimated fair value resulting in a noncash impairment loss of approximately $1,500.

(8) RELATED PARTY TRANSACTIONS

Intragovernmental Charges

Certain general and administrative functions of the Municipality, including data processing, workers' compensation insurance and medical/dental/life insurance, are centralized and the related cost is allocated to the various funds of the Municipality, including the Utility. Such costs allocated to the Utility totaled $3,187, $3,672, and $3,204 for the years ended December 31, 1998, 1997, and 1996, respectively.

These costs are allocated to ATU from the Municipality of Anchorage through an inter-governmental charge system ("IGC") based upon ATU's proportionate share of certain cost drivers, such as manned positions, building square footage or number of transactions processed, depending upon the type of cost being allocated. Certain IGC's are based upon work orders for specific projects between departments. Management believes that the methodology utilized is reasonable. It is not practicable to quantify what such costs would have been on a stand-alone basis.

(IN THOUSANDS)

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Utility in estimating fair value disclosures for financial instruments:

Cash, restricted investments, accounts receivable, accounts payable and accrued liabilities, accrued interest, customer deposits and accrued employee benefits--The carrying amounts at December 31, 1998 and 1997 approximate the fair values due to the short maturity of these instruments.

Long-term debt--The fair value of the Utility's long-term debt is estimated by discounting the future cash flows of the various instruments at rates currently available to the Utility for similar debt instruments of comparable maturities.

The carrying amount of long-term debt and its estimated fair value at December 31 are as follows:

	1997	1998
Carrying amount	$153,532	$172,847
Fair value	161,000	181,000

(10) BUSINESS SEGMENTS

The Utility has adopted FASB Statement No. 131, Disclosures About Segments Of An Enterprise And Related Information. The Utility has three reportable segments: local telephone, long distance and cellular. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Each reportable segment is a strategic business offering different services and is managed separately.

The following table illustrates selected financial data for each segment.

YEAR ENDED 1996	LOCAL TELEPHONE	LONG DISTANCE	CELLULAR	TOTAL
Operating income (loss)	$ 18,975	$ (542)	$ 2,483	$ 20,916
Depreciation and amortization	18,460	--	2,036	20,496
Capital expenditures	22,280	--	4,992	27,272
Total assets	278,354	81	30,375	308,810
YEAR ENDED 1997				
Operating income (loss)	$ 17,850	$ (3,218)	$ 4,377	$ 19,009
Depreciation and amortization	23,712	114	3,013	26,839
Capital expenditures	28,922	664	6,201	35,787
Total assets	287,419	1,757	33,948	323,124
YEAR ENDED 1998				
Operating income (loss)	$ 21,490	$ (3,744)	$ 5,147	$ 22,869
Depreciation and amortization	25,327	164	4,117	29,608
Capital expenditures	26,751	275	9,431	36,457
Total assets	295,810	2,532	51,903	350,245

(11) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Municipal Assembly has approved the Utility's 1999 capital budget of $29,200.

Contingencies

The Utility is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of the matters will not have a material adverse effect on the Utility's financial position or results of operations.

EXHIBIT 12.1

ALASKA COMMUNICATION SYSTEMS GROUP, INC.

STATEMENT RE: COMPUTATION OF RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(UNAUDITED, IN THOUSANDS)

	2000	1999
Earnings:		
Ratio of Earnings to Fixed Charges:		
Income from continuing operations	$(25,205)	$(22,211)
Add:		
Equity in loss of minority investments	303	198
Income taxes	(197)	(301)
Fixed charges	65,131	39,731
Earnings	$ 40,032	$ 17,417
Fixed Charges:		
Interest and debt expense per statements of income (including allocation of funds used during construction)	$ 64,710	$ 39,624
Estimate of interest within rental expense	421	107
Fixed charges	$ 65,131	$ 39,731
Ratio of Earnings to fixed charges	0.61	0.44

The amount of the deficiency for years 2000 and 1999 is $25,099 and $22,314, respectively. The deficiency represents the amount needed to achieve a ratio of 1:1. The Company did not have registered debt or any operations prior to 1999.

EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

SUBSIDIARY	DBA	JURISDICTION OF INCORPORATION
Alaska Communications Systems Holdings, Inc.		Delaware
ALEC Acquisition Sub Corp.		Delaware
ACS of the Northland, Inc.	ACS, ACS Local Service	Alaska
ACS of Alaska, Inc.	ACS, ACS Local Service	Alaska
ACS of Fairbanks, Inc.	ACS, ACS Local Service	Alaska
ACS of Anchorage, Inc.	ACS, ACS Local Service	Delaware
ACS Wireless, Inc.		Alaska
ACS Long Distance, Inc.	ACS, ACS Long Distance	Alaska
ATU LD License Sub, Inc.		Delaware
ATU Communications, Inc.		Alaska
Pacific Telecom of Alaska PCS, Inc.		Alaska
Peninsula Cellular Services, Inc.		Alaska
ACS Television, LLC		Utah
ACS Internet, Inc.		Delaware
ACS Messaging, Inc.		Alaska
ACS Infosource, Inc.		Alaska
ACS of Alaska License Sub, Inc.		Alaska
ACS of the Northland License Sub, Inc.		Alaska
ACS of Fairbanks License Sub, Inc.		Alaska
ACS of Anchorage License Sub, Inc.		Alaska
ACS Wireless License Sub, Inc.		Alaska
ACS Long Distance License Sub, Inc		Alaska
ACS Television License Sub, Inc		Alaska

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-92091 of Alaska Communications Systems Group, Inc. on Form S-8 of our reports on the following financial statements of the following companies (for the periods indicated) appearing in the Annual Report on Form 10-K of Alaska Communications Systems Group, Inc. for the year ended December 31, 2000:

- Our report dated February 20, 2001 on the consolidated balance sheets of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2000 and 1999.

- Our report dated March 24, 1999 on the consolidated balance sheet of Alaska Communications Systems Holdings, Inc. and Subsidiaries as of December 31, 1998 and the related consolidated statement of cash flows for the period from July 16, 1998 (date of inception) through December 31, 1998.

- Our report dated March 25, 1999 on the combined financial statements of CenturyTel Alaska Properties as of December 31, 1997 and for the year ended December 31, 1996, the eleven months ended November 30, 1997, and one month ended December 31, 1997.

/s/ DELOITTE & TOUCHE LLP
Portland, Oregon
March 12, 2001

EXHIBIT 23.3

The Board of Directors
CenturyTel, Inc.:

We consent to the incorporation by reference in the Registration Statement (No. 333-92091) on Form S-8 of Alaska Communications Systems Group, Inc., of our report dated February 26, 1999, on CenturyTel's Alaska Properties as of and for the year ended December 31, 1998, which report appears in the December 31, 2000, annual report on Form 10-K of Alaska Communications Systems Group, Inc.

/s/ KPMG LLP

Shreveport, Louisiana
March 12, 2001

EXHIBIT 23.5

The Honorable Mayor and Members of the Assembly Municipality of Anchorage Telephone Utility Fund

We consent to incorporation by reference in the Registration Statement (No. 333-92091) on Form S-8 of Alaska Communications Systems Group, Inc. of our report dated February 19, 1999 relating to the balance sheets of the Municipality of Anchorage Telephone Utility Fund as of December 31, 1998 and 1997, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 2000 annual report on Form 10-K of Alaska Communications Systems Group, Inc. Our report contains a paragraph which emphasizes that the financial statements represent the financial position and results of operations of the Municipality of Anchorage, Alaska, Telephone Utility Fund and not the Municipality of Anchorage, Alaska taken as a whole.

/s/ KPMG LLP

Anchorage, Alaska
March 12, 2001

End of Filing