

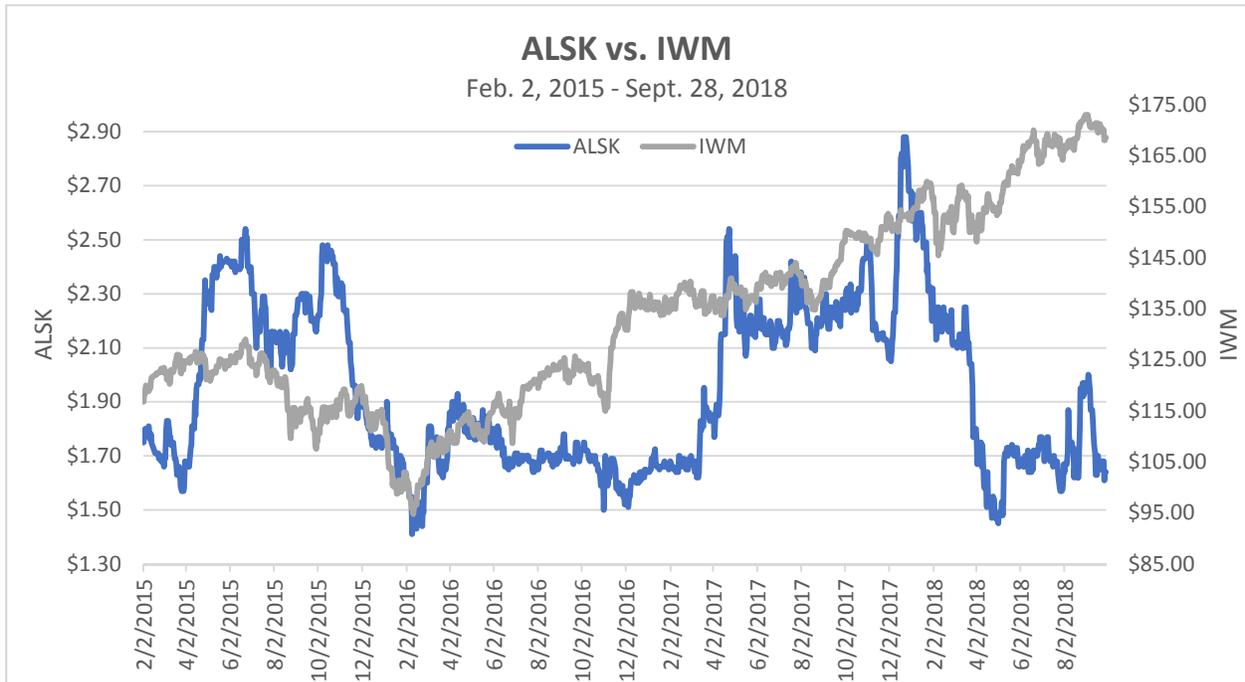
October 4, 2018

Alaska Communications Systems Group, Inc.  
600 Telephone Avenue  
Anchorage, AK 99503  
Attn: Board of Directors (the "Board")

Dear Board members:

I am writing on behalf of 22NW Fund, L.P. ("22NW"), which beneficially owns 1,186,409 shares of common stock (the "Shares") of Alaska Communications Systems Group, Inc. ("ALSK" or, the "Company"), making 22NW a top ten stockholder of ALSK.

As President of 22NW, I feel compelled to share my opinion regarding the lack of value creation illustrated by the inadequate performance of the stock over the past 3 ½ years. As you can see from the chart below, ALSK has severely underperformed the Russell 2000® Index ("IWM") returning a -6% compared to a +44% return for the index.



I share my convictions with you publicly so that all interested parties may have an opportunity to engage with the Board to find a better path toward real and meaningful shareholder value creation. I believe the right path is for the Board to retain an independent, nationally-recognized investment bank to evaluate strategic alternatives in order to maximize shareholder value. The time for paid lip service must come to an end.

**Credit Where Credit is Due:**

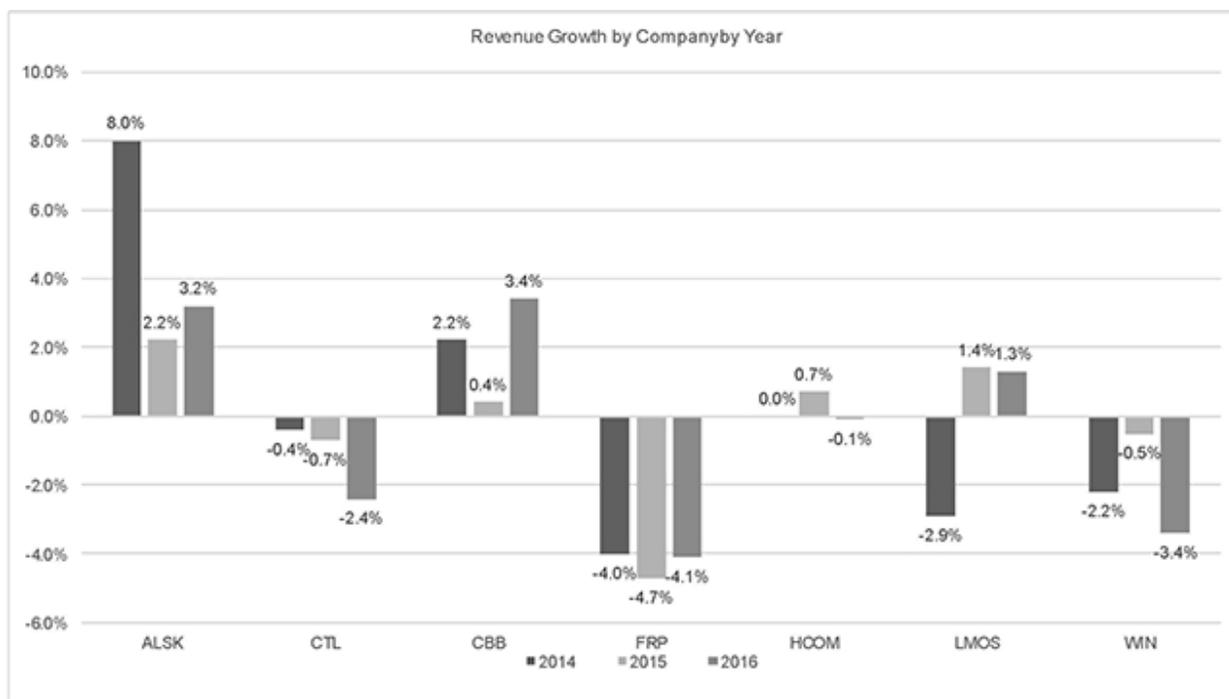
February 2, 2015 was a pivotal date in the Company's history as it marked the closing of the sale of its wireless business to General Communication, Inc. for \$300 million. This accomplished two objectives: first, it significantly de-levered the balance sheet; and second, it simplified the business. 22NW acquired its first Shares shortly after this transformational event. 22NW then acquired more Shares after having proactive discussions

with management about their plans to focus on creating shareholder value by focusing on free cash flow and putting the Company in a position to return capital to stockholders.

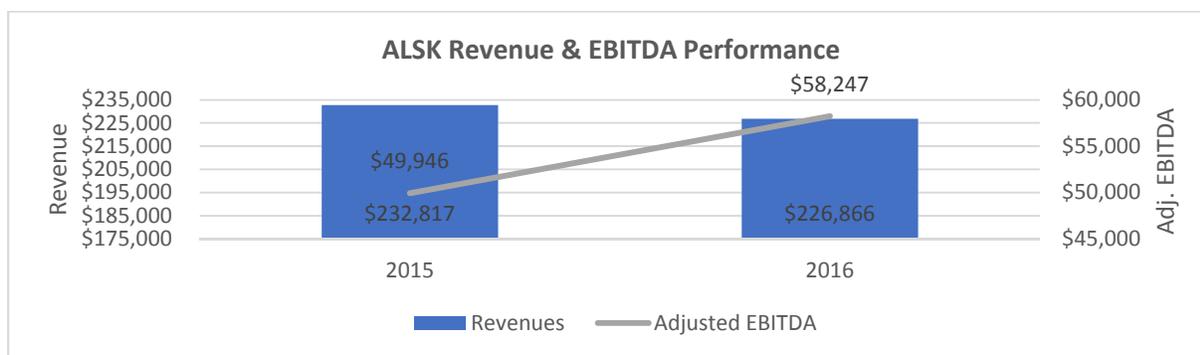
In fiscal 2016, the Company's first full year after the closing of the wireless transaction and transitory costs associated with transitioning to a pure broadband and managed IT company, the results were impressive.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Business and Wholesale Revenue (in thousands) <sup>(1)</sup></b>			
Business broadband	\$ 59,218	\$ 51,058	\$ 44,461
Business voice and other	27,903	28,909	28,827
Managed IT services	4,173	3,316	3,492
Equipment sales and installations	6,441	6,274	5,195
Wholesale broadband	31,581	28,126	23,216
Wholesale voice and other	7,539	8,764	9,925
Business and Wholesale Revenue	<u>136,855</u>	<u>126,447</u>	<u>115,116</u>
<i>Growth in Business and Wholesale Revenue</i>	<i>8.2%</i>	<i>9.8%</i>	

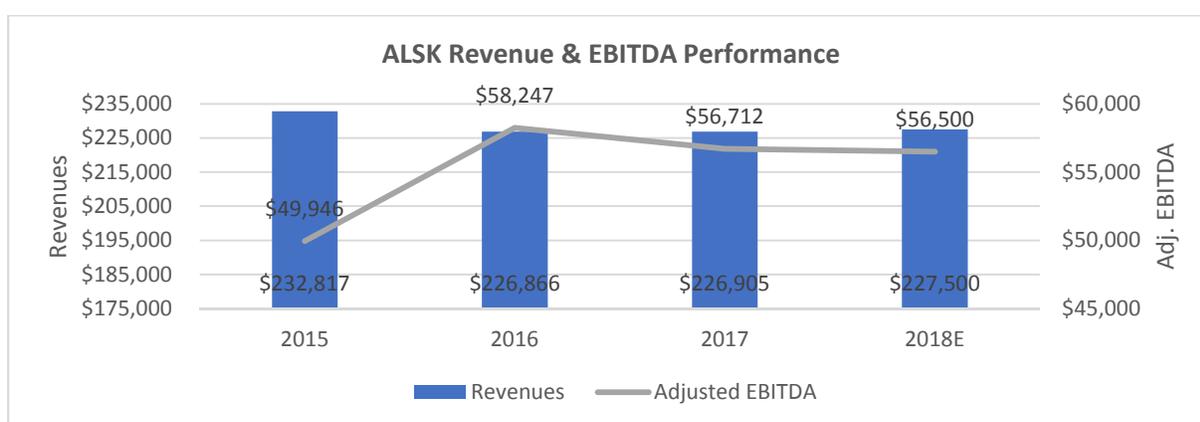
In fact, ALSK's renewed focus on business broadband and managed IT services was driving best-in-class revenue growth:



These results translated into nice leverage:



However, the operational and financial gains have stalled since 2016 despite management committing significant funds toward “growth” capital (see next section):



ALSK’s Chief Executive Officer, Anand Vadapalli, said on the Q1 2017 earnings call that he “remains very comfortable with [the Company’s] long-term directional view of 8% or higher [growth] for business and wholesale” revenues. Unfortunately, he has been wrong.

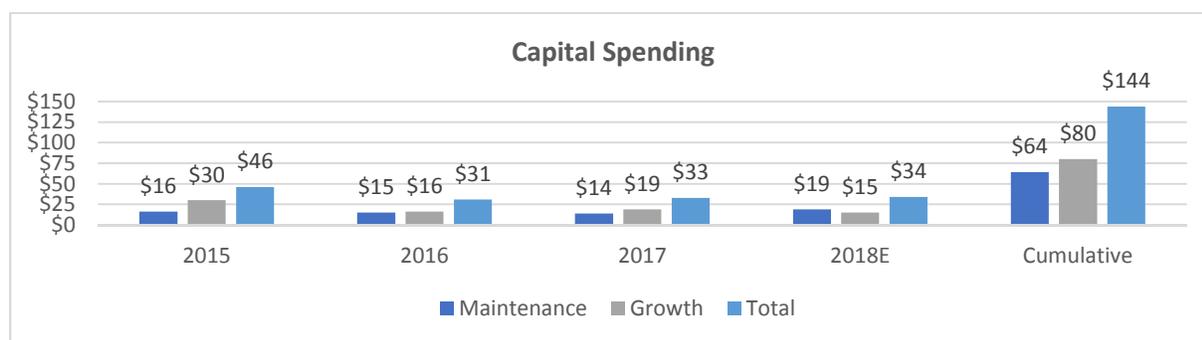
	2014	2015	2016	2017	Q1'18	Q2'18
<b>Revenue by Customer Group</b>						
<b>Business and wholesale</b>						
Business broadband	43,783	51,058	59,218	61,559	13,659	17,009
Business voice and other	22,499	28,909	27,903	26,508	6,851	7,038
Managed IT services	3,492	3,316	4,173	4,293	1,265	1,191
Equipment sales and installations	5,321	6,274	6,441	4,412	922	1,460
Wholesale broadband	33,043	28,126	31,581	36,081	9,578	9,338
Wholesale voice and other	7,104	8,764	7,539	6,267	1,488	1,442
<b>Total business and wholesale</b>	<b>115,242</b>	<b>126,447</b>	<b>136,855</b>	<b>139,120</b>	<b>33,763</b>	<b>37,478</b>
<b>Growth:</b>						
<b>Business and wholesale</b>						
Business broadband		16.6%	16.0%	4.0%	-16.1%	0.3%
Business voice and other		28.5%	-3.5%	-5.0%	3.3%	6.6%
Managed IT services		-5.0%	25.8%	2.9%	39.5%	3.5%
Equipment sales and installations		17.9%	2.7%	-31.5%	19.1%	8.7%
Wholesale broadband		-14.9%	12.3%	14.2%	15.2%	4.4%
Wholesale voice and other		23.4%	-14.0%	-16.9%	-8.7%	-10.5%
<b>Total business and wholesale</b>		<b>9.7%</b>	<b>8.2%</b>	<b>1.7%</b>	<b>-2.2%</b>	<b>2.4%</b>

Furthermore, under its current management, the Company missed its targets for revenue and EBITDA in 2017, reporting about \$227 million of revenues and \$57 million of EBITDA versus expectations of \$241 million of revenues and \$63 million of EBITDA per the Company's 2018 proxy statement.

While certain factors have been outside of management's control, such as a severe decline in oil prices and changes in the regulatory environment, I believe the Company has a competitive position that makes these flat results unacceptable. This management team has spent considerable "growth" capital and investors have not received a return on this investment.

#### Capital Allocation:

I estimate that ALSK management will have spent \$80 million of "success-based capital" between 2015 and 2018, and yet adjusted EBITDA is essentially flat. To put it plainly, we believe the growth capital has produced no recognizable financial return.



And as if this wasn't bad enough, this capital could have been used to further de-lever the Company's balance sheet, which would have allowed the Company to meet its covenant requirements for obvious shareholder value enhancing opportunities such as issuing a regular dividend and executing a highly-accretive share repurchase program.<sup>1</sup> I believe this gross misallocation of capital is a key reason ALSK's stock price continues to trade at a depressed valuation.

To put this in perspective, the Company has net debt of about \$170 million and TTM Adjusted EBITDA of about \$59 million as of June 30, 2018, for a net total leverage ratio of about 2.88x. Now consider if management had allocated the \$65 million in growth capital between 2015 and 2017 and applied that to de-levering, dividends and stock repurchases. Remember that the Company's current market cap is about \$87 million.

#### Compensation/Insider Ownership:

As if to pour salt in the wound, the Board has overseen a slow bloodletting of shareholder value via generous compensation packages for management, and in particular to its CEO Anand Vadapalli.

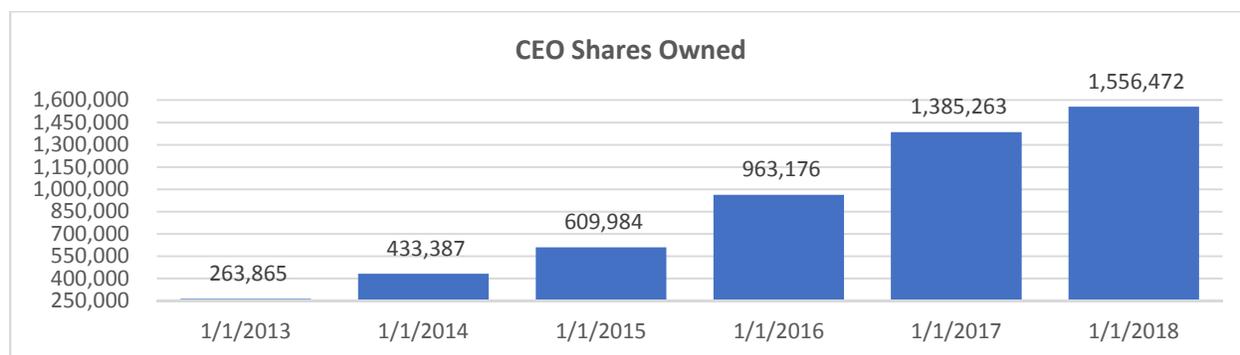
According to its 2018 proxy statement, the Company's directors and officers own about 7% of outstanding Shares as of May 11, 2018:

<u>Shares owned</u>	<u>Other beneficial ownership</u>	<u>Acquirable within 60 days</u>	<u>Total</u>	<u>Percent of class</u>
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<sup>1</sup> Although the Company announced a \$10 million share repurchase program on March 13, 2017, we believe this is inconsequential since the Company currently cannot execute on the program based on unsatisfied terms of its credit agreement. As such, when the CEO stated on the Q3 2017 earnings call that "[o]ur commitment to execute on the Board-authorized share repurchase program is strong, and we see this as an important tool to create shareholder value," it must be taken with grain of salt.

Total directors & executive officers as a group (12 persons)	3,081,866	496,050	63,466	3,641,382	6.86%
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These Shares were not acquired through open market purchases. Instead, the Shares have been awarded to directors and executives via generous grants of PSUs and RSUs. For example, Mr. Vadapalli has been granted over 1.5 million shares since 2013, a 490% increase in his ownership, while he presided over a stock price that has decreased. ALSK's stock closed at \$1.94 on January 1, 2013 while IWM closed at \$84.32. In other words, Mr. Vadapalli has presided over an approximately -15% return for ALSK stockholders versus an approximately 100% return of the index.



Further, Mr. Vadapalli has raked in over \$7.3 million in cash compensation between 2012 and 2017 yet has never acquired shares in the open market despite publicly stating his belief that ALSK's stock is undervalued. In fact, on the Q1 2017 earnings conference call, Mr. Vadapalli had this to say in response to a question about ALSK's public market valuation: "Look, I have said in the past, and I'll continue to say, that where our equity trades, I believe, undervalues the operating performance of the Company." In the prior two years, Mr. Vadapalli earned over \$3 million in cash compensation. He did not purchase any Shares. His actions speak louder than his words.

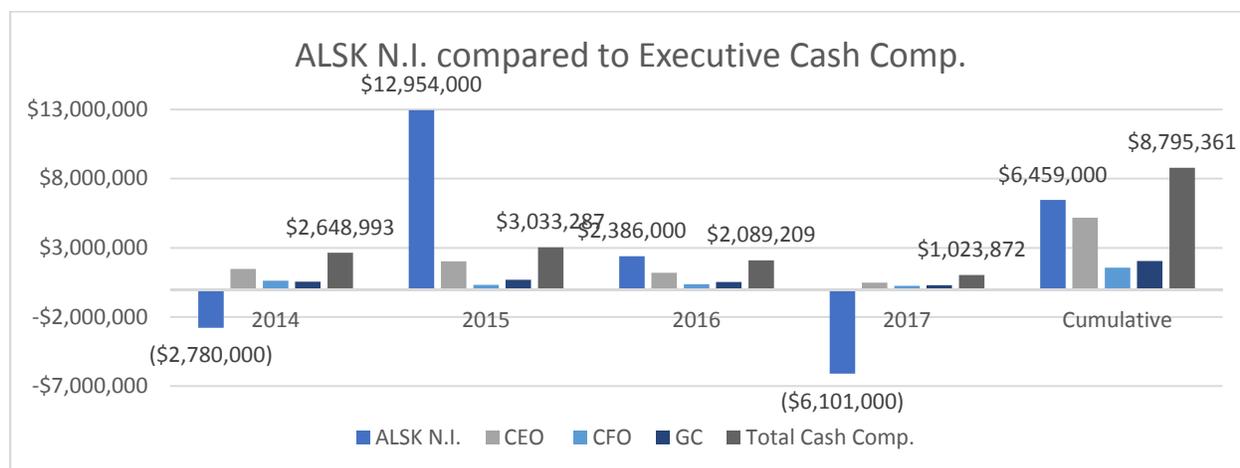
The last time any director or executive made an open market purchase of Shares was in March 2013:



#### Alaska Communications Systems Group, Inc. (NasdaqGS:ALSK) > Public Ownership > Insider Trading

Insider/Individual Trades								
Holder Name	Trade Date Range	Security Type	Transacted Shares	Transaction Value	Transaction Range (USD)	Transaction Type	Price Range (USD)	Source
Karp, David W. (Director)	Mar-08-2013	Common Stock	1,000	1,628	1,628	Open Market Acquisition	1.63	Form 4
Rogers, Brian D. (Former Director)	Nov-12-2009 - Nov-13-2009	Common Stock	3,000	19,721	19,721	Open Market Acquisition	6.56 - 6.60	Form 4
		Common Stock	200	1,320	1,320	Open Market Acquisition	6.6	Form 4
		Common Stock	1,800	11,808	11,808	Open Market Acquisition	6.56	Form 4
		Common Stock	700	4,613	4,613	Open Market Acquisition	6.59	Form 4
		Common Stock	300	1,980	1,980	Open Market Acquisition	6.6	Form 4
Egan, John Michael (Former Director)	Mar-11-2009	Common Stock	20,000	102,600	102,600	Open Market Acquisition	5.13	Form 4
Ley, Peter D. (Director)	Aug-25-2008	Common Stock	20,000	216,400	216,400	Open Market Acquisition	10.82	Form 4
Gibson Jr., John Willis (Former Director)	Aug-04-2005	Common Stock	2,500	25,900	25,900	Open Market Acquisition	10.36	Form 4
Egan, John Michael (Former Director)	Mar-21-2005	Common Stock	30,000	272,100	272,100	Open Market Acquisition	9.07	Form 4

Even more frustrating has been the excessive cash compensation ALSK's senior executives have "earned." Since 2014, the Company's executives have accumulated over \$8.7 million in cash compensation while the Company has earned only \$6.4 million in earnings.



The excessive compensation has not only been in the form of cash, but also stock grants. The Board has recommended an increase of 3 million Shares to the 2011 Incentive Award Plan (the "2011 Plan"). The chart below details the dilution from these grants totaling over 6 million Shares or 11.7% dilution.

Shares(1)	Share Allocation	Average Award Value(2)	Dilution(\$)	Dilution% of Market Value	Overhang
New Shares	3,000,000	2.28	6,840,000	5.8	5.7
Available Shares in Plan	539,210	2.28	1,229,399	1.0	1.03
Unvested Grants in Plan	2,554,156	2.28	5,823,120	4.9	4.86
Total Shares	6,093,366	-	13,892,875	11.7	11.59

(1) Shares under the 2011 Plan as of December 31, 2017.

(2) Based on a 200-day average trading price of one share of our common stock on March 1, 2018.

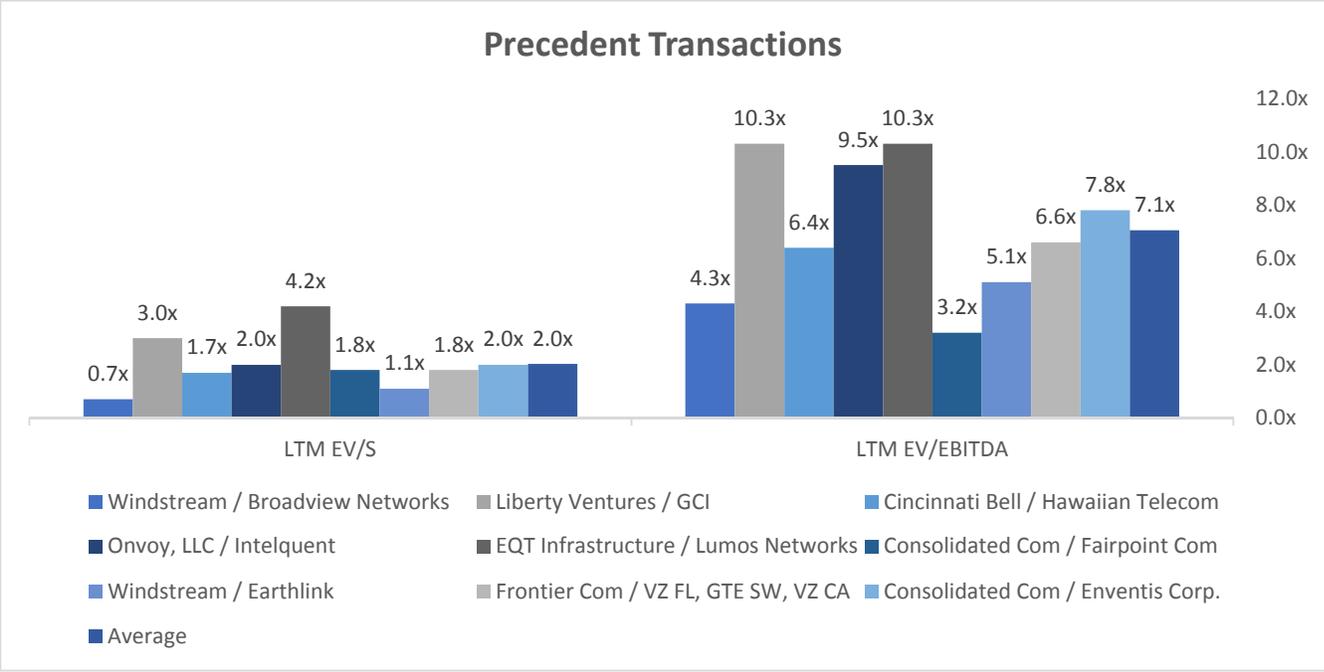
The Board has allowed unnecessary share dilution for common stockholders as management accrues increasing ownership via generous stock grants. The financial results— flat revenues and EBITDA— and dismal stock price performance do not warrant such excesses. The dilution might be at least tolerable if the stock price had appreciated, but that is simply not the case. As it stands, I see no reasonable justification for this level of executive compensation.

#### Proposed Solution:

I believe there is only one-way forward for stockholders to realize meaningful value creation: the Board must immediately hire an independent, nationally-recognized investment bank to evaluate strategic alternatives. It appears clear to me that ALSK is substantially undervalued. Furthermore, the stock is a non-indexed, sub-\$5 equity with limited daily trading volume (ADV of 100,000 according to S&P Capital IQ) that currently cannot pay a dividend, thereby limiting many institutional investors from buying the stock. I have lost confidence in this management team's ability to create shareholder value as a standalone public equity.

#### ALSK's Potential Private Market Value:

The broader telecom industry is seeing significant consolidation. In fact, probably ALSK's closest comparable, Hawaiian Telecom, Inc., ("Hawaiian Telecom") decided to sell itself just over a year ago at about 6.5x EV/EBITDA.



Hawaiian Telecom’s financial advisor, UBS, produced the following multiples for comparable companies that provides another example of what ALSK could be worth in a private market transaction:

	Implied Multiples for Selected Companies			
	High	Median	Mean	Low
<b>Enterprise Value as Multiple of EBITDA<sup>(1)</sup>:</b>				
2017E	7.1x	5.3x	5.6x	4.6x
2018E	6.8x	5.4x	5.5x	4.6x

ALSK is the cheapest of the following select comparables on EV/EBITDA and EV/S despite having the lowest leverage in the group.

TICKER	LAST PRICE	52 W LOW	52 W HIGH	MC	NET DEBT / EV M	EV/EBITDA			EV/SALES			MARGIN %			BVPS	P/B	
						TTM	LAST FY	+1	TTM	YR+0	YR+1	GPM	EBIT	BITDA			
CBB	\$15.74	\$9.90	\$22.20	\$667	\$2,380	5.9X	8.2X	7.9X	6.5X	1.7X	1.8X	1.9X	40.9	6.9	21.9	-\$6.43	-2.4X
CNSL	\$13.05	\$10.31	\$20.72	\$920	\$3,250	4.9X	6.9X	8.0X	6.2X	2.3X	3.1X	2.3X	57.9	6.8	34.4	\$7.14	1.8X
FTR	\$6.42	\$4.52	\$12.83	\$499	\$17,552	4.9X	5.0X	4.8X	5.0X	2.0X	1.9X	2.1X	61.0	15.0	38.9	\$22.69	0.3X
WIN	\$4.91	\$3.03	\$13.65	\$185	\$10,766	5.6X	5.7X	5.4X	5.4X	1.8X	1.8X	1.9X	47.7	7.2	32.2	-\$32.94	-0.1X
<b>ALSK</b>	<b>\$1.67</b>	<b>\$1.39</b>	<b>\$2.91</b>	<b>\$88</b>	<b>\$258</b>	<b>3.0X</b>	<b>4.5X</b>	<b>4.6X</b>	<b>4.6X</b>	<b>1.1X</b>	<b>1.1X</b>	<b>1.1X</b>	<b>53.9</b>	<b>8.3</b>	<b>24.3</b>	<b>\$3.10</b>	<b>0.5X</b>

Once Hawaiian Telecom’s board of directors decided to hire UBS to assess strategic alternatives, its outreach program identified nine interested strategic and financial buyers. There are several similarities between Hawaiian Telecom and ALSK. First, both are persistently thin-trading volume stocks resulting in limited current and foreseeable opportunities for stockholders to achieve meaningful liquidity. Second, both assets compete in a single state as sub-scale operators, but with high-quality networks and customer service.

I believe that if the Board explored a process to sell the Company, ALSK would have at least several suitors and the price to be paid would fall in the range of recent precedent transactions (see table above) with an EV/EBITDA multiple of 5.5x – 6.5x for an equity value of about \$2.62-\$3.66 per share, or 59% - 123% upside.

### Alaska Communications (ALSK)

#### Valuation Analysis

	9/28/2018	
Stock Price:	\$1.64	
S/O	53,888	
<b>Market Cap:</b>	<b>88,376</b>	
- Cash	10,388	
+ Debt	180,172	2.89x
<b>Enterprise Value</b>	<b>258,160</b>	
TTM Q2'18 EBITDA	59,222	4.4x
2018e EBITDA	56,500	4.6x
Multiple	5.5x	
2018e EBITDA	56,500	
Firm Value	310,750	
+ Cash	10,388	
- Debt	180,172	
Equity Value	140,966	
S/O	53,888	
Per Share	<b>\$2.62</b>	
	59.5%	

		EV/EBITDA MULTIPLE									
		\$2.62	4.3x	4.6x	5.0x	5.3x	5.6x	6.0x	6.5x	6.8x	7.1x
Adj. EBITDA	53,500	\$1.12	\$1.42	\$1.81	\$2.11	\$2.41	\$2.81	\$3.30	\$3.60	\$3.90	
	54,500	\$1.20	\$1.50	\$1.91	\$2.21	\$2.51	\$2.92	\$3.42	\$3.73	\$4.03	
	55,600	\$1.29	\$1.60	\$2.01	\$2.32	\$2.63	\$3.04	\$3.56	\$3.87	\$4.17	
	56,500	\$1.36	\$1.67	\$2.09	\$2.41	\$2.72	\$3.14	\$3.66	\$3.98	\$4.29	
	57,500	\$1.44	\$1.76	\$2.18	\$2.50	\$2.82	\$3.25	\$3.78	\$4.11	\$4.43	
	58,500	\$1.52	\$1.84	\$2.28	\$2.60	\$2.93	\$3.36	\$3.91	\$4.23	\$4.56	
	59,500	\$1.60	\$1.93	\$2.37	\$2.70	\$3.03	\$3.47	\$4.03	\$4.36	\$4.69	
			-32%	-14%	11%	29%	47%	71%	101%	120%	138%
			-27%	-8%	16%	35%	53%	78%	109%	127%	146%
			-22%	-3%	22%	41%	60%	85%	117%	136%	155%

22NW Fund, L.P. Estimates

#### Conclusion:

To reiterate why I feel compelled to share my convictions publicly: I have been greatly disappointed in the compensation this management team has accumulated over the past three and a half years despite negative total shareholder returns. Further, management has wasted shareholder capital by chasing growth that has not materialized. This scarce, valuable capital should have been used to de-lever, issue a regular dividend and repurchase undervalued stock. I have expressed my views to management during several conversations over the past few years. Through year-end 2018, management will have spent an estimated \$80 million of growth capital without any growth. Lastly, ALSK's size makes it an ideal candidate for consolidation. There are multiple data points indicating there would be substantial interest in the asset at prices that are anywhere between 60-120% higher than the current market price.

The Board and management has paid lip service to exploring strategic alternatives. The time for this to end is now. I encourage other stockholders to engage with the Board in expressing their desire to see that action is taken on this front. The industry is undergoing consolidation and the time is right for long-suffering ALSK stockholders to realize substantial value for the patience they have shown.

Sincerely,

Aron R. English  
 President  
 22NW Fund, L.P.