ALASKA POWER & TELEPHONE

2015 ANNUAL REPORT

EMPOWERING

ALASKA

AT HOME, ONLINE, IN BUSINESS, AND IN CLASSROOMS, AP&T ENERGY AND DATA TECHNOLOGIES EMPOWER THE WAY ALASKANS LIVE, WORK AND LEARN.


SUCCESS

Looking back over the years, I can say that there is one achievement that makes me very proud. In 1990, during a period of ownership turmoil at AP&T, an Employee Stock Ownership and Saving Plan (ESOP) was created. This afforded every employee to have the opportunity to participate in the success of AP&T through ownership. During my tenure this progressive program has been carefully nurtured.

Robert S. Grimm, President, CEO

THE EMPLOYEE-OWNERSHIP MINDSET, COUPLED WITH ASSOCIATED INCENTIVES, HAS AND WILL CONTINUE TO EMPOWER AP&T'S SUCCESS WELL INTO THE FUTURE.

Your company, Alaska Power & Telephone, has been operating for 59 years, since 1957. We were profitable in 2015, had a good year by most metrics and comparables, and continue to provide regulated energy and communications services, unregulated broadband services, and broadband transport within rural Alaska.

On behalf of our shareholders, Board of Directors, and 133 hard-working and talented employee-owners, I am pleased to report the fruits of our efforts.

Our gross revenue in 2015 was $44.2 million, a slight increase. Operating expense decreased by 2.4%, resulting in an 8.5% increase in operating income. EDITDA for 2015 was $17.6 million; an increase of nearly 4%. Net Income for 2015 was $3.3 million, increasing 18.5% over 2014. Our debt was reduced by 8.6%. As a result of this performance, the book value of a common share increased to $31. Basic earnings per each share were $2.53 during 2015; an increase of 20%. We paid $967,400 in cash dividends to shareholders, which represents an increase of 69%.

Utilities throughout the industry have seen the market for their energy products constrict, due to disruptive energy efficiency and distributed generation technologies. Alaska is no exception to this trend. However, AP&T has continued to persevere in its enduring commitment to offset the financial impact of these trends upon our cost-recovery performance. As disclosed last year, we developed a plan to mitigate disruptive market forces, part of which you will see in a rate case soon to be filed in July of 2016. In addition to requesting rate relief, the July filing will request decoupling of our rates; a change from a commodity-based model to a fixed-recovery mechanism. Not only will a fixed-recovery model help assure adequate cost-recovery and sustainability of our regulated operations, it will also help spread fixed costs more equitably between our customers, while creating a more sustainable investment environment for Distributed Generation and Energy Efficient technologies. AP&T will continue to keep our eyes open for additional opportunities to leverage our core skills and experience to foster optimal cost-recovery and improved service to our customers.

Unfortunately, our state is facing a new challenge posed by the recent collapse in fossil fuel prices. Alaska, which derives 90% of its revenue and a substantial percentage of its employment from the oil and gas sector, is now facing a budget deficit of at least $3.5 billion. Responding to this tremendous shortfall will require the State to make drastic cuts to spending, including government employment, investment in infrastructure, and support for some of the grant programs which AP&T has previously utilized to help facilitate deployment of renewable energy. Moreover, the State is considering new revenue sources, which may include some combination of income and sales taxes, and perhaps some of the Alaska Permanent Fund's earnings. We may soon begin to see profound and adverse impacts within the rural economies where your Company conducts business. Predicting outcomes accurately and forecasting their impacts upon AP&T is difficult, but we are bracing ourselves for economic slowdown. Due to constriction in State government and oil and gas jobs, there will be much less money circulating in Alaska's economy, which could adversely impact our business. Does this mean that our customers are going to use less of our communication and energy services? I think it is too early to tell, but it is a real possibility we must prepare ourselves for.

Yet, at the same time, some of our customers are currently benefiting from the lower costs of fossil fuels, and are enjoying reduced costs of electricity, heating, and transportation, which frees up more of their income for other goods and services. Hopefully, the positive impacts of reduced fuel prices upon many of our customers will help offset the adverse impacts of Alaska's budget crisis.

Fortunately, the State of Alaska has some reserve funds which allow them some degree of discretion over how fast and dramatically they need to react to reduced oil revenues. Also, because oil prices have a history of high volatility, there is a potential for cost-recovery, which would help mitigate the state's budget crisis, and adverse impacts to Alaska's oil and gas sector.

On a more positive note, for a number of years, Management's Discussion and Analysis of Financial Condition and Analysis and Results of Operations (MDA) has included a particularly unpleasant risk factor under the Issues, Risks and Challenges section: "Proposed changes in the telecommunications sector will have negative effects on the projected results for the Company" . I am pleased to share that this risk has been removed from this year's MD&A. Based upon Management's review of a FCC decision released on March 30, 2016, we believe there will significant favorable implications to the projected results of the Company. We believe the FCC's decision will allow us to increase the speed of our broadband offerings for many of our customers. These upgrades will also increase the demand for middle mile transport, which will translate to increased financial performance of our Southeast Alaska Microwave Network.

AP&T is pleased to announce that it recently reached final financial closing and has begun mobilization for construction of the 5MW Hiilangaay hydropower project at Reynolds Creek. Our team is completing this project under contract to Haida Energy – a joint venture company which is 50% owned by AP&T, and 50% owned by Haida Corporation. Over the next three years, our employee-owners will be engaged in $21.7 million of hydro construction work, which includes an opportunity to earn a non-regulated profit. In addition to bolstering income with which to weather through Alaska's budgetary crisis, Hiilangaay will provide our customers with the long term benefit of cleaner, more affordable renewable energy as an alternative to diesel-based generation. The project will also provide a renewable energy surplus which can be utilized to support economic growth, economic development in industry sectors such as mining, and increased access to the heat market through use of air source heat pumps.

Business, like life, has its ups and downs, and oftentimes you feel like you're going up and down at the same time. As a company, AP&T is fortunate because we have many revenue-positive opportunities and changes in our near future which will help us to hunker down, stay on course, and weather out the economic downturn associated with the State of Alaska's financial crisis. Maximizing these opportunities while guarding against adverse economic impacts will keep our gifted, hard-working team of employee-owners busy throughout the coming year. In the meantime, AP&T will continue to identify and capitalize upon opportunities to increase customer service quality and shareholder value. As we move forward, we will continue to leverage the talents of our employee-owners, and a persistent entrepreneurial spirit; factors which have made AP&T a successful and growing company through decades of ups and downs.

As President and CEO, I had absolute responsibility and accountability for AP&T during my tenure. As I said when I accepted the CEO of the Year award, the employee-shareholders of AP&T did the hard work, and as usual the CEO gets all of the credit! This is an unfortunate trait of corporate America.

Throughout my career at AP&T, it was and remains a true pleasure to work among the bright, talented, tough, and dedicated employee-owners. It is them and those, and he and she that truly did the work and carried the water that resulted in AP&T's accomplishments. My job in some cases has been limited to providing the resources and encouragement to those willing to champion a project, cause or move an obstacle in order to succeed; and having the wisdom to let them get the job done without getting in the way, unless needed. The SAMN network is a good example, so I would like to specifically thank the very capable individuals Mike, Tom, Jason, Dave, and their team for making me look good.

Looking back over the years, I can say that there is one achievement that makes me very proud. In 1990, during a period of ownership turmoil at AP&T, an Employee Stock Ownership and Saving Plan (ESOP) was created. This afforded every employee to have the opportunity to participate in the success of AP&T through ownership. During my tenure this progressive program has been carefully nurtured. What began with assets of less than $2 million, has today grown into a combined ESOP and 401k plan with assets totaling more than $32 million. I am convinced the employee-ownership mindset, coupled with associated incentives, has and will continue to empower AP&T's success well into the future.

Robert S. Grimm
President, CEO
Alaska Power & Telephone

OUR BOARD

AP&T BOARD OF DIRECTORS

Mark A. Foster P.E. Principal Mark A. Foster & Associates
William A. Squires J.D. Chairman of the Board, AP&T & CEO Blackfoot Telephone Cooperative
Mike Barry, Independent Director
Robert S. Grimm, President CEO AP&T
Tom Ervin, VP GM Telecom Operations and Engineering

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TOMORROW

Most laudable of Bob's mark on AP&T has been his almost paternal caring for its employees. From safe working conditions to fair wages, Bob continually insisted that the "right thing" be done on behalf of employees. Bob believed, as do I, that doing the right thing for employees always translates into shareholder value through gained loyalty and productivity.

Bill Squires, Chairman

EMPOWERING OUR SHAREHOLDERS WITH CURRENT, ACCURATE INFORMATION, WE CONTINUE TO MAINTAIN TRANSPARENCY IN OUR OPERATIONS AND GOVERNANCE.

From the warmth and security that electricity brings to our homes, to the vast global marketplace and entertainment options made possible by high speed broadband, AP&T is empowering our customers, partners, shareholders and employees to succeed in business and lead more enjoyable lives.

In the pages that follow you will see our strong financial results for 2015. Continued improvements in operating efficiencies have allowed AP&T to maintain our current dividend policy. At the same time, the Company has committed to substantial capital expenditures to expand our preeminent Southeast Alaska broadband transport network. I encourage you to review the results of operations in this Annual Report, and to bring any questions and comments you may have to our Annual Meeting on May 18. By empowering our shareholders with current, accurate information we continue to maintain transparency in our operations and governance, and set a high standard to which successful organizations should hold themselves.

AP&T, and the State of Alaska, have been empowered by the unwavering – some would say dogged – commitment of one individual for over 44 years. Robert (Bob) Grimm will retire as AP&T's President and Chief Executive Officer at the end of 2016. I, and my other Independent Director colleagues, have had the privilege of working with Bob Grimm for more than a dozen years. Many employees in the company have enjoyed that relationship for far longer. None would question Bob's dedication to the peoples of Alaska, our shareholders and employees, and the industries we serve.

During his tenure Bob has pushed AP&T to become a leader in hydro-power development both inside and outside the State of Alaska. And now he's leading the charge to solar and wind generation. The results are telling. AP&T's reliance on diesel generation today is a fraction of what it was twenty years ago, and our environment is a much better place as a result. Moreover, these hydro facilities now provide stable cost electricity to our customers while enhancing shareholder value. Long ago Bob saw the value in partnering with Alaska Native organizations to pursue clean energy and provide reliable power to their constituents. Bob's legacy of forging partnerships will continue to bring value to AP&T for generations to come.

As a crowning achievement to an enviable career, at its meeting in February Electric Light & Power magazine named Bob its 2015 Chief Executive Officer of the Year for small utilities. In presenting the award, EL&P magazine cited AP&T's "historic transition" from mainly diesel generation to renewable energy production under Bob's leadership.

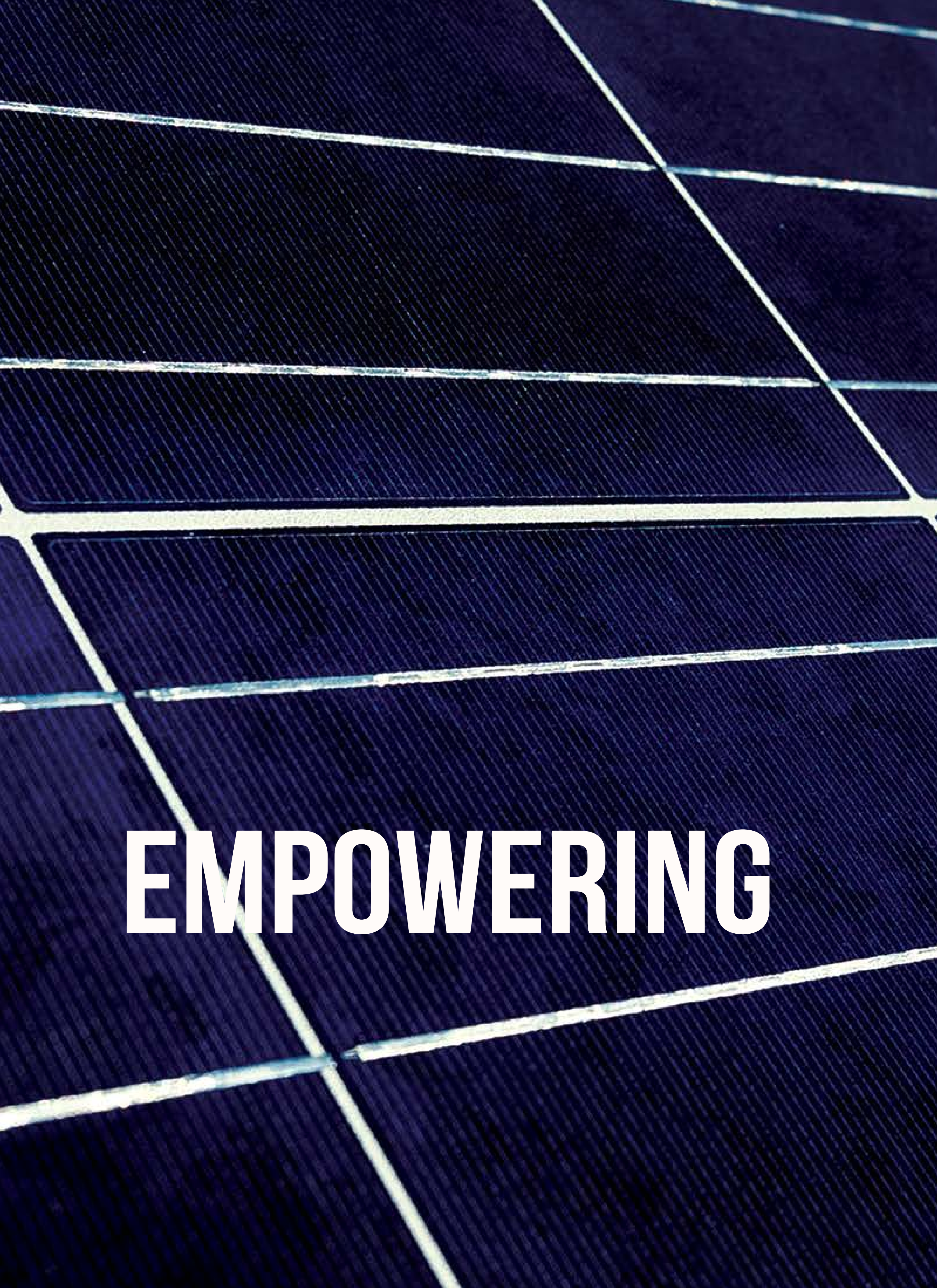
Knowing that affordable broadband access to the world was the only way to empower many of the communities served by AP&T, Bob championed the construction of the SAMN network, fighting to remove obstacles at every stage of development. This network is now a shining star within AP&T, and the envy of all regional carriers. Bob's vision continues to drive the expansion of this network to more communities with greater broadband capacity.

Most laudable of Bob's mark on AP&T has been his almost paternal caring for its employees. From safe working conditions to fair wages, Bob continually insisted that the "right thing" be done on behalf of employees. Bob believed, as do I, that doing the right thing for employees always translates into shareholder value through gained loyalty and productivity. AP&T operates as a well-oiled machine because of Bob's management philosophy that permeates every workgroup.

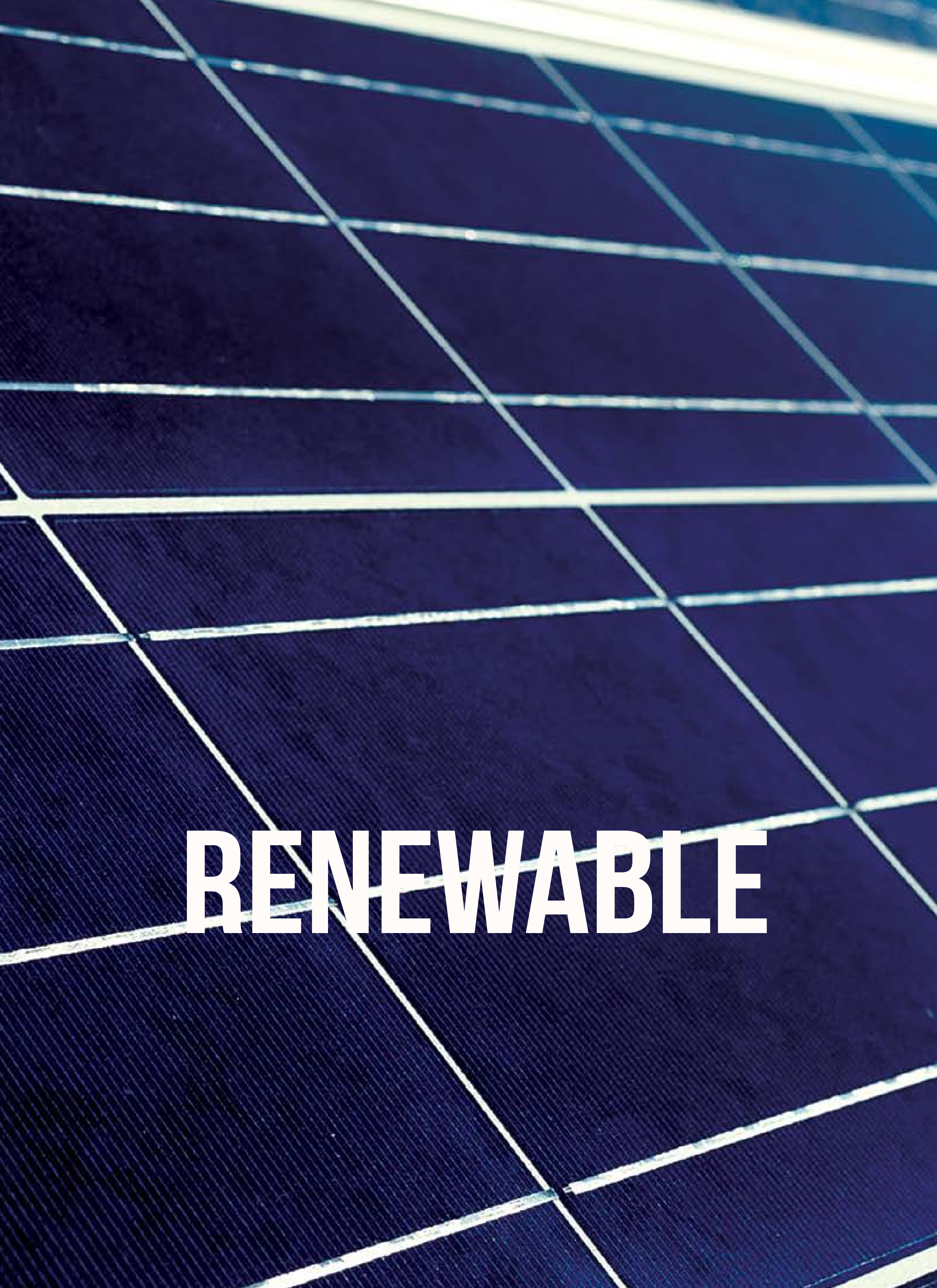
The Board of Directors has formed a search committee that is well underway in seeking and securing our next President & CEO. We anticipate announcing a selection by late summer.

These are large shoes to fill. But, thanks to the great efforts of Bob Grimm, his successor will be empowered by an organization adept at change and rising to challenges. We wish Bob and his family all the best as they enjoy the fruits of their labor. Simply, thank you, Bob.

Bill Squires
Chairman
Alaska Power & Telephone



EMPOWERING


RENEWABLE

CLEAN ENERGY

Clean, reliable and affordable power. The cornerstone on which communities rely for stability, planning and growth. AP&T continues to encourage and empower the rural community leaders we serve, assisting with ideas for job creation and responsible energy use.

Greg Mickelson, VP GM Power Operations

OUR ENERGY TECHNOLOGIES ARE EMPOWERING INNOVATIVE SOLUTIONS, TO SOLVE THE COMPLEX CHALLENGES OF RURAL ALASKA ENERGY PRODUCTION.

For nearly six decades Alaska Power & Telephone Company (AP&T) has empowered rural Alaskan communities, providing stability and reliability that businesses require to plan and grow. The natural extension then became investments in local infrastructure that help communities maintain their vibrancy and quality of life. Clean, reliable and affordable power is the cornerstone on which the foundation of this symbiotic relationship to rural Alaskans has been built.

The regional and global economics of the last three years have been challenging for AP&T and our customers. The high cost of fuel drove many customers in search of solutions to reduce energy costs - and as a consequence both our loads and sales have suffered. This trend appears to have found its floor, and as such we anticipate our loads to begin building again. We currently are paying $1.54/gal for generation fuel compared to $3.54 last year. The warm winter weather the past three years has also contributed greatly to our reduced sales.

AP&T continues to work in conjunction with the State of Alaska and various agencies to assist our customers and community leaders with installation of energy efficient LED street lights, interior lighting and appliance replacement. The replacement of Mercury Vapor street lights and High Pressure Sodium (HPS) lights has reduced our load, and also reduced our maintenance hours. With a life span of approximately 20 years, the new LED roadway lighting will free up maintenance man-hours to be used for much more productive and beneficial tasks assisting those we serve.

AP&T achieved some major accomplishments in 2015, including the installation of a 22kw solar array in Eagle that was funded by the State of Alaska. Large-scale solar installations have not been popular in Alaska due to long, dark winters so this system, while small compared to systems in the lower 48, is currently the largest in Alaska. We completed over five miles of new line construction from the Tok plant towards Tanacross for the eventual Yerrick Creek Hydro project, replacing existing poles that had sustained ant damage as well. AP&T finalized the replacement of the Slana Generation Plant by Tok which had sustained fire damage on 10-6-2013. The Slana plant began providing power to the grid communities of Mentasta, Slana, and Chistochina on 2-3-2016. This project included a new metal building, three used generator sets, and reconnection of the waste heat system to the adjacent school. Congratulations to the Tok crews, the engineering staff, and all of the associated AP&T employees who made this project successful.

In the Haines area, a swell of new construction continues to add customers and load. The largest addition to load came with the completion of the new Aspen Hotel, whose rooms are kept comfortable for guests by electric heat. We have seen a peak load of 108 KW this winter, and over 100,000 kwhs of sales over the nine months it has been in operation. Skagway continues to see new activity as well, making 2015 a good year

The AP&T 22kW Solar array featured on the cover is located in Eagle Alaska, and is the largest Utility-Owned electrical generation installation in the State. Funding support for the project came via the Alaska Energy Authority.

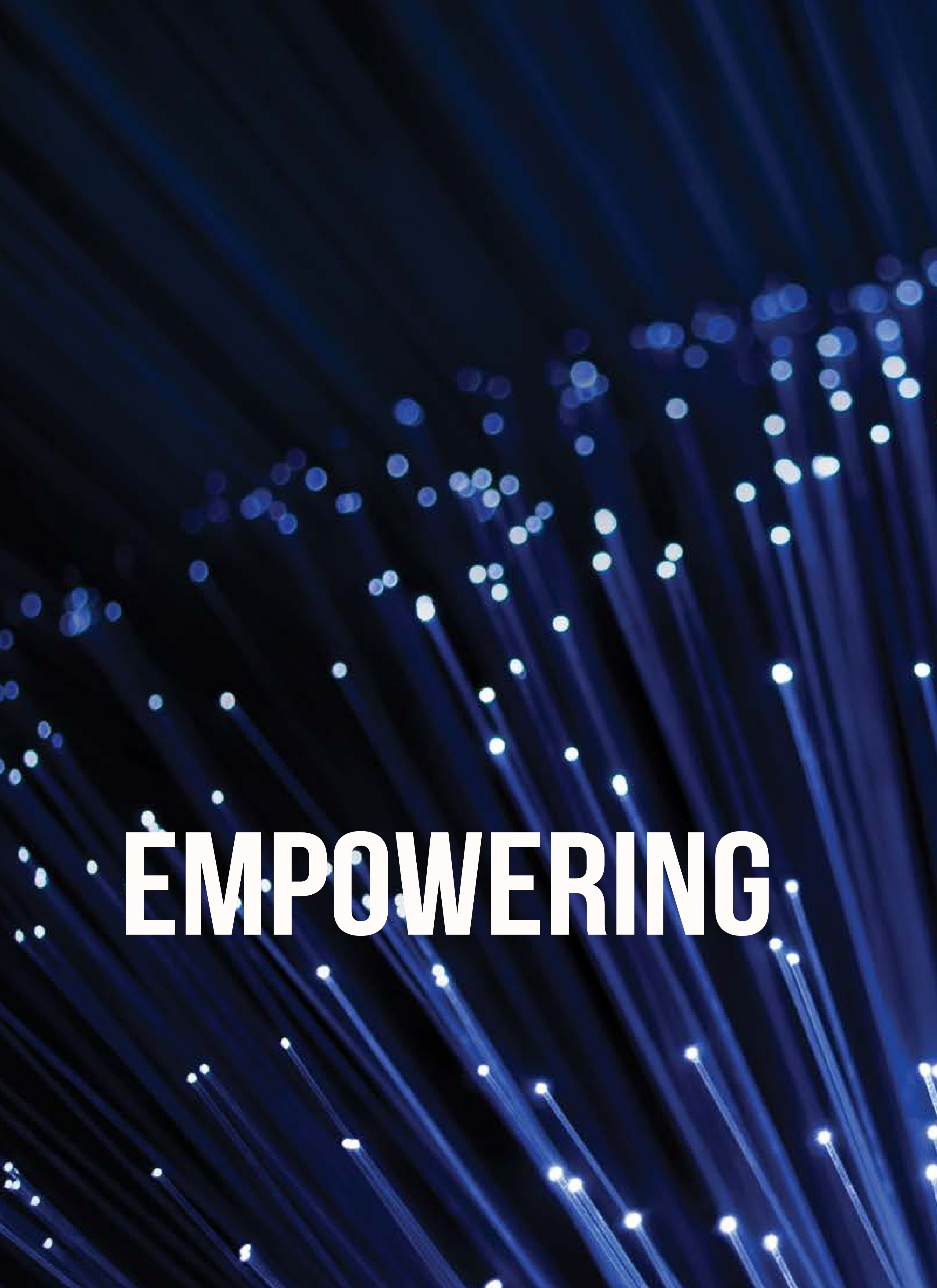
to see new activity as well, making 2015 a good year for Hydro Operations. Kasidaya Hydro had the best year for generation since it came on line in November of 2008. The state-of-the-art C175 Cat Generator, given a trial run in Tok by AP&T for Caterpillar, is now installed in the Haines plant and was test run in March 2016.

Upgrades continue to be made to the Gustavus energy system which AP&T acquired in 2014. Manager Darren Belisle has been working with engineers and the Glacier Bay National Park System to facilitate interconnection of the NPS facilities with our Gustavus energy operations. These connections will allow the NPS to turn off their existing diesel generation, and add load to our surplus summertime hydro operations. It will also provide additional generation for the community in the winter months when the Hydro generation decreases.

The Prince of Wales Island region (POW) continues to see residential customer growth in all communities except Hydaburg. POW added 49 new customers in 2015, and half of this new growth was in Coffman Cove, Naukati, and Whale Pass. While all this new construction is good for the Island, most of the new customers are still seasonal in nature and have not contributed much in the way of permanent new load growth. Right-of-way clearing continued on the Deer Bay Road portion of the transmission line to the Hiillangaay Hydro project by Hydaburg. Six more miles of clearing were completed, with poles and materials ordered for 2016 spring construction. If all goes as planned, we will have the entire 12 miles of line done by October of 2016 to provide power to the site for construction activities.

We continue to encourage and empower the rural community leaders in all areas we serve, assisting with ideas for job creation and responsible energy use. The recent downward pricing trend for Alaskan oil has resulted in the State being hard-pressed to balance current and future budgets. As a result, much-needed aid to residents has been cut as well. These types of challenges are not unique to us as Alaskans. The boom and bust history of this Great State has bred resilience and ingenuity into the fabric of our Company, our Communities and our Customers. Together, we shape the present, while looking ahead with optimism to fulfilling our role as a partner to empower the solutions of tomorrow.

Greg Mickelson
VP GM Power Operations
Alaska Power & Telephone


EMPOWERING

CONNECTIONS

PRODUCTIVITY

AP&T plays an integral local role connecting the needs of educators and students, empowering learning in today's "Information-Now" environment.

Michael Garrett, Exec. VP, COO – Telecom/Power Operations

THE UPPER LYNN CANAL FIBER PROJECT & OUR DATA TECHNOLOGIES ARE GROWING COMMUNITIES AND EMPOWERING PEOPLE TO LEARN AND WORK FAR BEYOND ALASKA.

Empowering Productivity

Foundations must be set and a vision implemented to provide the framework to empower Alaska and Alaskans. Our goal of developing the infrastructure to create a future of growing communities lays that foundation. In telecommunications this means building critical infrastructure now that will bring enhanced broadband capability to as many customers as possible.

In 2014 we completed the upgrade of our Southeast Alaska Microwave Network (SAMN). The resulting increase in capacity, (over 1Gbps), positioned us well for the future needs of our customers, which include other telecommunications providers. Anticipating a demand in growth in the coming years, we had an aggressive budget in 2015. The 2015 results show SAMN sales to outside providers grew by a margin of 30% over the previous year.

By far our most ambitious fiber project is our Upper Lynn Canal Submarine fiber project, which will lay fiber between the communities of Juneau, Haines and Skagway. The intent of this project is to build infrastructure that will sustain the future of these communities, along with the possible benefit of interconnection outside Alaska, through Canada. The potential to empower the lives and livelihoods of residents in this region is tremendous. Its impact has been compared to a superhighway – against the backdrop of road projects between Juneau and Skagway being discussed for some years now. AP&T's scheduled installation suffered a major setback in the permitting phase. However, due to the diligent efforts of the AP&T team, we have worked through those challenges and plan on a September 2016 installation.

Not uncommon to rural Alaskan communities, particularly in areas we don't traditionally provide wireline broadband service, is the need for advanced infrastructure to support broadband services to critical community facilities like school, libraries and health care offices. AP&T has targeted efforts to come alongside local municipalities to help provide solutions, as with the city of Coffman Cove's grant application to install fiber throughout their community.

In 2015 AP&T crews extended our fiber network to the community of Naukati, Alaska. The fiber installation was part of a broader project to interconnect Naukati with the rest of the Prince of Wales Island power grid, yet also brought the benefit of fiber to support local broadband. We are presently reaching out to area residents to interconnect them. Naukati is now on the list of Island communities where AP&T is the primary wireline provider for broadband (other communities include Hydaburg, Hollis, Craig).

Last year in the southwestern region of the interior, we worked with a statewide carrier to provide high speed broadband service to much of the Alaska Gateway School District. This began with AP&T providing additional

AP&T Information, System and Network Specialists, From left to right: Bryant Smith, Manager Broadband Sales & Quality; Kyle Sorensen, Director of Systems; Zachary Layman, Engineering Manager; Timothy Montgomery, System Administrator ; Scott Adams, Systems Analyst/Developer.

nity of Tok, to be shared by the schools. Ethernet circuits were then provided to the following locations: Tetlin School, Tanacross School, Northway School, Tok School, Tok Admin Building, and Mentasta School (in conjunction with CVTC). This project in turn allowed us to increase the amount of bandwidth we are able to provide for the entire community of Tok.

In portions of our service area, fiber installation isn't the most economical or appropriate medium to provide broadband service. The remote community of Northway, Alaska is one example. As part of the backbone upgrade to our transport infrastructure in the region, we are improving our wireless broadband network to empower the local community. This has been a technically challenging, yet rewarding project for our Tok personnel and telecom engineering staff.

Throughout 2015 and into early 2016 we worked extensively to upgrade our Wi-Fi service offering. In a network-wide initiative, the operating platform was completely revamped, aging hardware was replaced and overall coverage was greatly improved at key locations. The customer interface on our website has been rebuilt to provide customers a fresh and friendlier look and feel, along with greater functionality, including mobile support. Along with changes made to the underlying platform to improve the customer experience, we increased the speeds allowed per device, removed the limit of 2 devices allowed online, and made customer account authentication more efficient. Changes were also made to improve the performance of mobile devices. These developments will significantly enhance the customer experience behind our Wi-Fi hotspots as we move into another busy tourist season in Southeast Alaska.

Empowering Customers

It is not only infrastructure which demands attention, we are also improving how we interact with and empower our customers. Several large steps were taken in this area in 2015. Bandwidth usage continues to be an area that customers struggle to manage. This can become even more challenging as we increase our speeds, as customers are now able to consume much more bandwidth in less time. In order to assist customers with this, we implemented Rollover Gigs at the beginning of 2015. This means a customer can now roll over any unused usage from one month and use it in any of the next 12 months. Greater flexibility to manage their usage, and better value is at the core of these changes, which have been very well received by our customers. We have also significantly improved the portal that allows customers to view this data. They can now view and track their usage on a monthly, daily, or even hourly basis with easy to read graphs above the actual numbers. Complimenting these improvements in service and value are the great strides forward in assisting customers with the premise equipment they have in their homes. The implementation of a new platform from which to configure and

Students in the Tok, Alaska Gateway School District collaborate on a wide-ranging variety projects using online resources.

manage customer premise equipment such as modems and routers, allows customers the ability to change their router and modem settings, as well as reset their Wi-Fi passwords, as often as they like via the website portal. Internally this change has given us the ability to track modems so we can now identify failure rates, push firmware upgrades out, and manage inventory much better. Overall this major undertaking will allow for greater efficiency and responsiveness within the high-speed business sector in which we operate.

Among the more significant forces at work within the telecommunications industry, which influence the empowering of Alaskan's, none holds greater weight than the regulatory environment. AP&T and other telecommunications providers have been waiting for some time for new rules to be promulgated by the Federal Communications Commission. The anticipated rules could have the effect of creating more uncertainty in broadband, or conversely, provide definitive direction. Preliminary reports suggest the new rules will provide certainty and incentives to improve the first mile (between the customer and AP&T). On March 30, 2016 those rules were issued and we are reviewing them with great intent.

Our vision is that regulations coupled with our past and future investment will meet in the perfect storm, to continue empowering Alaska, Alaskans and AP&T well into the future.

Michael Garrett
Exec. VP, COO –
Telecom/Power Operations
Alaska Power & Telephone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EMPOWERING

OUR FUTURE

OPPORTUNITIES

As a seasoned utility developer, AP&T is well-positioned to capitalize on new opportunities for private investment in infrastructure.

Jason Custer, Business Development Director

AP&T'S ABILITY TO IDENTIFY AND CAPTURE GROWTH OPPORTUNITIES WILL REMAIN A KEY COMPONENT TO EMPOWERING CUSTOMERS AND SHAREHOLDERS ALIKE.

AP&T and its partner Haida Corporation received regulatory approvals for the 5 MW Hiilangaay (HEE-lung-eye) hydropower project at Reynolds Creek, and closed a $20m, 53-year low-interest loan approved and issued by the State of Alaska; the largest renewable energy loan ever issued by the Alaska Power Project Fund. Under a newly-executed contract, AP&T will serve as the engineering, procurement, and construction (EPC) contractor for this $21.2m project, and will be able to apply its expertise in hydropower construction to earn a non-regulated construction profit. Once completed, Hiilangaay will benefit AP&T's customers by displacing nearly all existing diesel-based generation on Prince of Wales Island while providing a surplus of affordable, renewable energy for future community growth.

AP&T's 1.5MW Yerrick Creek Hydropower project, intended to serve residents of the Tok region who are 100% dependent on diesel-based generation, reached several key milestones this year. AP&T and Tanacross Inc. executed site-control agreements allowing for construction of the project on Tanacross land. AP&T initiated construction activities, completing 5 miles of new transmission upgrades required for the project. The project received a new $500,000 grant for construction via USDA's REAP program. The Alaska Energy Authority approved authorization of grant funds to support continued engineering, stream gaging, and analysis activities through 2016, as the project's design is finalized. Additional USDA High Cost Energy Grant funds are currently supporting additional engineering activities. AP&T and its partners the Native Village of Tanacross and Tanacross Inc. submitted grant applications to State and federal agencies; funding decisions are anticipated later in 2016.

After new economic analysis based on years of anemometric study, AP&T applied for federal grant funds for construction of a 1.8MW wind farm at 7-Mile Ridge, located near Tok. In addition to providing access to clean, affordable wind energy which would complement hydropower production, the 7-Mile project helps extend the Tok region's transmission system nearer to the Mentasta-region microgrid, increasing the viability of an eventual transmission interconnection between the two systems, and enhanced operational efficiencies. AP&T looks forwards to continued focus on this project.

Since the acquisition of Gustavus Electric Company and the associated Falls Creek hydropower project, AP&T has promoted development of a transmission interconnection to off-grid National Park Service facilities self-generating power from diesel. This arrangement would provide excess clean energy from the Falls Creek hydropower facility to Park Service facilities, helping to increase sales volumes and revenues while lowering consumer energy costs. AP&T and the NPS are sharing information in hopes of developing a construction-ready concept for the near future.

Ever since its founding with the purchase of Skagway's electric and telephone utilities, AP&T has grown shareholder value through strategic acquisitions. As 2015 began, AP&T continued to consider new opportunities for strategic acquisitions within Alaska. However, the global decrease in oil prices provided significant relief to Alaskan utilities and consumers dependent on diesel-based generation, decreasing financial pressures to consolidate operations. AP&T subsequently turned its attention to acquisition of military installation electrical plant through utility privatization, and developed a proposal for privatization of the electrical distribution system at Joint Base Lewis-McChord, near Tacoma, WA. AP&T anticipates that strategic acquisitions will remain a key component of its long-term growth strategic, and will continue considering strategic M&A opportunities on a case-by-case basis.

US Senator Lisa Murkowski, Co-Chair of the Senate Energy and Natural Resources Committee, introduced S.2046 – a new bill proposing to provide 10 additional years for development the Mahoney Lake hydropower project. Mahoney is a FERC-licensed project which is 50% owned by AP&T, and 50% owned by Cape Fox Corporation. At the time of this report's preparation, the bill had made it through committee hearings, and was awaiting action by the full Senate.

In 2015, AP&T turned on the Eagle Solar Installation – the largest utility-owned solar electric facility in Alaska. The project, developed with funding support by the Alaska Energy Authority, has been helping the remote community of Eagle, Alaska reduce its dependence on diesel fuel, and is being studied by others as a replicable model of success for rural Alaska.

AP&T's efforts to develop the 77.4MW Soule hydropower project were placed on standby as the US Forest Service worked to amend to Tongass Land Management Plan. The USFS is currently developing new renewable energy guidelines which would prioritize development of clean energy projects within the Tongass. AP&T has been and will continue to be very active in emphasizing the need for the USFS to adopt guidelines providing developers with a clear path forwards for undertaking renewable energy development within the Tongass. As for Soule, we anticipate filing a FERC license application in 2016, and are considering options for strategic investment partners to carry the project through to construction.

The USFS's TLMP amendment is intended to create a reliable timber supply of 45 million board feet (mmbf) per year. Sealaska Corporation announced that it will be able to provide a similar supply of timber using 70,000 acres of land recently transferred from the federal government as part of a final ANCSA settlement. In all, this projected supply of 90 mmbf / year would provide significantly more timber than has been made available in southeast Alaska in the last 5 years, and will hopefully help sustain the sawmills which are some of AP&T's best customers.

The drastic and now sustained plunge in oil prices has provided significant rate relief for AP&T customers dependent on diesel-based generation. Yet the same low prices have catalyzed a financial crisis for the State of Alaska, which depends upon oil for 90% of its revenues. At the time of this report's preparation, the State was working to address a harrowing $3.5 billion budget deficit through what will likely be combination of deep cuts to government jobs and services, and new taxes on families and industry – changes which will be felt by all Alaskans and businesses. While OPEC's annual outlook for 2016 has indicated that oil prices will rise, the climb is anticipated to be a slow one. For the time being, the State appears to have lost the ability to invest in new renewable energy projects through new grants and low interest loans.

Because the State is no longer in a position to invest in infrastructure, there may be increased opportunities for private investment in renewable energy. Moreover, a recent ruling by the Regulatory Commission of Alaska recently improved the investment climate for independent power producers, by updating the State's interpretation of the Public Utilities Regulatory Policies Act (PURPA) to coincide more accurately with federal PURPA requirements. As a seasoned utility developer, AP&T is well-positioned to capitalize on new opportunities for private investment in infrastructure.

AP&T has continued in efforts to permit and construct a new 86-mile long submarine fiber-optic cable between the Upper Lynn Canal (Skagway/Haines) region, and Juneau. This project will significantly strengthen our ability to serve rapidly increasing demands for data transport throughout southeast Alaska, strengthen regional reliability of service, and set the stage for a future data backhaul route out of the growing city of Whitehorse, in the Yukon Territory of Canada. While some permitting delays occurred in 2015, AP&T anticipates the cable will be operational in 2016. Moving forwards, our company will continue to maintain a strategic focus on increasing our ability to serve as a "carriers' carrier" providing data backhaul and middle-mile transport services.

Jason Custer
Business Development Director
Alaska Power & Telephone

FROM SLIPS AND TRIPS TO POLE TOP RESCUES AND ERGONOMIC HEALTH, OUR CULTURE HONORS AND EMPOWERS SAFE WORKING ENVIRONMENTS.

AP&T SAFETY REPRESENTATIVES

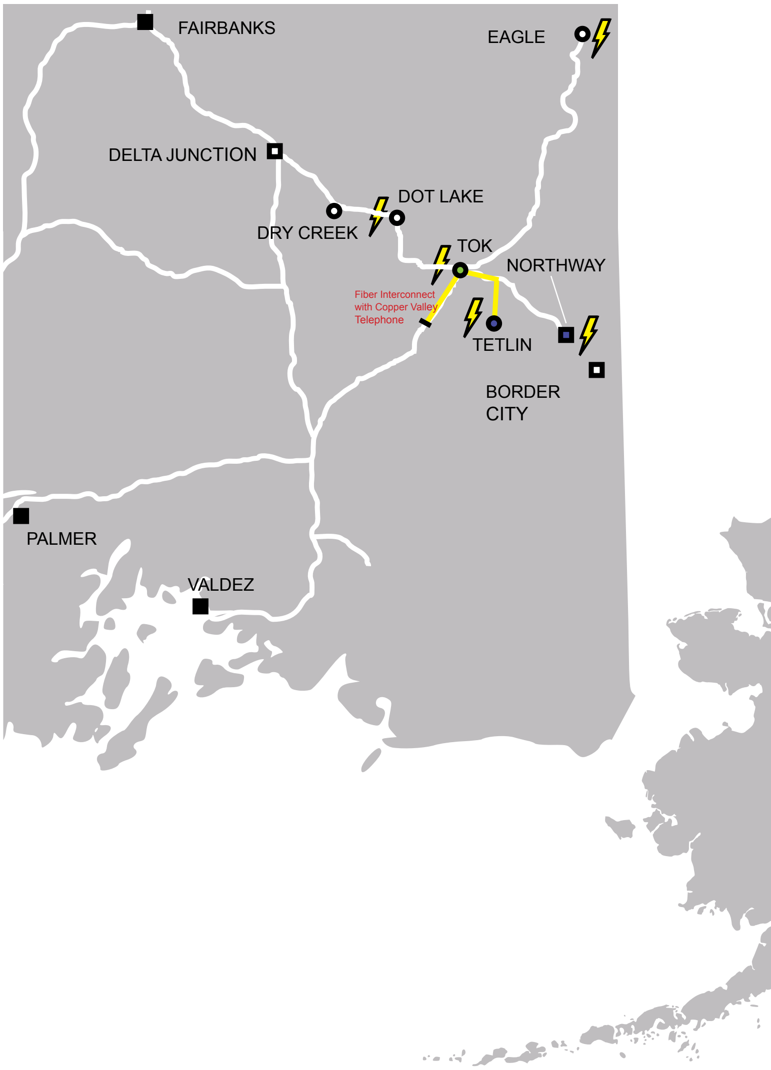
From left: Jason Spear, Ketchikan, GM ATW & SAMN OPS - 25 yrs; Don Duke, Gustavus, Power-Serviceman – 2nd yr; Dean Kerr, Prince of Wales, Apprentice Lineman – 3rd yr; Sam Nelson, Skagway, Journeyman Lineman II - 8 yrs; Arne Sather, Port Townsend, VP HR Director - 21 yrs; Jacob Williams, Tok, Telco Combo Tech III - 12 yrs; Mickey Henton, Tok, Tok Power Operations Mgr. - 29 yrs; Devin Warren, Tok, Power Lineman Apprentice -2 yrs; Danny Gonce, Juneau, Director of Safety & Training - 14 yrs; Doug McMurren, POW, Telephone Operations Mgr. - 30 yrs; Kathy Brendible, Metlakatla, Lead Telco Combo Tech III - 19 yrs; Amber Averette, Juneau, Safety Administrative Assistant - 1st yr; Brent Akers, Petersburg/Wrangell, Telco Operations Mgr.- 36 yrs; Russ Bell, Haines, Apprentice Lineman - 3 yrs, Not pictured: Kelsey Richter, Port Townsend, Billing Specialist - 9 yrs; Lucas Shilts, Wrangell, Telco Combo Tech III - 8 yrs

ALIGNING OUR ABILITIES TO MEET OUR CUSTOMER'S NEEDS IS KEY TO EMPOWERING OUR SUCCESS.

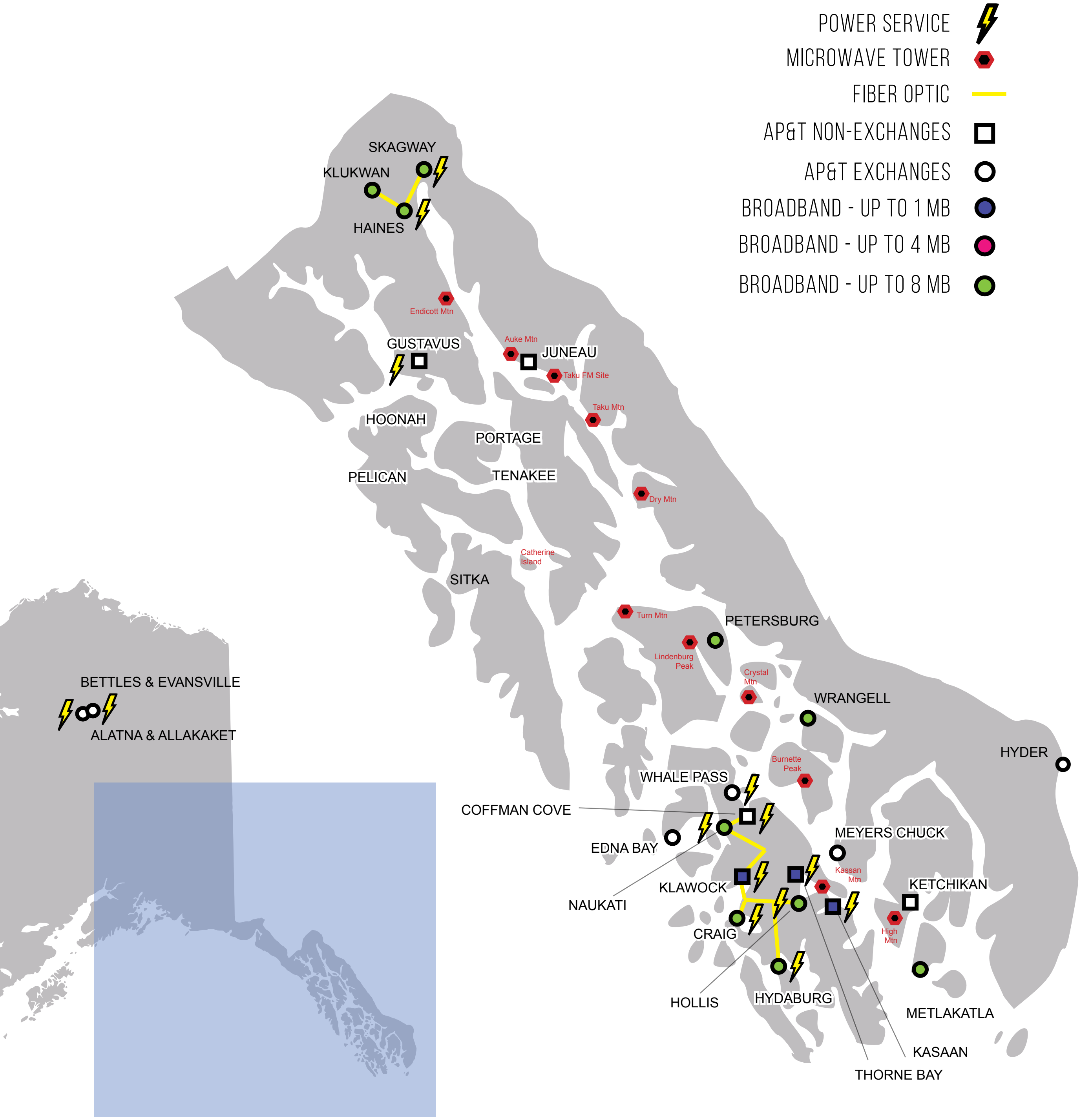
AP&T CUSTOMER SERVICE REPRESENTATIVES

From left: Kay Ackerman, Skagway, CSR - 8 yrs; Phyllis Sage, Haines, Lead CSR - 17 yrs; Kelsey Richter, PT, Billing Specialist - 9 yrs; Louisa James, Tok, CSR - 9 yrs; Kris Kain, POW, CSR - 1 yr; Joyce Smith, Tok, Admin Assistant - 16 yrs; Dana Van Slyke, Wrangell, Lead CSR - 22 yrs; Rhoda Gilbert, Petersburg, Dir. of Customer Service - 31 yrs; Jann Hagen, PT Billing Specialist, - 9 yrs; Karen Simpson-Hobart, POW CSR - 3 yrs; Jackie Westcott, Petersburg, CSR - 9 yrs;

	DATE OF SERVICE	SERVICE CENTER	WIRELESS	TELECOM	POWER
SKAGWAY	1957	•	•	•	•
TOK	1960	•	•	•	•
CRAIG	1962	•	•	•	•
PORT TOWNSEND (CORPORATE)	1964	•			
HYDABURG	1965		•	•	•
TANACROSS	1973			•	•
DOT LAKE	1978			•	•
TETLIN	1986			•	•
HOLLIS	1990			•	•
BETTLES & EVANSVILLE	1991	•		•	•
DRY CREEK	1991			•	
CHISTOCHINA	1991				•
NAUKATI	1992			•	•
WHALE PASS	1992			•	•
MENTASTA LAKE	1992				•
MEYERS CHUCK	1992			•	
COFFMAN COVE	1992		•		•
EDNA BAY	1993			•	
JIM RIVER CAMP	1993			•	
EAGLE & EAGLE VILLAGE	1993	•		•	•
HEALY LAKE	1994			•	•
NORTHWAY & NORTHWAY VILLAGE	1995				•
ALATNA & ALLAKAKET	1995			•	•
CHISANA	1996			•	
HAINES (TEL 2000)	1997	•	•	•	•
KETCHIKAN	1997	•	•		
METLAKATLA (TEL 2000)	1997	•	•	•	
PETERSBURG (TEL 2000)	1997	•	•	•	
WRANGELL (TEL 2000)	1997	•	•	•	
THORNE BAY	1998		•		•
KLAWOCK	1999	•	•		•
HYDER	2000			•	
KLUKWAN	2000			•	
ANCHORAGE	2000	•			
KASAAN	2001		•		•
SLANA	2005				•
LUTAK	2007			•	•
GUSTAVUS	2014				•



AP&T SERVICE AREA MAPS



FINANCIAL REVIEW

AP&T's ability to finance and operate vital regional infrastructure projects empowers and impacts the SE Alaska region on a multitude of socioeconomic planes. Education, Health, Business and Governmental, to name a few, are given greater opportunity and access to resources that help them grow and flourish. As Employee-Owners and Shareholders, we take great pride in the success of these ventures.

Chad A. Haggar, CPA, Chief Financial Officer, VP, Treasurer

OVERALL, REVENUES IMPROVED SLIGHTLY DURING 2015. GENERATING A TOTAL OF $44.2 MILLION – UP 0.3%.

Company Overview

Alaska Power & Telephone Company was established in 1957 and through its subsidiaries, provides regulated electric and telephone service to a combined total of 40 communities. AP&T also has non-regulated operations which includes a microwave communication network as well as offering internet, broadband, long distance and engineering services.

2015 began with the substantial undertaking of greatly expanding the Company's fiber optic network. The SE Fiber Project will empower local residents, business, education and governmental entities in the Upper Lynn Canal region with a robust new high speed broadband connectivity-path to the major communications fiber facilities in Juneau. The Company continued its efforts to evaluate its cost structure with the intent of improving its internal efficiencies.

Overall, revenues for AP&T improved slightly during 2015 generating a total of $44.2 million, an increase of 0.3%. Operating expenses on the other hand decreased by $676,000 or 2.4% allowing the Company to increase its operating income by 8.5% to $10.3 million. Total depreciation and amortization expenses were similar to the previous year at $6.8 million resulting in net income of $3.3 million, an increase of 18.5%. Basic earnings per share for the year increased by 20.3% to $2.53 based on a weighted-average of 1.3 million common shares outstanding. Total assets were $121.8 million, a decrease of 2.4%. Total debt including long-term leases decreased by 8.6% to a total of $55.7 million at the end of the year. Shareholders' equity increased by 7.2% or $2.7 million to a total of $40.2 million after distributing $967,400 of its earnings to shareholders in the form of dividends.

Operations by Segment

Electric Operations – Total sales for electric operations during 2015 were 65.5 GWh, a 2.7% or 1.7 GWh increase over 2014 results. A full year of operations at Gustavus contributed 1.2 GWh's of the increase. Power operations produced net revenues of $11.9 million, an increase of $900,000 or 8.5% over the previous year. Hydroelectric resources provided 77.1% of all generation, a decrease of 0.7% from 2014 results. Total operating expenses for the year decreased by 9.3% or $1.2 million to a total of $11.4 million. The continued lower price of fuel contributed $1 million to the cost reduction. Operating income for the year was $4.9 million, an increase of $1.1 million or 29.1%. During 2014, the Company received final regulatory approval of its rate case resulting in a total increase of 11.18%. An interim and refundable rate increase of 6% was implemented at the beginning of 2014 while the remainder went into effect January of 2015.

Telecommunications Operations – Gross revenues for regulated telecommunications operations were $15 million for 2015, a 5% or $711,000 increase over 2014 results. Approximately $255,000 of the change stemmed from interstate recovery from circuit equipment (microwave and central office equipment) needed for the provision of digital subscriber line service. Operating expenses for the year increased by 10% or $974,000 to a total of $10.6 million. Deprecation including amortization declined by $111,000 to $2.5 million as the Company continues to more closely align its investment in plant to the returns being generated and continues to write off goodwill from previous exchange acquisitions. As a result, operating income provided by regulated telecommunications during 2015 was $1.9 million, a decrease of $152,000 or 7.3%.

Non-regulated Operations – Consisting of AP&T Wireless, AP&T Long Distance, and engineering services, non-regulated telecommunication operations continues to grow while the Company exits the engineering sector. Gross revenues during 2015 totaled of $9.6 million, a decrease of $500,000. AP&T Wireless contributed $9.1 million in revenue, a $1 million or 13.2% increase. Gross revenue provided by long distance services increased slightly to $257,000 while revenue from engineering services decreased by $1.5 million. Combined operating expenses for the segment were $5 million, a decrease of 8.8% or $1.2 million. Operating income decreased by 4.2% to $3.4 million.

Other Income and Expense

The Company receives patronage-based dividends from CoBank, its primary lender, and Northwest Farm Credit Services who has participated with CoBank in several of the Company's recent financings. CoBank bases its patronage on 1% of the Company's average outstanding loan balances returning 75% to the Company in cash while the remainder generally increases the equity investment in the bank. The Company recorded patronage dividends of $543,000 and $455,000 for the years ending 2015 and 2014 respectively.

Through the various acquisitions of power related assets during 1995 through 1997 and telecommunications assets during 1999, the Company had recorded $9.2 million of goodwill. Since then, the Company has continuously tested the underlying assets for impairment and found that none exists. Recent accounting standard changes have allowed for the option to amortize goodwill. Accordingly, management has elected to amortize power related assets over a period of 10 years and telecommunication assets over 5 years. As a result, the Company recorded $1.8 million in amortization expense during both 2014 and 2015.

The Company routinely participates in various preliminary survey investigations in an attempt to develop renewable resources and further reduce its reliance on fossil fuels for generation. At such a time when it is determined that a particular project isn't feasible, the Company records the appropriate charge against results of its operations. Accordingly, the Company has discontinued the investigation of two such projects resulting in a $426,000 charge to miscellaneous expense during 2015.

Provision for Income Taxes

Income before tax was $4.8 million and $4.1 million for the years 2015 and 2014 respectively. The effective tax rate was 31.6% or $1.5 million for 2015 compared to 33.4% or $1.4 million in 2014. Net income for 2015 was $3.3 million or $2.53 per share compared to $2.8 million or $2.10 per share for 2014.

Financial Condition

The Company's investment in gross plant in service increased by 2.4% or $4.5 million to $190.8 million. Net property, plant and equipment increased by 4.6% to a total of $87.4 million during 2015 from $83.6 million the prior year. As the Company pursues the completion of its SE Fiber Project, to-date utilizing internally generated funds, working capital decreased by 77% to $1.5 million.

Interest bearing liabilities including leases at year-end 2015 were $55.6 million, a decrease of 8.6% or $5.2 million. During the year, the Company secured financing commitments from CoBank of $9.9 million to facilitate the completion of the SE Fiber Project. As of yet, no funds have been drawn on this commitment. The common stock transactions with ESOP participants lead to the net decrease in both shares outstanding and additional paid-in capital totaling $220,000. Net income from operations contributed $3.3 million to retained earnings, of which $967,000 was returned to shareholders in the form of dividends. An additional adjustment to "other comprehensive loss" of $591,000 was recorded to reflect the improving fair market value of the interest rate swap that became effective August of 2013. Consequently, total equity increased by $2.7 million or 7.2% during 2015. The Company's equity as a percentage of total capital increased by 10% for the year ended 2015 to 42% compared to 38.2% at the end of the prior year.

Liquidity and Capital Resources

Operating Activities – Cash flows provided by operating activities during 2015 were $13.9 million, a 30.6% or $3.3 million increase over the previous year. The change being primarily driven by the reduction in customer accounts receivable, income taxes recoverable and other long-term assets.

Investing Activities – Cash used in acquiring property plant and equipment to support ongoing operations during 2015 increased by $5.7 million to a total of $10.7 million, of which $4.7 million was devoted to the SE Fiber Project. Net cash used for investing activities increased by 50% to a total of $10.7 million during 2015, compared to $7.1 million for the year ended 2014.

Financing Activities – A total of $6.4 million of cash was used for financing activities throughout 2015 compared to using $1 million of cash during the year ended 2014. The Company successfully secured financing commitments during 2015, no funds were drawn. Conversely, during 2014 the Company raised $5 million through the issuance of long-term debt.

Net transactions in the Company's stock used $220,000 of cash during 2015 versus using $939,000 in 2014. Cash used for payment of dividends during 2015 was $967,000, an increased $393,000 or 68.4%.

Issues, Risks and Challenges

There will always be risks and challenges facing a business, which include the effects and uncertainties of future events, some of which have been identified and described below.

• The continuing unstable economic environment in Alaska could have a negative impact and restrict growth opportunities there.

• Our continued reliance on subsidies from government to our regulated electric and telecommunications customers, that help them pay rates that reflect a fair return to the Company, could be affected by legislative or regulatory changes.

• If the company fails to uphold the financial covenants of its Master Loan Agreement with CoBank, events could cause a default in the terms of the agreements and would adversely affect the Company's future.

• We face risks related to our operations through unexpected changes in compliance regulations, political, legal and economic instability, and seasonal factors that would affect hydrology, and unforeseen adverse tax consequences, all of which could have adverse effects on the Company's long-term financial projections.

Robert S. Grimm
President, CEO
Alaska Power & Telephone

Michael Garrett
Exec. VP, COO –
Telecom/ Power Operations
Executive Vice President
Alaska Power & Telephone

Chad A. Haggar
CPA, Chief Financial
Officer, VP, Treasurer
Alaska Power & Telephone

AP&T FIVE YEAR SUMMARY 2015

$ expressed in thousands per share data	2011	2012	2013	2014	2015
OPERATING RESULTS					
Operating Income by Segment					
Electric Power	$5,633	$4,909	$3,096	$3,830	$4,944
Telecommunications	2,022	2,059	1,469	2,071	1,919
Non-Regulated Operations	1,450	2,105	2,558	3,590	3,438
Total Operating Income	$9,105	$9,073	$7,123	$9,491	$10,301
Operating Margin	21.9%	21.4%	16.5%	21.5%	23.3%
Net Income	$3,338	$3,425	$1,390	$2,781	$3,295
EBITDA	$16,677	$16,611	$13,251	$16,789	$17,219
Cash Flow from Operations	$12,826	$13,087	$11,450	$10,655	$13,913
Earnings (loss) per Share - Basic	$2.35	$2.55	$1.05	$2.10	$2.53
FINANCIAL POSITION					
Total Capitalization	$102,817	$96,348	$95,310	$98,459	$95,943
Weighted-Average Shares Outstanding	1,419,656	1,341,584	1,324,365	1,324,626	1,304,030
Book Value per Share - Basic	$23.49	$25.22	$26.98	$28.75	$30.98
Share Price per Valuation	$21.13	$28.10	$28.11	$29.90	TBD
KEY RATIOS					
Cash From Operations/Revenue	30.8%	30.9%	26.6%	24.2%	31.5%
Debt/Capitalization	65.8%	64.9%	62.0%	61.8%	58.0%
Equity/Capitalization	34.2%	35.1%	38.0%	38.2%	42.0%
Return on Assets	2.6%	2.8%	1.2%	2.2%	2.7%
Return on Equity	9.5%	10.1%	3.8%	7.4%	8.2%

Report of Independent Auditors and
Consolidated Financial Statements for

Alaska Power & Telephone Company and Subsidiaries

December 31, 2015 and 2014

CONTENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Alaska Power & Telephone Company

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Alaska Power & Telephone Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS
(continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Power & Telephone Company and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
April 7, 2016

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2015	December 31, 2014
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$ 106,122,563	$ 104,611,930
Telecommunications	80,345,731	81,595,771
Nonutility	4,377,606	135,055
	190,845,900	186,342,756
Less accumulated depreciation and amortization	112,832,633	106,839,528
	78,013,267	79,503,228
Utility plant under construction	9,434,065	4,074,023
Total property, plant, and equipment	87,447,332	83,577,251
OTHER ASSETS		
Investments	10,909,307	10,772,212
Goodwill, net of amortization	5,681,190	7,473,922
Rate stabilization asset	5,104,894	5,078,487
Other assets	1,122,282	1,915,070
Total other assets	22,817,673	25,239,691
CURRENT ASSETS		
Cash and cash equivalents	2,189,046	5,349,026
Receivables, less allowance for doubtful accounts of $35,484 in 2015 and 2014	6,188,618	6,950,540
Securities available for sale	2,798	2,798
Inventory and other current assets	3,197,595	3,122,590
Income tax refunds receivable	-	564,972
Total current assets	11,578,057	15,989,926
Total assets	$ 121,843,062	$ 124,806,868

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,300,395 and 1,307,665 shares issued and outstanding in 2015 and 2014, respectively	$ 1,300,395	$ 1,307,665
Additional paid-in capital	4,041,213	4,254,297
Retained earnings	37,978,985	35,650,926
Accumulated other comprehensive loss	(3,029,376)	(3,621,367)
Total stockholders' equity	40,291,217	37,591,521
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	9,316,667	10,183,333
Other long-term debt	40,633,635	44,840,384
Total long-term debt	49,950,302	55,023,717
FINANCE LEASES	212,655	628,414
INTEREST RATE SWAP	5,015,524	5,995,641
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	15,443,463	15,129,526
Other deferred credits	775,727	755,739
Total other liabilities and deferred credits	16,219,190	15,885,265
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	4,256,963	4,466,542
Income taxes payable	408,417	-
Current portion of finance leases	414,626	399,645
Current portion of long-term debt	5,074,168	4,816,123
Total current liabilities	10,154,174	9,682,310
Total liabilities and stockholders' equity	$ 121,843,062	$ 124,806,868

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2015	2014
REVENUE		
Electric	$ 19,529,028	$ 19,613,847
Telecommunications	15,055,096	14,344,012
Other nonregulated	9,619,219	10,108,765
	44,203,343	44,066,624
EXPENSES		
Electric	11,403,005	12,569,941
Telecommunications	10,591,339	9,616,927
Other nonregulated	5,037,900	5,521,621
Operations and maintenance expense	27,032,244	27,708,489
Depreciation and amortization expense	6,870,453	6,867,409
	33,902,697	34,575,898
Income from operations	10,300,646	9,490,726
OTHER INCOME (EXPENSE)		
Dividend income	543,356	455,340
Amortization of goodwill	(1,792,732)	(1,792,481)
Miscellaneous	(495,876)	(24,237)
Total other income	(1,745,252)	(1,361,378)
Interest income	3,691	4,043
Interest expense	(3,739,496)	(3,959,014)
Net interest expense	(3,735,805)	(3,954,971)
Income before income taxes	4,819,589	4,174,377
Provision for income taxes	(1,524,198)	(1,393,007)
Net income	$ 3,295,391	$ 2,781,370
Basic and diluted earnings per share	$ 2.53	$ 2.10
Weighted-average basic and diluted shares outstanding	1,304,030	1,324,625

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2015	2014
Net income	$ 3,295,391	$ 2,781,370
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	980,117	236,446
Income tax expense related to fair value adjustment to interest rate swap liability	(388,126)	(93,631)
Comprehensive income	$ 3,887,382	$ 2,924,185

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	$ 1,341,064	$ 5,159,738	$ 33,443,955	$ (3,764,182)	$ 36,180,575
Net income	-	-	2,781,370	-	2,781,370
Sale of common stock	22,099	599,095	-	-	621,194
Repurchase of common stock	(55,498)	(1,504,536)	-	-	(1,560,034)
Fair value adjustment to interest rate swap, net of tax	-	-	-	142,815	142,815
Dividends paid to shareholders	-	-	(574,399)	-	(574,399)
Balance at December 31, 2014	1,307,665	4,254,297	35,650,926	(3,621,367)	37,591,521
Net income	-	-	3,295,391	-	3,295,391
Sale of common stock	30,889	892,687	-	-	923,576
Repurchase of common stock	(38,159)	(1,105,771)	-	-	(1,143,930)
Fair value adjustment to interest rate swap, net of tax	-	-	-	591,991	591,991
Dividends paid to shareholders	-	-	(967,332)	-	(967,332)
Balance at December 31, 2015	$ 1,300,395	$ 4,041,213	$ 37,978,985	$ (3,029,376)	$ 40,291,217

	Years Ended December 31, 2015	Years Ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,295,391	$ 2,781,370
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	8,646,216	8,731,503
(Gain) loss from disposal of assets	1,055	(201)
Noncash patronage dividends	(137,095)	(129,117)
Deferred income taxes	(74,189)	663,531
Accretion (erosion) of rate stabilization asset	(26,407)	161,019
Changes in assets and liabilities		
Receivables	761,922	(824,400)
Income taxes	973,389	(495,104)
Other assets and liabilities	472,441	(237,087)
Net cash from operating activities	13,912,723	10,651,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(10,668,869)	(4,903,185)
Investment in affiliate	-	(1,974)
Proceeds from sale of available for sale securities	-	210,000
Acquisition by purchase of assets	-	(2,400,177)
Net cash from investing activities	(10,668,869)	(7,095,336)

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$ -	$ 5,018,265
Payments on long-term debt	(4,815,370)	(4,307,728)
Payments on finance leases	(400,778)	(195,341)
Proceeds from sale of common stock	923,576	621,194
Repurchase of common stock	(1,143,930)	(1,560,034)
Dividends	(967,332)	(574,399)
Net cash from financing activities	(6,403,834)	(998,043)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,159,980)	2,558,135
CASH AND CASH EQUIVALENTS, beginning of the year	5,349,026	2,790,891
CASH AND CASH EQUIVALENTS, end of the year	$ 2,189,046	$ 5,349,026
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense	$ 3,876,636	$ 3,927,763
Income taxes	$ 625,000	$ 1,075,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 591,991	$ 142,815
Accrued dividends payable	$ 276,014	$ 144,008
Acquisition of equipment from finance leases	$ -	$ 1,223,400
Net assets acquired	$ -	$ 2,935,632
Working capital adjustment	-	(535,455)
Net cash paid	$ -	$ 2,400,177

See accompanying notes.

Note 1 – The Company and Summary of Significant Accounting Policies

Description of entity – Alaska Power & Telephone Company and its subsidiaries (AP&T or Company) supply electric and telephone service to several communities in the state of Alaska. AP&T is subject to regulation by the Regulatory Commission of Alaska (RCA), the Federal Communications Commission (FCC), and the Federal Energy Regulatory Commission (Commissions) with respect to rates for service and maintenance of its accounting records. AP&T's accounting policies conform to accounting principles generally accepted in the United States of America as applied to regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the Commissions.

Consolidation – The accompanying consolidated financial statements include the accounts of AP&T and its wholly owned energy subsidiaries, Alaska Power Company, BBL Hydro, Inc., and Goat Lake Hydro, Inc.; its wholly owned telecommunications subsidiaries, Alaska Telephone Company, AP&T Long Distance, Inc., AP&T Wireless, Inc., Bettles Telephone, Inc., and North Country Telephone, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Business combinations – The Company applies authoritative guidance on accounting for business combinations. The guidance establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of acquired assets and assumed liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingent liabilities. The guidance also requires acquisition-related transaction and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination.

Accounting estimates – The preparation of consolidated 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 contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include depreciation, interstate access revenue settlements, the fair value of goodwill and certain investments, the fair value of the interest rate swap, unbilled revenue, and deferred income taxes. Actual results could differ from those estimates.

Cash and cash equivalents – All highly liquid investments with original maturities of 90 days or less are carried at cost plus accrued interest, which approximates fair value, and are considered to be cash equivalents. All other investments not considered to be cash equivalents are separately categorized as investments or securities available for sale.

Concentration of risks – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of the federally insured limits. AP&T minimizes this risk by utilizing numerous financial institutions for deposits of cash funds.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Comprehensive income – Accounting principles require that recognized revenues, expenses, gains, and losses be included in net income. In addition, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and changes in the fair market value of interest rate swaps, are reported as a separate component of equity. These items, along with net income, are components of comprehensive income, which is reported in a separate consolidated statement of comprehensive income.

Valuation of accounts receivable – Accounts receivable are stated at the amount management expects to collect on outstanding balances. AP&T reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from power and telecommunications subscribers are due 30 days after issuance of the subscriber bill. Receivables from other customers are typically outstanding 30 to 60 days before payment is received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes it has established adequate reserves for any risk associated with these receivables.

Securities available for sale – Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value with any material unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholders' equity. Unrealized gains and losses were not material in 2015 or 2014. Quoted prices in active markets are available for all of the Company's securities available for sale.

Fuel, supplies, and other inventory – Fuel, supplies, and other inventory are valued at the lower of average cost or market. Cost is determined on a first-in, first-out basis. The supplies and other inventory are primarily held for use in construction projects including repairs and maintenance of AP&T's delivery systems.

Property, plant, equipment, and depreciation – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions to and replacements of property, plant, and equipment are capitalized. This cost includes direct material, labor, and similar items and charges for such indirect costs as engineering, supervision, payroll taxes, and pension benefits. AP&T capitalizes, as an additional cost of utility plant, an allowance for funds used during construction (AFUDC), which represents the allowed cost of capital used to finance a portion of construction work in progress for projects of more than one year in duration. AFUDC consists of debt and equity components that, when capitalized, are credited as noncash items to other income and interest charges. The Company recorded $140,654 and $-0- of AFUDC in 2015 and 2014, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Property, plant, equipment, and depreciation (continued) – The cost of current repairs and maintenance is charged to expense, while the cost of betterment is capitalized. The original cost of property, plant, and equipment together with removal cost, less salvage, is charged to accumulated depreciation at such times as assets are retired and removed from service. For financial statement purposes, depreciation is computed on the straight-line method using rates based on average service lives. For income tax purposes, AP&T computes depreciation using accelerated methods where permitted.

Leased assets – Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (finance lease), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an operating lease), the total rentals payable under the lease are charged to the consolidated statement of income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Goodwill – In 1999, AP&T purchased certain telecommunications properties of GTE Alaska and in 1995 through 1997 purchased the power assets of three service areas in Alaska from existing power providers. The excess of the purchase price over the assets acquired has been recorded as goodwill in the amount of $8,550,741 for the telecommunications properties and $715,662 for the power properties. AP&T adopted Accounting Standards Update (ASU) 2014-02, *Intangibles - Goodwill and Other (Topic 350) - Accounting for Goodwill,* for the year ended December 31, 2014. Under this guidance, goodwill is tested for impairment by management when a triggering event occurs that indicates the fair value of the reporting unit is less than its carrying amount. In addition, under this standard, management has elected to amortize goodwill on a straight-line basis over a period of five years for goodwill related to telecommunications properties and ten years for goodwill related to power properties. Management has reviewed events and circumstances that may be considered a triggering event, and determined no such event occurred during 2015. Total amortization expense related to goodwill for the years ended December 31, 2015 and 2014, was $1,792,732 and $1,792,481.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2015 and 2014, the carrying amount of goodwill was $5,681,190 and $7,473,922, which included accumulated amortization of $3,585,213 and $1,792,481, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Preliminary survey and investigation costs – AP&T defers costs incurred for the preliminary survey and investigation of proposed construction projects in accordance with the rules of the Commissions. These deferred costs are capitalized into utility plant when the preliminary survey and investigation projects are completed or are charged to expense in the period that a proposed project is abandoned.

Income taxes – Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to asset impairment deductions on the books. Deferred tax liabilities relate primarily to the use of accelerated depreciation for income tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2015 and 2014, the Company had no accrued amounts related to uncertain tax positions.

Other deferred credits – Other deferred credits consist of customer advances for construction, grant funded projects, and other deferred revenue. Customer advances for construction of additions to the electric distribution systems are recorded as a liability and are amortized through discounted service billings to the customer over a 60-month period. At the end of the amortization period, any remaining balance is recorded as a reduction of the respective utility plant accounts. Customer advances for construction were $579,779 and $492,929 at December 31, 2015 and 2014, respectively.

Revenue recognition – Electric – AP&T utilizes cycle billing and records revenue billed to its customers when the meters are read each month. In addition, AP&T recognizes unbilled revenue from electric power delivered, but not yet billed.

Revenue recognition – Telecommunications – AP&T's local wireline rates and access revenues (revenues earned for originating and terminating long distance calls) are determined by rates approved by regulators. Other sources of revenues, such as Internet, equipment sales, wireless, and long distance resale are not rate regulated. Pending and future regulatory actions may have a significant impact on AP&T's future operations and financial condition.

Monthly service fees derived from local wireline, data services, and wireless are billed one month in advance, but recognized in the month that service is provided.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Revenue recognition – Telecommunications (continued) – Usage sensitive revenues such as long distance and other wireless services are generally billed as a per-minute charge.

AP&T also receives significant universal service support revenue based on the higher costs of providing rural telecommunications service. These revenues are included in interstate access revenues and are based on AP&T's relative level of operating expense and plant investment. The interstate program is governed by the FCC and administered by the Universal Service Administrative Company (USAC).

Telecommunications operating revenues include settlements based on AP&T's participation in the interstate revenue pools administered by the National Exchange Carrier Association (NECA) and regulated by the FCC. These revenues are determined by annually prepared separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool adjustment period and final review and acceptance by the pool administrators. There was an insignificant revenue impact for 2015 and 2014 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2015 and 2014.

Additionally, telecommunications operating revenues include revenues received from intrastate revenue pools administrated by the Alaska Exchange Carriers Association that are based on AP&T's relative cost of providing intrastate access service. These revenues are based on projections submitted periodically and intrastate access cost studies that are submitted every two years. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2015 or 2014.

Earnings per share – AP&T has calculated its basic earnings per share based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share reflect the impact of the dilution caused by outstanding stock options using the treasury stock method. There was no dilutive effect of any outstanding stock options in 2015 or 2014. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,304,030 in 2015 and 1,324,625 in 2014.

Taxes imposed by governmental authorities – The Company's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Company. These specific taxes are charged to and collected from the Company's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Advertising costs – AP&T expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2015 and 2014, were $115,825 and $134,537, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Company follows the following fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value measurement guidance is applicable to the Company in the following areas:

- Goodwill impairment testing
- Securities available for sale
- Interest rate swaps

The Company's investment in securities available for sale and interest rate swaps are classified as Level 1 in the above hierarchy at December 31, 2015 and 2014.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets:

Cash and cash equivalents – The carrying amounts approximate fair value because of the short maturity of those instruments.

Long-term debt – The fair value of AP&T's long-term debt is estimated by discounting the future cash flows of the various instruments at rates currently available to AP&T for similar debt instruments of comparable maturities.

The carrying amount of long-term debt approximates the estimated fair value at December 31, 2015 and 2014, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through April 7, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2 – Rate Stabilization Asset

The Company defers certain costs that would otherwise be charged to expense, if it is probable future rates will permit the recovery of such costs. In September 2000, the Company received approval from the Commissions to defer the billing of a portion of the allowable annual costs as defined by the power sales agreement in place between Alaska Power Company and Goat Lake Hydro, Inc. Such amounts are deferred as a regulatory asset and will be billed in future years when the Company's allowable annual costs decline below certain levels. Management projects the deferred amounts will be recovered through additional billings through 2020.

Note 3 –Lease Agreements

Operating leases – AP&T leases a portion of its office space and a portion of its utility plant under noncancellable leases. Rent expense on the noncancellable leases was $216,068 and $256,043 for 2015 and 2014, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2016	$ 226,494
2017	197,463
2018	175,816
2019	174,860
2020	97,443

Additional cancellable lease agreements have been secured for the use of the land for hydroelectric operations. The term of the agreements extend for the life of the hydroelectric license of 50 years. Total Company rent expense was $684,871 in 2015 and $717,820 in 2014.

Note 3 –Lease Agreements (continued)

Finance leases – AP&T leases certain equipment under finance leases. The lease arrangements require monthly payments through 2017.

AP&T has included these leases in property, plant, and equipment as follows:

	2015
Telecommunications central office assets	$ 1,223,400
Accumulated depreciation	(119,783)
	$ 1,103,617

The following is a schedule by year of future minimum lease payments under the finance leases, together with the present value of net minimum lease payments at year end 2015.

2016	$ 429,539
2017	214,770
Total minimum lease payments	644,309
Less amount representing interest	(17,028)
Present value of net minimum lease payments	$ 627,281

Note 4 – Property, Plant, and Equipment

Property, plant, and equipment consist of the following assets at December 31:

	2015	2014	Depreciation Rate
Electric			
Hydroelectric	$ 29,030,144	$ 28,757,632	2%
Other generation	20,172,655	19,641,679	4% to 8%
Transmission and distribution	42,248,384	40,604,362	2.5% to 4%
Other	13,435,022	14,357,872	2.5% to 20%
Land	807,041	821,068	---
Utility plant acquisition adjustment	429,317	429,317	6%
	106,122,563	104,611,930	
Telecommunications			
General support assets	8,536,237	10,926,701	2.5% to 20%
Central office assets	29,540,257	29,399,291	8% to 14%
Cable and wire facilities	21,372,428	21,006,659	3 to 6%
Nonregulated investment	20,588,653	19,926,483	10% to 20%
Land	308,156	336,637	---
	80,345,731	81,595,771	
Nonutility			
Buildings	4,301,665	101,923	4%
Land	75,941	33,132	---
	4,377,606	135,055	
Total property, plant, and equipment	$ 190,845,900	$ 186,342,756	

Utility plant under construction includes all direct and indirect costs incurred during the construction of projects that were not complete and in service at the balance sheet date. The balance also includes approximately $2.6 million in construction costs related to Soule River Hydro, LLC (SRH). SRH is a project company formed to construct a hydroelectric facility on the Soule River in Alaska that was not operational as of December 31, 2015.

Note 5 – Investments

AP&T's investments consist of the following at December 31:

	2015	2014
Investment in CoBank	$ 4,292,505	$ 4,156,876
Investment in Ketchikan Electric Company, LLC	600,000	600,000
Investment in Hydro West Holdings, Inc./Hidroelectrica Juayua, S.A.	5,346,000	5,346,000
Investment in Haida Energy, Inc.	609,836	609,336
Other	60,966	60,000
	$ 10,909,307	$ 10,772,212

CoBank – CoBank is organized similar to a cooperative and is owned by the customers it serves. As such, a portion of CoBank's earnings is returned to its customers based on their patronage with the bank. This investment is recorded on the cost method. Dividend income was reported in the amounts of $549,691 and $516,469 for 2015 and 2014, respectively, related to these earnings.

Ketchikan Electric Company LLC – AP&T owns a 50% share of Ketchikan Electric Company LLC (KEC) and accounts for the investment using the equity method. The principal purpose and business of KEC is to construct, own, operate, and manage a hydroelectric power system in the Ketchikan Gateway Borough. The investment represents capital contributions to KEC, as the Company is still in the development stage. There was no activity in 2015 or 2014.

Hydro West Holdings, Inc. – Hydro West Holdings, Inc. (Holdings) is a domestic holding company that owns interest in hydroelectric projects in Central America. Prior to January 2015, the Company's investment consisted of 7.6 million shares of nonvoting preferred stock in Holdings. The common and voting stock of Holdings was held by the individual stockholders of AP&T. The nonvoting preferred stock in Holdings entitled the Company to receive cumulative dividends at a rate of 8% per annum beginning in August 2013 and entitled the Company to distribution preference in the event of liquidation.

In 2015, AP&T entered into an agreement with Hidroelectrica Juayua, S.A, (HJ) to exchange all preferred shares owned by AP&T in Holdings for 6 million preferred shares in HJ. The preferred shares entitle the Company to receive cumulative dividends at a rate of 3% per annum, beginning in 2016 and entitle the Company to a distribution preference of $6,000,000 in the event of liquidation. This investment is accounted for using the cost method.

Note 5 – Investments (continued)

Management reviews the value of these investments by evaluating if current events, future cash flows and other circumstances indicate the fair value is less than the carrying value and has concluded that no impairment exists at December 31, 2015.

Note 6 – Long-Term Debt

The Company's long-term debt consists of the following at December 31:

	2015	2014
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 15-year amortization with a fixed interest rate of 4.47%.	$ 10,183,333	$ 11,050,000
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 10-year amortization with a variable interest rate of 3.01% at December 31, 2015. Interest rate swap agreement below reduces exposure to interest rate fluctuations.	37,618,449	41,084,708
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 15-year amortization with a fixed interest rate of 4.35%.	4,583,333	4,916,667
Notes payable to state of Alaska, secured by certain electric assets, with fixed interest rates ranging from 0.00% to 5.45%, maturing at various dates from 2019 through 2037.	2,632,049	2,777,506
Other term debt	7,306	10,959
	55,024,470	59,839,840
Less current portion	(5,074,168)	(4,816,123)
	$ 49,950,302	$ 55,023,717

Annual maturities for the five years beginning January 1, 2016, are $5,074,168, $5,390,078, $5,708,175, $6,054,915, and $6,382,282, respectively, and $26,414,852 thereafter.

Note 6 – Long-Term Debt (continued)

The Company uses variable-rate debt to finance its operations and these debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments as well as the uncertainty associated with interest rates when its balloon payment with CoBank becomes due. To meet this objective, management periodically considers interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. The Company does not enter into derivative instruments for speculative purposes. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with variable-rate debt obligations are reported in accumulated other comprehensive loss.

The Company has entered into an interest rate swap agreement on all of its variable rate long-term debt with CoBank. The interest rate swap became effective in August 2013 and amortizes over an additional ten-year term at 7.62% per annum. The fair value of the interest rate swap liability was $5,015,524 and $5,995,641 at December 31, 2015 and 2014, respectively, and is classified within Level 2 of the valuation hierarchy.

The loan agreements with CoBank contain provisions and restrictions pertaining to, among other things, limitations on additional debt, and defined amounts related to the Company's total debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), equity to assets ratio, and debt service coverage ratio.

The Company has a $3 million line of credit established with CoBank and unadvanced loan funds of $5.6 million. There were no outstanding balances on the line of credit as of December 31, 2015 or 2014.

Note 7 – Income Taxes

The components of the consolidated provision for income taxes are as follows for the years ended December 31:

	2015	2014
Current	$ 1,597,236	$ 695,707
Deferred	(73,038)	697,300
	$ 1,524,198	$ 1,393,007

Note 7 – Income Taxes (continued)

Total tax expense differs from that computed at the statutory federal income tax rate due to the following:

	2015	2014
Income tax provision at federal rate of 34%	$ 1,625,767	$ 1,419,077
State income taxes, net of federal benefit	267,936	233,872
Permanent items	(262,085)	(194,752)
Other	(107,420)	(65,190)
Provision for income taxes	$ 1,524,198	$ 1,393,007

The components of the deferred tax (assets) and liabilities as of December 31 are as follows:

	2015	2014
Current deferred tax (asset) liability		
Allowance for bad debt	$ (14,052)	$ (14,052)
Accrued employee benefits	(201,409)	(224,369)
Prepaid expenses	446,798	383,576
Net current deferred tax liability	231,337	145,155
Noncurrent deferred tax (asset) liability		
Tax amortization and depreciation greater than book	17,023,232	17,222,336
Deferred revenues and expenses	1,932,920	1,894,187
Book vs. tax basis of investments	(1,757,878)	(1,757,878)
Fair value adjustment of interest rate swap liability	(1,986,148)	(2,374,274)
Net noncurrent deferred tax liability	15,212,126	14,984,371
Net deferred tax liability	$ 15,443,463	$ 15,129,526

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17)*, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company has elected to early adopt ASU 2015-17.

Note 8 – Employee Stock Ownership Plan and Other Benefits

AP&T maintains an employee stock ownership plan (Plan). All employees expected to work at least 1,000 hours per year become eligible to participate in the Plan upon attaining the age of 18 and completing three months of service. Participants may elect to contribute from 1% to 80% of their wages to the Plan, subject to Internal Revenue Service maximums, which can be invested in the common stock of AP&T or into other investment accounts.

The Company makes a defined matching contribution to each eligible participant's account of 5% of the participant's wages payable in Company stock. The Company also makes a profit sharing contribution where 1.52% of the prior year's EBITDA is paid out to the qualified Plan participants in cash.

The Plan provides that participants' interests in employer-funded contributions become fully vested after the completion of three years of service. The Plan defines a year of service as the completion of not fewer than 1,000 hours of service within the calendar year.

In 2015, employer matching contributions and profit sharing contributions were $481,228 and $255,196, respectively. In 2014, employer matching contributions and discretionary contributions were $472,014 and $104,236, respectively.

Note 9 – Business Segment Information

AP&T's electric segment provides retail and wholesale electric service including both hydro electric and diesel generation facilities in rural portions of Alaska. AP&T's telecommunications segment provides local telephone service also in rural areas of Alaska. AP&T's reportable segments are strategic business units managed separately due to their different operating and regulatory environments. The "other nonregulated" category includes the parent company and segments below the quantitative threshold for separate disclosure.

2015 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 19,529	$ 15,055	$ 9,619	$ 44,203
Depreciation and amortization	3,182	2,545	1,143	6,870
Operating income	4,944	1,919	3,438	10,301
Interest expense	745	-	2,994	3,739
Interest income	-	-	4	4
Total fixed assets	106,039	59,757	25,050	190,846
Capital expenditure	2,636	1,586	6,447	10,669

Note 9 – Business Segment Information (continued)

2014 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 19,614	$ 14,344	$ 10,109	$ 44,067
Depreciation and amortization	3,213	2,656	998	6,867
Operating income	3,830	2,071	3,590	9,491
Interest expense	653	-	3,306	3,959
Interest income	-	-	4	4
Total fixed assets	104,612	61,669	20,062	186,343
Capital expenditure	2,013	1,700	1,190	4,903

Note 10 – Other Assets

Other assets consist of the following at December 31:

	2015	2014
Deferred loan origination fees	$ 826,373	$ 620,643
Miscellaneous regulatory assets - power	195,512	835,902
Other	100,397	458,525
	$ 1,122,282	$ 1,915,070

The deferred loan origination fees are related to the note payable to CoBank and are being amortized on a straight-line basis over the ten-year life of the note.

Note 11 – Asset Acquisition

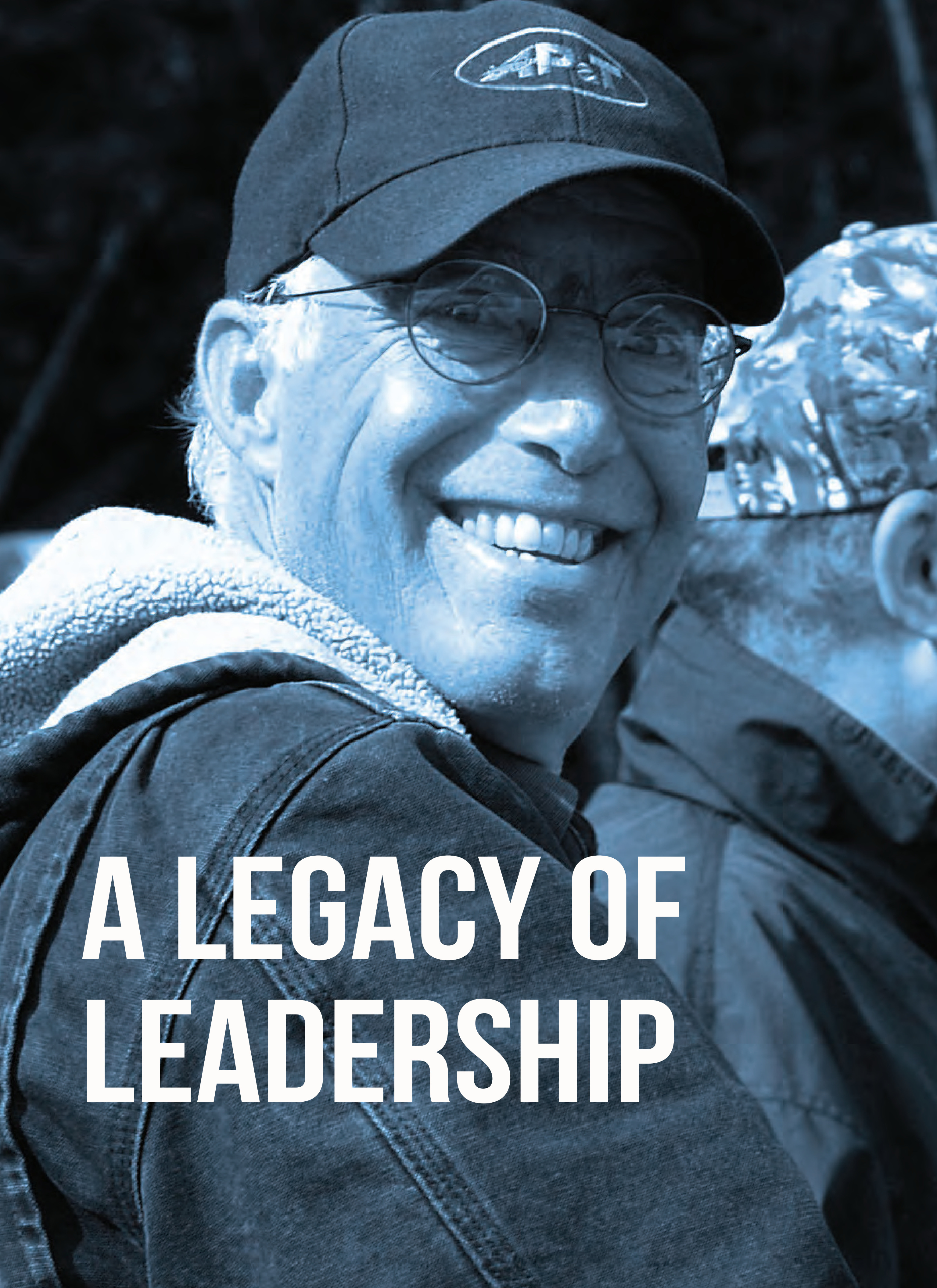
Effective, August 22, 2014, the Company acquired certain assets of Gustavus Electric, Inc. (GEI) through an asset purchase agreement. The purpose of the acquisition was to provide the Company with additional power production and distribution facilities and to continue to operate the Fall Creek Hydroelectric Facility, which is an electrical generational utility that provides electric services to customers in the Gustavus, Alaska, area. The total consideration transferred was $2,935,632, which consisted of the following:

	Consideration Transferred to Prior Owners
Cash paid to prior owners	$ 2,400,177
Working capital adjustment	535,455
Total consideration transferred	$ 2,935,632

The transaction was accounted for as a business combination in accordance with Accounting Standards Codification 805, *Business Combinations*, which requires the basis of the assets acquired and liabilities assumed to be recorded at their respective fair values at the acquisition date with certain exceptions. The fair value determination of assets and liabilities recorded are those of management.

The following table summarizes the estimated fair values of the net assets acquired:

Accounts receivable	$ 73,408
Fuel, supplies, and other inventory	3,943
Electric plant under construction	2,963,042
Total identifiable assets	3,040,393
Customer advances for construction	50,042
Customer deposits and advance billings	4,719
Accrued taxes and expenses	50,000
Total identifiable liabilities	104,761
Net assets acquired	$ 2,935,632



A LEGACY OF LEADERSHIP

Always a positive and energetic achiever, Mr. Grimm has pioneered partnerships and joint venture companies with ANCSA corporations and tribal entities, allowing a diverse variety of organizations to play an active role in developing and benefiting from clean, affordable, renewable energy.

- Twenty-Ninth Alaska State Legislature
Mike Chenault, Speaker of the House
Kevin Meyer, President of the Senate

THE ALASKA LEGISLATURE

* HONORING *

* ROBERT S. GRIMM *

BOB'S INFLUENCE FOREVER CHANGED THE ENERGY LANDSCAPE IN ALASKA. YET IT IS HIS LOYALTY AND FRIENDSHIP THAT WILL LEAVE THE LASTING IMPACT IN OUR LIVES.

"Leadership is the ability to translate vision into reality."
-Warren G. Bennis

At its core, that statement is the definitive summation of the man who has led Alaska Power & Telephone Company (AP&T) for a generation – to the place we are today. That respected and visionary leader, is Robert S. (Bob) Grimm. At the end of 2016, after more than 44 years, Bob will retire leaving a legacy of leadership and empowerment like none before him at AP&T.

A willingness to take risks is one of the many hallmarks of his tenure. In fact, the impressive launch point to Bob's effective leadership as President & CEO, came during a time he became willing to risk his full stake in the company on the pent-up growth opportunities he saw in front of AP&T. That "All-In" move, grounded in the faith that a majority of like-minded stakeholders would follow his vision, became a significant turn-point in what marked a period of unparalleled growth in company assets and shareholder value.

Bob's career with AP&T began August 12th, 1972 as purchasing agent in the corporate headquarters in Port Townsend, Washington. It wasn't long before his aptitude for leadership took him on an upward trajectory into management and leadership. By the mid 70' Bob's titles included Assistant VP and Treasurer, while a member of the board of directors. Early on he managed and oversaw the liquidation of AP&T's subsidiary water company's on Hood Canal, and real estate investment holdings in the region. Bob assumed the duties of acting president in June of 1984, being fully confirmed by a board vote of confidence in December of the same year.

A season of exponential growth followed in the 90's with low-impact clean hydro projects transforming the Company's energy portfolio from 95% fossil-fuel based, to 70% clean renewable generation today. The willingness to leverage opportunities for growth and expansion was not without risk. Inherent within those risks were both the rewards and failure. For no great success was ever achieved without failure. Even so, a difficult year in 2000 yielded lessons which became the catalyst for further growth and a deeper appreciation for the noble trait of humility.

The enduring fact is that it was Bob Grimm's leadership, loyalty and love of the industry throughout his career which left his fingerprints on a broad spectrum of notable and innovative achievements both individually and alongside native, private and governmental partners.

Though his eyesight has waned in recent years, Bob's Vision and enthusiasm for the next new project… the next advancement in energy technology or the next potential partnership remains un-dimmed. Ultimately the man honored as small utility CEO of the year in 2015 will pass-on the mantle of AP&T leadership at the end of 2016 entrusting his successor as did he, to lead, inspire and empower our employee-owners, shareholders and customers. Plainly and simply said, well done Bob...well done.


EMPOWERING

NOTICE TO STOCKHOLDERS

Notice To Stockholders:
The annual meeting will be held on Wednesday, May 18, 2016 at Fort Worden Commons, 201 Battery Way, Port Townsend, Washington at 10:00am; with the Board of Directors Meeting following.

This annual report was produced by: Mark McCready, Scott Stenehjem, Jessie Elizabeth, and Carley Anderson
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Regarding AP&T Stock:
For information regarding the acquisition or sale of AP&T stock, please contact:

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