2016

IGNITING OPPORTUNITY

ALASKA POWER & TELEPHONE

ANNUAL REPORT

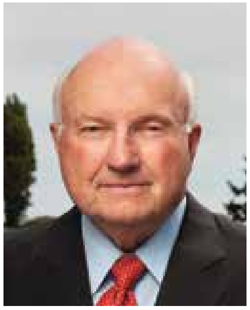
From ship to shore. The final few feet of AP&T's 86-mile Lynn Canal Fiber Cable makes landfall emerging from the underground concrete cable vault shoreside in Smuggler's Cove near Skagway Alaska . A line of buoys off the stern of the cable-laying ship Silver Arrow marks the submerged path of the cable route shoreward.

IGNITING OPPORTUNITY

As AP&T turns 60, we find ourselves in excellent health, poised to ignite opportunity, and succeed within our own service areas and beyond.

-Michael Garrett, CEO AP&T

THE YEAR IN REVIEW



IGNITING OUR FUTURE

CHAIRMAN MESSAGE TO SHAREHOLDERS

We have never had such a strong, clean balance sheet, nor such excellent future prospects.

For all of the tremendous effort and achievement wrought by AP&T's employee-owners on behalf of our shareholders in 2016, that success was tempered, by the untimely loss of our good friend, colleague and board chairman, Bill Squires. Bill, Mark Foster and I grew close during our 13-plus years with the AP&T family. Bill is greatly missed. We are working diligently to fill Bill's seat on the Board of Directors. Prior to our July 19 Board meeting, it is our intention to add an independent director. Bob Grimm plans to resign at that time, so we can comply with our by-laws. It's good corporate governance to have a majority of independent directors.

The Board has decided to amend the by-laws to increase its size from five to seven members, effective in 2018. At the 2018 shareholders' meeting, the Board will propose a slate of seven directors, including Bob Grimm. This will allow the Board to benefit from Bob's extensive historical knowledge of our company and wisdom.

Mike Garrett's report was a good summary of the past year. In my tenure with the company, we have never had such a strong, clean balance sheet, nor such excellent future prospects. Recognizing that actions speak louder than words, we are pleased to be able to announce a significant dividend increase at the shareholders' meeting.

On behalf of the Board, I extend a heartfelt thank you to all employee-owners for your strong performance. We look forward to sustained growth in share value, earnings and dividends.

Warm regards,
Mike Barry

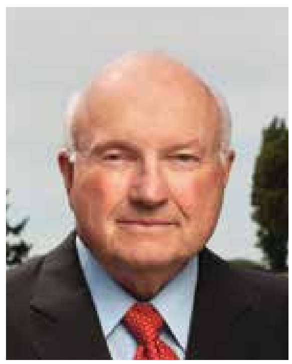
AP&T BOARD OF DIRECTORS

MICHAEL GARRETT

PRESIDENT & CEO

ROBERT S. GRIMM

DIRECTOR



MIKE BARRY

BOARD CHAIRMAN

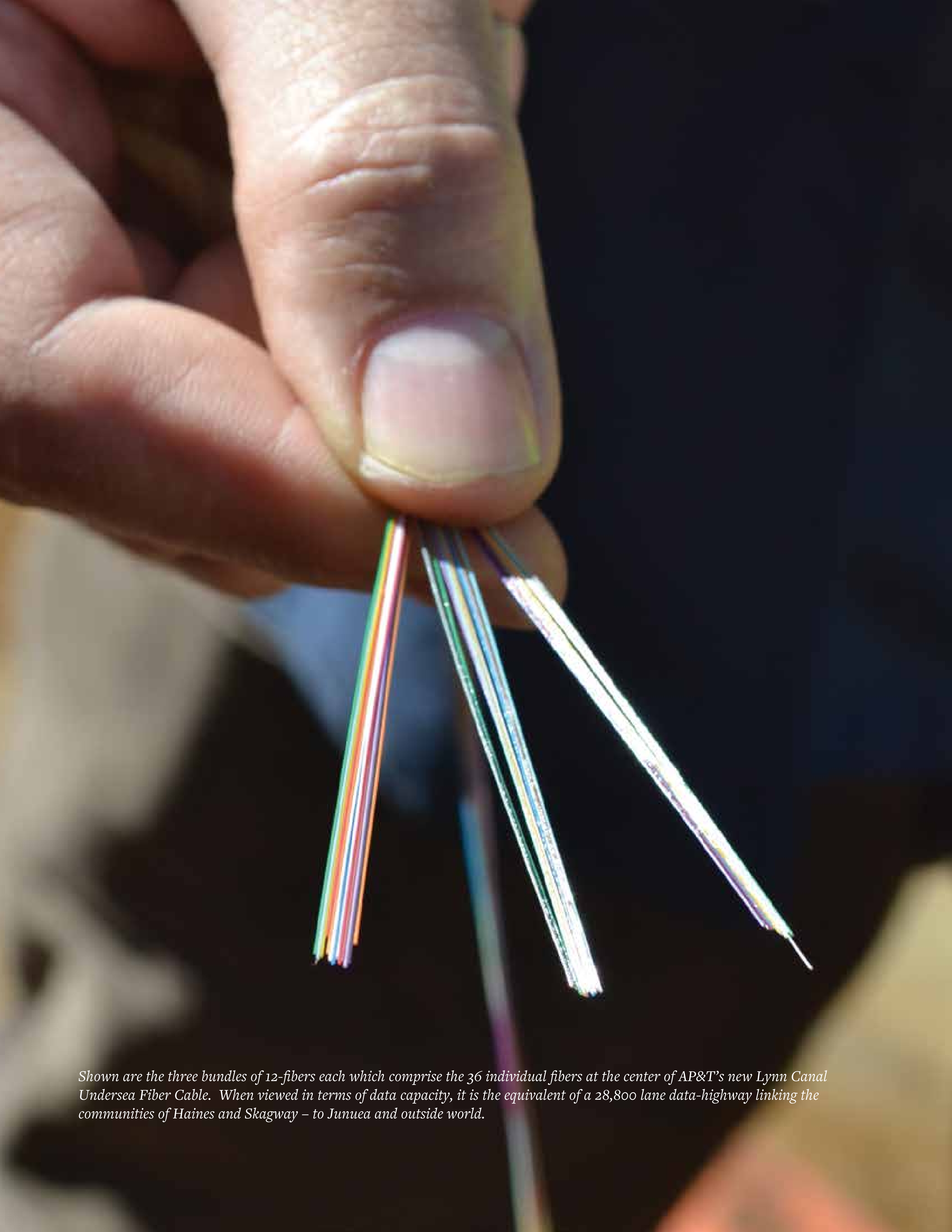
MARK A. FOSTER

DIRECTOR, PRINCIPAL MARK A. FOSTER & ASSOCIATES

TOM ERVIN

DIRECTOR, VP GM TELECOM OPERATIONS & ENGINEERING

PRESIDENT MESSAGE



Shown are the three bundles of 12-fibers each which comprise the 36 individual fibers at the center of AP&T's new Lynn Canal Undersea Fiber Cable. When viewed in terms of data capacity, it is the equivalent of a 28,800 lane data-highway linking the communities of Haines and Skagway – to Junuea and outside world.

IGNITING OPPORTUNITY

PRESIDENT MESSAGE TO SHAREHOLDERS

Our company will leverage teamwork, talent and technology to continue to implement deeper in-house efficiencies and operational cost-savings, all while emphasizing an improved customer experience.

As AP&T turns 60 in 2017, we find ourselves in excellent health, poised to ignite opportunity and succeed within our own service areas and beyond. At the same time, I have found myself entrusted by the Board of Directors with the tremendous responsibility and honor of serving as CEO of our growing company, assuming the helm from Bob Grimm. Having spent 28 years with the company, most spent working closely with Bob, has helped to make this transition seamless and stable.

AP&T's employee-owners helped build upon the outstanding success demonstrated in 2015. Gross revenue for your company in 2016 was $48 million, an increase of 8.6%. Operating expense increased by 14%. After depreciation, amortization and rate stabilization expenses, net operating income was $9.6 million, down 7.2% from last year. These figures indicate 2016 and 2015 were similar; both were successful years for AP&T. However, you will find this success is offset on AP&T's balance sheet by two unique, one-time adjustments.

The Board made the decision to cease pursuit of the Soule hydropower project, due to changed market conditions in British Columbia and permitting challenges with the U.S. Forest Service. The abandonment of Soule resulted in a one-time operating loss of $2.7million. Additionally, the Board decided to accept a buy-out offer from the shareholders of Hidroeletrica Juayua. This meant receiving $2million in cash in February 2017, but recognizing a long-term capital loss of $3.3 million in 2016.

After these unique one-time losses, interest expenses and taxes (reduced by these losses), AP&T ended the year with a loss of $354,000. If not for these significant unique, one-time occurrences, earnings before interest, tax, depreciation and amortization for 2016 would have been approximately $17.7 million, up from $17.3 million in 2015. Instead, 2016 EBITDA was $11.7million.

Book value of AP&T common shares decreased to $30.35. Earnings per share were a loss of $.27 per share, due to losses associated with moving beyond Soule and Juayua. AP&T paid $1.26 million in dividends to our shareholders, or $.97 per share; an increase of $.23 per share over 2015.

Einstein once compared life to riding a bicycle, "to keep your balance, you have to keep moving." Fortunately for AP&T, we have many excellent opportunities immediately in front of us to do exactly that. In the months and years to come, you will find our team working diligently, both inside and outside of our existing service areas, to find and capture value for our shareholders.

There's no need to reinvent the wheel. When you tighten the spokes correctly, the wheel spins true again. Self-improvement and making the most of what you already have are always excellent growth opportunities. Our company will leverage teamwork, talent and technology to continue to implement deeper in-house efficiencies and operational cost-savings, all while emphasizing an improved customer experience. We will also be placing concentrated focus upon succeeding in near-horizon prospects and commitments, helping to make the most of the opportunities already before us. Your company will be growing our cash position in the coming years, so we have the resources required to respond to attractive opportunities that may present themselves.

Completion of the Lynn Canal Fiber (LCF) project, in late 2016, was a tremendous milestone for AP&T. It provides your company with a significant asset to ignite opportunity and

Michael Garrett, (left) President & CEO, shares a congratulatory moment with Tom Ervin AP&T's VP, GM of Telecom Operations as the LCF cable makes landfall in Haines Alaska.

Completion of the Lynn Canal Fiber (LCF) project, in late 2016, was a tremendous milestone for AP&T. It provides your company with a significant asset to ignite opportunity and growth well into the future.

growth well into the future. The LCF is an 86-mile, submarine, fiber-optic cable between Juneau, Haines and Skagway, with 7 terabits of capacity—7,000 times as much capacity, as our Southeast Alaska Microwave Network. In 2017, AP&T will be completing the build-out of last-mile facilities in Skagway and Haines. This will offer world-class speed and service to our customers, empowering them to make the most of this fiber-optic superhighway. AP&T is also in discussions with parties in the Yukon Territory of Canada, regarding the possibility of interconnecting with Yukon communities, including the rapidly growing city of Whitehorse. Yukon's data transport requirements are expected to grow significantly to 15-20 Gbps by 2017, and 30-40 Gbps by 2022. At present, Yukon relies on a single fiber-optic connection to the rest of the world. In addition to increasing the capacity for data transport, an approximate 65-mile connection to the LCF would offer Yukon valuable redundancy, reliability and route diversity. Construction of the 5MW Hiilangaay hydropower project is a top priority for our power engineering team. AP&T is obligated to complete it, under a $21.2 million cost-plus construction agreement. Construction will continue through 2017 and 2018. AP&T expects to soon hear the results from our proposal to privatize the electrical distribution system at Joint Base Lewis-McChord, near Tacoma, Washington. If awarded, the 50-year contract would require AP&T to undertake an intensive series of transition activities, over a two-year period, culminating in AP&T becoming owner/operator of the installation's distribution plant.

AP&T is in the midst of an energy rate filing to help ensure our service charges accurately reflect today's cost of doing business, while offsetting the financial impacts of disruptive market forces and supporting an adequate return on investment. Among other things, our current rate case proposes decoupling an increased portion of AP&T's fixed costs from per-kWh sales. This will help us stay current with trends of increased customer energy efficiency and distributed generation in our service areas, as well as better account for seasonal energy-usage patterns. In the years to come, AP&T will continue to take a pro-active approach to ratemaking to reduce regulatory lag and respond to new consumer behaviors and preferences.

The FCC allows eligible carriers serving high-cost rural areas to recover some of their costs from the Universal Service Fund, providing certain service requirements are met. The FCC's recently announced Alternative Connect America Cost Model (A-CAM) will significantly increase the level of support which AP&T's regulated telecommunication subsidiaries receive from the FCC over the next decade. In conjunction with this increased support, AP&T will be making new last-mile investments to increase our customers' access to high-speed internet.

In 2016, AP&T took advantage of the opportunity to purchase a new office building, in Wasilla, at an attractive price from a motivated seller. In addition to reducing operating costs over time, this facility positions AP&T to tap into the cutting-edge Alaskan talent in the growing Mat-Su Valley area of Alaska.

Companies across Alaska are challenged by issues of a "graying workforce," particularly in rural areas. AP&T's Employee Stock Ownership Program (ESOP) will continue to remain central to your company's ability to attract, retain and reward top talent for their efforts. While you will see many of our pioneers retire in the years to come, you will also see your company proactively building the team of the future. We'll hire the skill sets and specialized knowledge needed to maintain our standards of excellence, leverage technology and automation, and keep AP&T on the cutting edge of customer service and growth. AP&T will maintain our high standards of treating employees fairly, and rewarding them for their hard efforts—foundational principals that are ever more important in today's job-hopping employment climate.

AP&T's prior chairman, Bill Squires, passed away in late 2016, leaving a void in all of our hearts, as well as in the Chairman's seat on AP&T's Board of Directors. I filled that position for a short time, until the position was filled by Mike Barry, a long time board member. From the moment Bill joined the board, he was a lighthouse to everyone he worked with—a beacon and protector, during stormy weather, and an inspiration in times of success. He was a family man with a generous heart, which was abundantly apparent in how he treated those around him, and the special emphasis he placed on caring for the well-being of AP&T's employee-owners. The impact he made on our company culture has been significant. Even though he has moved on from this life, I and the AP&T Board members will ensure that the integrity, fairness and kindness he brought to AP&T will persist in the years to come. We have had many members of the AP&T family pass away, during my time with AP&T. Let's remember and celebrate them all during this, the 60th anniversary of our company.

Sincerely,

Michael Garrett
President & CEO

ENERGY OPERATIONS

Aerial view of Lake Mellen, near Hydaburg on Prince of Wales Island. Outfall from the lake feeds the lower basin known as Rich's Pond (see photo inset) from which water for the 5MW Hiilangaay Hydro project will be drawn.

ENERGY OPERATIONS

IGNITING THE GROWTH OF CLEAN RENEWABLES

It is significant to note that two company milestones will be achieved during 2017. We will not only celebrate our 60th Anniversary, but AP&T's energy generation facilities will achieve and surpass One Billion kilowatt-hours of total combined historical generation.

The year 2016 was challenging for Alaska Power Company's operations. Total power generation was down 1.9% from 2015. Sales also dropped by 2.2%. This was the result of warm winter weather throughout Alaska and a decline in sales to one of our large customers on Prince of Wales Island. Silver Bay Seafoods did not operate its freezer plant, due to a poor pink salmon return that the U.S. Secretary of Commerce declared a "fisheries disaster." Looking back however at our accomplishments we sometimes lose sight of the things that did not happen. There were not catastrophic failures or extended customer outages.

Fuel prices stabilized around $2 per gallon, which helped reduce operational expenses. Low fuel prices are a double-edged sword: they have also greatly decreased the State of Alaska's revenue and its ability to fund various programs and special projects. While AP&T does not have control over this issue, it must remain cognizant of impacts to the customers we serve. Local economies will be hit hard by the state fiscal crisis. We need to continue to increase our cost-consciousness and manage operational expenses to avoid adding to the problem. I am confident the Alaskan spirit will survive these trials—and that AP&T will be stronger in the end.

Silver Bay Seafoods and other commercial/industrial customers are anticipated to require increased peaking capacity in the near future, which would provide a welcome boost in sales. We will be finalizing the installation of a 2MW generator, purchased in 2016 to provide additional back-up and peaking capability on Prince of Wales Island. This unit is being installed at the Klawock Substation and should be operational in June 2017.

Construction of the Hiilangaay hydropower project, near Hydaburg on Prince of Wales Island, has been a focus of our power sector operations. Hiilangaay is a 5MW project, similar in size to the Black Bear Lake project, but with less usable, stored energy in its reservoir. It is estimated this project will be operational in late 2018 or early 2019.

Operations in Skagway and Haines continue to run smoothly under the management of Darren Belisle. Sales were up in this region in 2016, which helped offset some of the losses experienced on Prince of Wales Island.

AP&T is continuing to work with the National Park Service in efforts to extend power from our Gustavus utility system to NPS' complex of facilities approximately 7 miles away. At present, NPS facilities self-generate energy with diesel generators. An interconnection would allow AP&T to power NPS facilities with otherwise unutilized energy from the Falls Creek hydropower project. This would result in a relatively meaningful increase in sales in the Gustavus region. The transmission line is dependent upon funding by the federal government.

In the interior division, our Tok operations saw a reversal of a five-year decline in sales. Energy conservation efforts appear to have peaked, which should result in more stable sales in the future. Lower fuel prices also contributed to the turnaround. Forecasts indicate fuel prices are likely to remain low into the near future. We addressed the need for additional manpower to assist with engine and generation repair work in our remote northern service areas. Additionally, the new Slana power plant was commissioned and is 16% more fuel efficient than the module it replaced. Supplementing this upgrade was the installation of SCADA controls and line reclosers to reduce labor requirements and increase reliability. The Tok plant generation team also undertook the conversion of a large diesel to dual fuel for the purposes of testing the operation on liquefied natural gas. Overcoming the unique logistics and travel considerations required can be a challenge. Kudos to our Tok personnel for their skills and resourcefulness in addressing these types of problems, often under time-sensitive deadlines.

It is significant to note that two company milestones will be achieved during 2017. We will not only celebrate our 60th Anniversary, but AP&T's energy generation facilities will achieve and surpass One Billion kilowatt-hours of total combined historical generation.

I am proud of and grateful for the company-wide efforts of our hard-working employee-owners, who maintain our remote systems under EXTREME conditions. Our team routinely contends with severe weather that rivals or surpasses anything seen in the continental U.S. AP&T's employee-owners respond to outages in some of the toughest conditions in North America— time after time proving their dedication to the communities where they live and work.

We continued our progress, learned from our mistakes, and grew together in all that 2016 put before us. Congratulations to all of our employee-owners, who have made AP&T the strong company it is today.

Regards

Greg Mickelson
VP, GM Power Operations

DATA & TELECOM

Each time the heavily-armored undersea cable came ashore, fiber technicians with project partner International Telecom made the sparks fly, cutting through the exterior protective jacket and four armored layers in order to extricate the delicate glass fibers encased within.

DATA & TELECOM

IGNITING CONNECTIVITY

The world has evolved to the point where high-definition streaming, cloud-based services, video conferencing, telecommuting, and virtual and augmented reality are becoming norms. These technologies are all the more important and in demand in rural Alaska, due to the challenges associated with geographic isolation.

Completion of the Lynn Canal Fiber (LCF) project will have combined with 10 years of increased FCC funding, through the Alternative Connect America Cost Model (ACAM), to create an ignition system for future growth opportunities.

The key is already in the ignition; new investments are underway. AP&T will be building passive fiber-optic networks in local loops to provide broadband speeds equal to, and greater than, 25 mbps up, 3 mbps down. Improvements in Skagway and Haines, in 2017 and 2018 will allow our customers to maximize their use and enjoyment of the LCF project's tremendous capacity. Similar future investments in last-mile fiber are planned for in Metlakatla, Tok, Prince of Wales Island, Petersburg and Wrangell. The world has evolved to the point where high-definition streaming, cloud-based services, video conferencing, telecommuting, and virtual and augmented reality are becoming norms. These technologies are all the more important and in demand in rural Alaska, due to the challenges associated with geographic isolation. In addition to keeping residents current with the times, AP&T's upgraded telecom infrastructure helps meet the demand of the many tourists, who bring with them an ever-evolving collection of data-hungry devices. AP&T's investments in telecommunications plant help your company keep in step with these trends, and even help drive them.

Successful Completion of the Lynn Canal Fiber Project

In late September 2016, the AP&T team completed the 86-mile, $11million Lynn Canal Fiber project. The project utilized 336 tons of one-inch-diameter, armored, undersea, fiber-optic cable, manufactured in Nordenham, Germany. Hornbeck Offshore Service laid the cable, in three days, using their Class II dynamic positioning vessel, Silver Arrow. AP&T technicians from Skagway, Haines and other areas worked with local businesses (such as Hamilton Construction and International Telecom of Montreal) to execute the cable landings and associated shoreside improvements.

The LCF project provides 7 terabit per second of capacity—7,000 times the capacity previously available. This allows for tremendously improved broadband speeds in Haines and Skagway, while also helping to meet performance requirements associated with ACAM funding.

The LCF is able to support a new, scalable data transport route for Canada's Yukon Territory, which currently relies upon a single, middle-mileroute, facing capacity constraints and reliability concerns. An additional 64.9-mile fiber-optic cable, following existing road or railroad rights-of-way between Skagway and Carcross, would provide Yukon with an alternate route to transport data to Juneau, and then Seattle or Portland. Yukon capacity requirements are estimated to grow to 30 to 40 Gbps by 2022. By leveraging the LCF, AP&T would be able to offer our neighbors in Yukon Territory scalable transport up to 100 Gbps, and beyond. The White Pass & Yukon Route Railroad (WP&YR) is partnering with AP&T to support the use of its right-of-way for the project.

Studies completed by the Government of Yukon in 2014-2015 recommended development of the Yukon-Juneau fiber route. Now that the LCF project is completed, reducing project cost and risk, the AP&T team has been working with the WP&YR, the Government of Yukon, and others in Yukon Territory to explore this opportunity.

Continued Growth of the SAMN

AP&T's Southeast Alaska Microwave Network (SAMN) continues to maintain its status as a growing core holding. In 2016, AP&T's Ketchikan-based Alaska Telephone Wireless (ATW) crew completed a 600 Mbps microwave site, with a terrestrial fiber-optic link to AP&T's central office facilities in the community of Metlakatla. The Metlakatla microwave site will lower operational costs, reduce the need to lease bandwidth from other carriers, and help provide additional capacity to residents of Annette Island. AP&T's ATW crew also completed a new 60-foot self-supporting tower and adjoining facilities hut on Sunnahae Mountain, located on Prince of Wales Island. The Sunnahae tower provides a new 1 Gbps link to AP&T's High Mountain site, and a downlink to the community of Klawock. This project will help ease network traffic capacity constraints, provide capacity for future growth, and provide increased redundancy and service reliability on Prince of Wales Island. AP&T anticipates future incremental growth projects within the SAMN, as opportunities arise and as carrier, business and residential traffic continue to grow.

Igniting Opportunity Community by Community

Lighting up new fiber-optic cable is an area of emphasis within many of the communities AP&T serves. In Tok, AP&T completed new facilities and equipment upgrades, including the formalization of our fiber-optic interconnection to Copper Valley Telecom's facilities. These improvements allow AP&T's network systems team to remotely access the Tok region network, improving network efficiency and customer service. Northway customers benefited from interim microwave facility upgrades, resulting in improved service. In Haines, AP&T installed new fiber-optic cable on the Lutak Inlet road, and installed new fiber bays in the local central office to support future fiber build-out projects. Wrangell experienced incremental fiber-optic growth, as well, with passive fiber-optic builds in the Cassiar neighborhood. Crews on Prince of Wales Island replaced six miles of fiber connecting the Black Bear hydro project to AP&T's primary fiber network. This helps ensure reliable remote operation and monitoring of the Black Bear project. Customers elsewhere on Prince of Wales, and in Metlakatla, will benefit from the SAMN upgrades described above.

Beyond 2016, AP&T will continue to place a significant focus upon fiber-optic build-outs to help meet increasing consumer demand, to realize advanced performance standards associated with ACAM funding, and to help increase utilization of the LCF.

Igniting Opportunity Through Technology

AP&T's Management of Information Services (MIS) and Data Networking Group (DNG) continue to play vital roles in AP&T's success and growth, supporting internal efficiencies and improvements, as well as public-facing services.

In 2016, AP&T's tech staff helped create a variety of internal tools to improve company work flow. AP&T has been leveraging its in-house skill sets to increase the penetration and efficiency of advanced automation and remote monitoring technologies, including management of AP&T's power grid. Tech staff played a key supporting role on a wide variety of in-house projects, including installation of multiplexing and routing equipment for the LCF project, and the establishment of communications facilities at the Hiilangaay hydro construction site. Our team has helped develop and maintain security updates and protections, an area

The southernmost link in AP&T's Southeast Alaska Microwave Network (SAMN), was completed in 2016 with the Annette Island microwave tower facility. The new 600Mbps site, with a terrestrial fiber-optic link to the community of Metlakatla, will lower operational costs and provide additional capacity to Annette Island residents.

AP&T's Ketchikan crew completed a new 60-foot self-supporting tower and adjoining facilities hut on Sunnahae Mountain, located on Prince of Wales Island. The Sunnahae tower provides a new 1 Gbps link to AP&T's High Mountain site, and a downlink to the community of Klawock.

of increasing concern for utilities and their customers.

Customer-facing improvements included updates to your company's Hotspot service platform to provide greater flexibility. AP&T's new SmartHub and Pay Now systems are providing customers the convenience of viewing and paying bills online and via smartphone, helping to improve timely payment. Bryant Smith, director of Internet Sales & Service, rolled-out a redesign of AP&T's website (www.aptalaska.com) as a run-up to AP&T's 60th anniversary. The site combines an updated look, with an intuitive interface, to provide visitors with rapid access to account payment options, company updates and other helpful information. Under the leadership of Zach Layman, Bryant Smith and Kyle Sorenson, AP&T's MIS and DNG teams continue to enhance the customer experience, internal workflow, revenue collection and infrastructure management.

Igniting Opportunities Ahead

The near future holds significant promise for AP&T, and our telecommunications business lines in particular. Having the right leadership is essential to achieving and monetizing new opportunities. The Board of Director's 2016 decision to promote Michael Garrett as AP&T's new President and CEO positions the company well to realize new opportunities evolving before us. With a proven background in achieving ambitious telecommunication growth initiatives, deep experience in regulatory matters, and a disciplined approach to cost-control—as well as more than 25 years of experience with AP&T—Mike's leadership, supported by the dedication of AP&T's employee-owners, is poised to carry the company forward and ignite tomorrow's opportunities.

AP&T BUSINESS DEVELOPMENT

Picturesque Falls Creek, situated near Gustavus, is adjacent AP&T's' clean hydro generation facilities which bears its name. By creating symbiotic long-term benefits, AP&T remains hopeful the proposed Glacier Bay Intertie to connect AP&T's grid with National Park Service facilities at Glacier Bay will secure funding in the near future.

BUSINESS DEVELOPMENT

IGNITING OPPORTUNITIES FOR SHAREHOLDERS

As your company continues to grow and mature, our business development program will remain adaptive to changing conditions. Staying ahead of our challenges enables the nimble response required to ignite opportunity.

As Alaska Power & Telephone turns 60 years old, we are in position where the proverbial torch is not simply being passed to new leadership, but is also being used to ignite new opportunities. In 2017, your company will be keenly focusing our resources toward achieving our highest priorities—successful delivery of key commitments and maximizing the success of newly created assets. We will also be responding to changing market conditions and Alaska's fiscal crisis, by folding a few untimely cards and slow playing others.

Completion of the Lynn Canal Fiber project—perhaps the company's most significant milestone in 2016—has both inspired and positioned AP&T to strive for future achievement. AP&T is currently pursuing the possibility of a terrestrial fiber-optic connection between Skagway and Yukon Territory, including the growing city of Whitehorse. This interconnection would allow AP&T to more fully utilize the Lynn Canal Fiber cable's 7 terabits of capacity. Yukon Territory's data transport requirements are expected to grow significantly to 15-20 Gbps by 2017, and 30-40 Gbps by 2022, a trend which mirrors the population and economic growth occurring in the region. This trend mirrors population and economic growth, as well as diversification in the region. At present, Yukon Territory has a single fiber-optic connection to the rest of the world. A new connection to Juneau, via Skagway and the LCF, would provide the Yukon with the redundancy, reliability and capacity it needs to support future growth. Meanwhile, AP&T has scheduled investment in last-mile buildouts to help customers, in our existing service areas, maximize usage of the LCF.

AP&T is well underway constructing the 5MW Hiilangaay hydropower project on Prince of Wales Island. The project, owned by Haida Energy, is a 50/50 joint venture between AP&T and Haida Corporation. AP&T is serving as the engineering, procurement and construction contractor, under a $21.3 million cost-plus construction agreement, which includes a possibility for a performance-based bonus. This project is relatively large for AP&T's hydropower development team and will require prioritized attention, by many of our key personnel through the end of 2018. Hiilangaay is funded, in large part, by a 53-year loan from the State of Alaska, at a 0% interest rate for the first seven years and 3.78%for the remaining term. In addition to offsetting most remaining diesel-based generation on Prince of Wales Island, Hiilangaay will provide an excess of energy for future growth and economic development, as well as for marketing within the local heat market. AP&T is currently partnering with agencies, vendors and financial institutions to promote use of electrically powered, air-source heat pumps, as a cleaner and more affordable alternative to fossil-fuel-based heating systems.

In late 2016, AP&T submitted a proposal to the U.S. Defense Logistics Agency for privatization of the electrical distribution system at Joint Base Lewis-McChord (JBLM), a 130-square-mile military installation near Tacoma, Washington. At the time of my writing, AP&T's proposal remained under review by the DLA. If awarded to AP&T, the contract would allow your company to apply our expertise in operation and maintenance of an electrical distribution plant, within a non-regulated environment for a 50-year period, with potential for subsequent renewal. Additionally in late 2016, AP&T partnered with Nan, Inc—the largest military construction contractor on the Hawaiian islands—and submitted a similar proposal for the privatization of electrical distribution system at the U.S. Army Garrison-Hawaii's facilities on Oahu. The decision timeline for the Oahu proposal is approximately one year behind JBLM's.

AP&T has continued to work cooperatively with the National Park Service toward a future interconnection between its facilities at Glacier Bay and AP&T's utility grid in the nearby community of Gustavus. The

Holding a piece of the Lynn Canal Fiber representing the new connectivity between their respective communities are Haines Mayor Jan Hill, Juneau Mayor Ken Koelsch and Skagway Mayor Mark Schaefer flanked by AP&T's CEO Mike Garrett and VP, GM of Telecom Engineering Tom Ervin.

interconnection would allow for increased utilization of AP&T's Falls Creek hydropower project. The Glacier Bay intertie appears to create long-term mutual benefits, but will require an appropriation of federal funds, either through a new budget or via appropriation.

Alaska Senators Lisa Murkowski and Dan Sullivan recently introduced Senate Bill 215, which would provide an additional 10 years for development of the Mahoney Lake hydropower project. This bill—a renewed version of legislation proposed in 2016— would allow AP&T to maintain the project for future development, at a time when its delivery profile coincides more directly with demand in the southern-southeast Alaska market.

The State of Alaska is in the midst of a fiscal crisis, due to the low price of oil, which has historically provided the majority of its revenue. Although oil and gas jobs are not present in the communities AP&T serves, our customers are beginning to experience the state's fiscal crisis in the form of deep cuts to state-funded employment and services, and elimination of discretionary spending on infrastructure and special projects. On the other hand, low fuel prices benefit our customers, by reducing the cost of AP&T's diesel generation and lowering heat and transportation costs. This results in more household income to weather the state's fiscal crisis. At the same time, there is a possibility federal leadership may counterbalance Alaska's economic crisis, in part by delivering on campaign promises of ambitious new spending on infrastructure.

Baltasar Gracián stated, "The best skill at cards is knowing when to discard." In late 2016, AP&T's leadership made the decision to cease effort on the 77.4MW Soule hydropower project. It had become increasingly challenged by permitting uncertainties within the Tongass National Forest, as well as changed economics within the BC Hydro energy market. Our team also recognizes that work on some other new renewable energy projects—conceived at a time, when both fuel prices and grants were at historic highs—may need to be suspended until a later time, once investment conditions have changed. Your company will no longer be seeking opportunities to provide hydropower engineering services to third parties, due to competing in-house priorities and a very tight market. These decisions will help AP&T concentrate our forces and place heightened focus on our brightest opportunities, preparing your company for future success.

Whether stockpiling firewood for winter, sharpening circle hooks on a longline, or fueling up before a big hunt, Alaskans widely recognize preparation is essential for success. In that same spirit, AP&T will be working to grow our cash position, so we are poised and ready to respond to attractive opportunities that may present themselves.

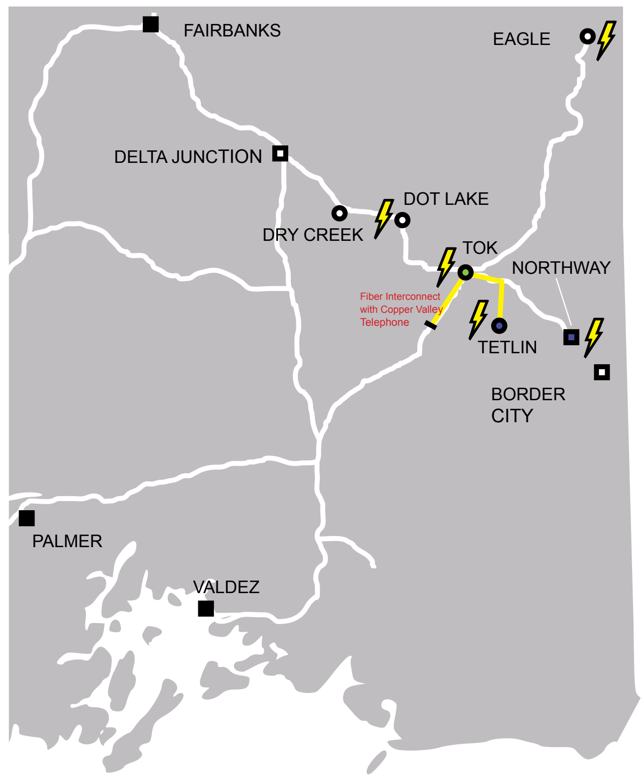
As your company continues to grow and mature, our business development program will remain adaptive to changing conditions. Staying ahead of our challenges while keeping pace with the latest macroeconomic trends enables the nimble response required to ignite opportunity. It is how we support creation of long-term value and growth for our shareholders—both inside and outside our existing service areas.

Jason Custer
Business Development Director

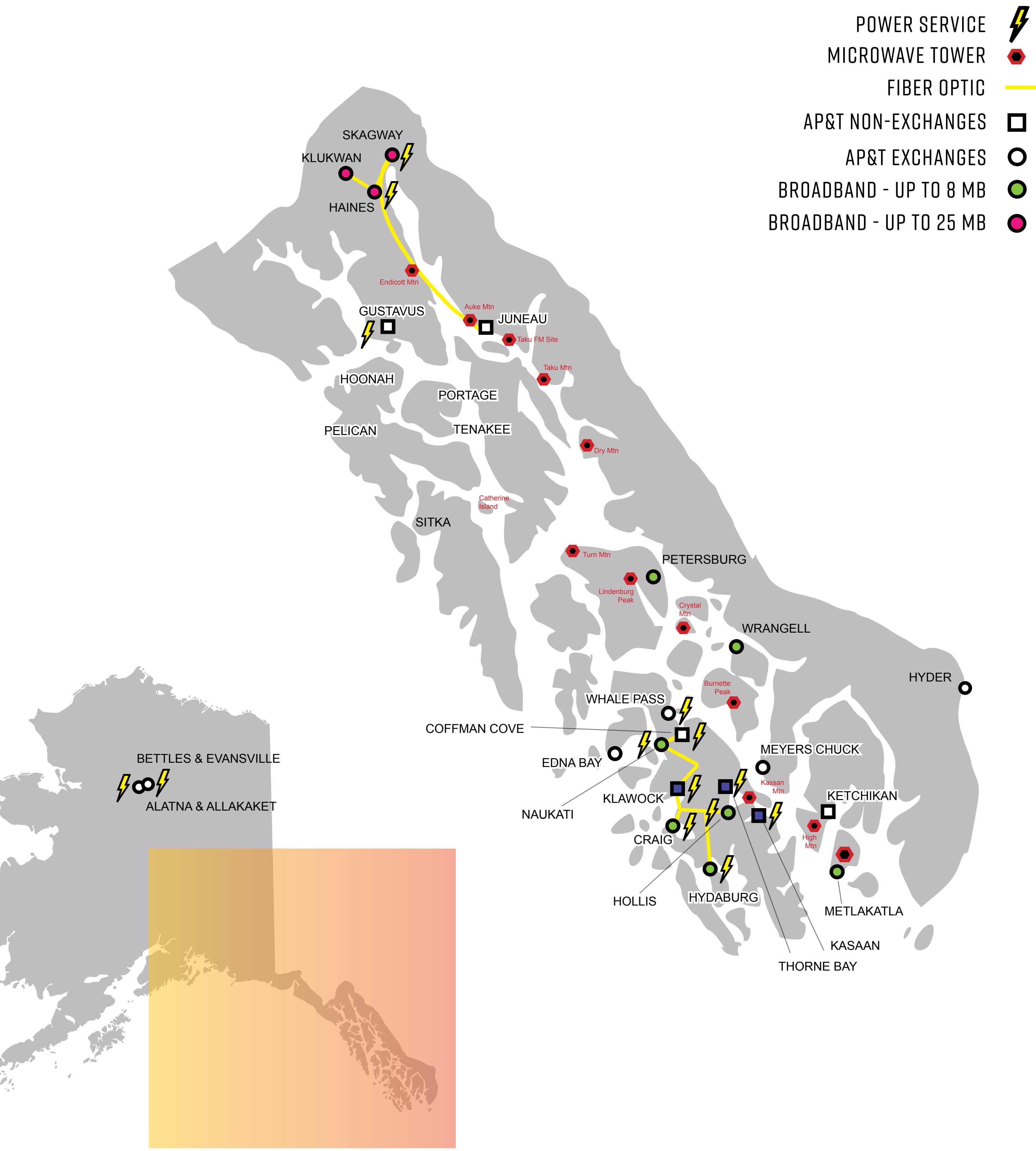
Counterbalances: Igniting the opportunity to build relationships, customer Juliet Stonecipher arrives with the kids in our Craig office on Prince of Wales Island. AP&T customer rep Kris Kain embraces the chance not simply to transact business; but connect with her island neighbors.

CUSTOMER SERVICE

	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 AREAS MAP



FINANCE REPORT

FINANCIAL REVIEW

MGMT DISCUSSION & ANALYSIS

During 2016, AP&T was able to increase its revenues by 8.6% to a total of $48 million. After deducting operating expenses of $30.8 million and depreciation/amortization expenses of $7.6 million, AP&T generated $9.6 million of operating income.

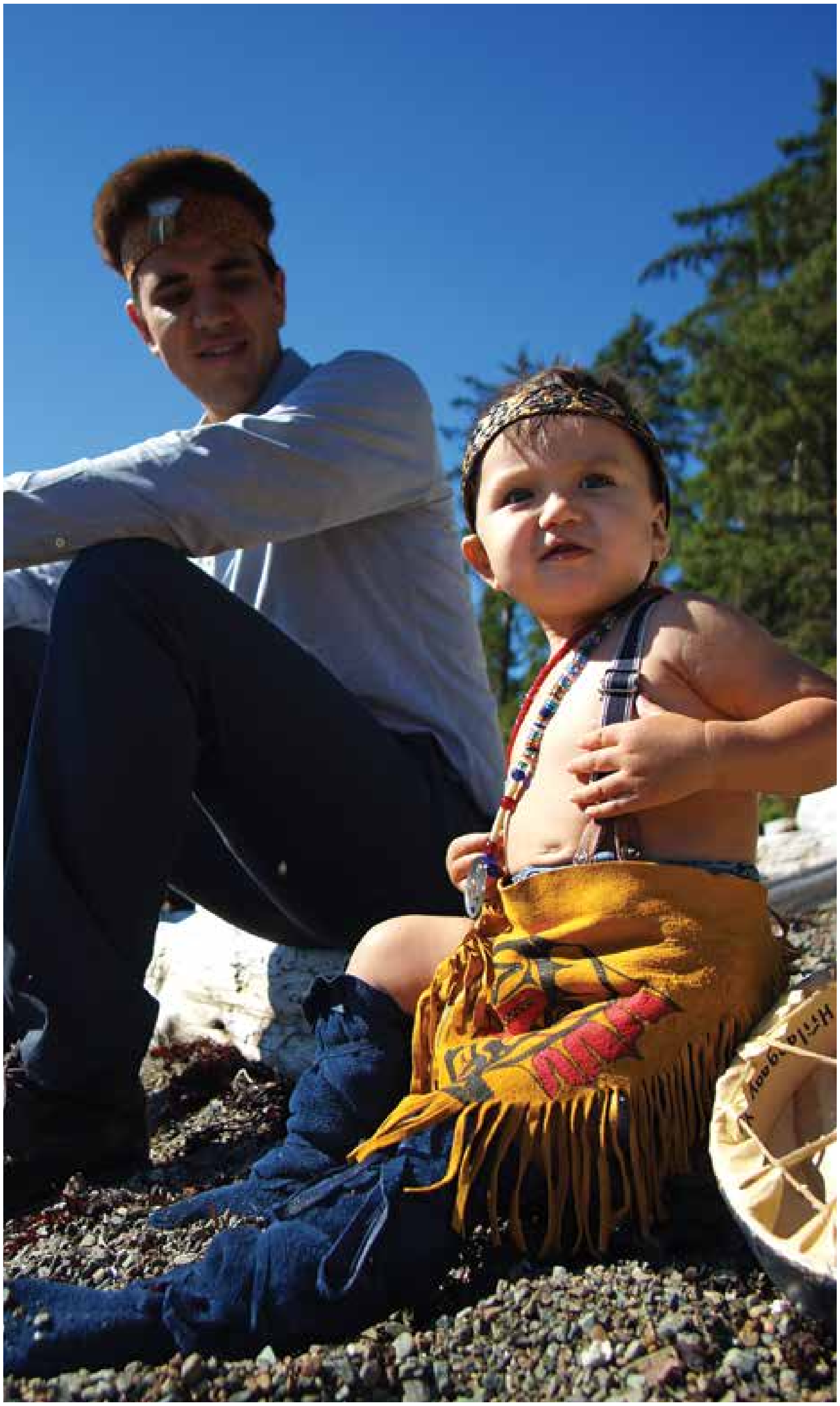
Company Overview

Since our beginnings in Skagway, in 1957, Alaska Power & Telephone Company has added an additional 39 communities to its service areas. We are now looking forward to our 60th year of operations. While AP&T has traditionally provided both regulated electric and telephone services, our focus is enhancing broadband and internet offerings throughout our service areas. To that end, AP&T was pleased to announce the completion of the Lynn Canal Fiber Project in the fall of 2016. With the 86-mile submarine fiber-optic cable in place, AP&T looks forward to offering greatly improved broadband services that ignite opportunity for our Upper Lynn Canal customers in Skagway and Haines.

During 2016, AP&T was able to increase its revenues by 8.6% to a total of $48 million, led primarily by non-regulated operations. After deducting operating expenses of $30.8 million and depreciation/amortization expenses of $7.6 million, AP&T generated $9.6 million of operating income. During the year, the Board of Directors made the decision to discontinue the development of the Soule hydropower project and sell our investment in Hidroeletrica Juayua. The combination of the two events resulted in one-time charges totaling $6 million. After deducting interest expense and adjusting for taxes, AP&T experienced a net loss of $354,000 ($-.27 per share), based on a weighted-average of $1.3 million shares. Total assets increased by $4 million, or 3.2%, to $125.8 million. Total long-term debt, including leases, increased by $4.6 million to a total of $60.2 million. Shareholders' equity fell by 2.2%, or $901,000, to $39.4 million—after distributing $1.26 million as shareholder dividends.

Operations by Segment

Electric Operations – Total 2016 sales for electric operations were 64.1 GWh, a 2% decrease from 2015. Hydroelectric resources provided 77.9% of all generation, a 1% increase over the previous year, while diesel generation decreased by 5.4%. Gross power operations' revenue was $18.7 million, a 4.4% decrease from 2015. Total operating expenses for 2016 decreased by 3.1%, or $351,000, to a total of $11.1 million. Operating income for the year was $4.4 million, a decrease of $557,000 or 11.3%.



A Celebration of cultural restoration in Kasaan, brought out the namesake of AP&T's joint-venture Hiilangaay Hydro project. The project's name in the Haida language means "rushing waters". The project shares the name with baby Hiilangaay who is seen celebrating the 2016 restoration celebration of the historic Kasaan Whale House.

During 2016, AP&T entered into a rate case. A ruling is expected in 2017, with new rates becoming effective at the beginning of 2018.

Telecommunications Operations – Gross 2016 revenues for regulated telecommunications operations were $15.4 million, a 2.5%, or $375,000, increase over 2015. Operating expenses for 2016 increased by $598,000, or 5.6%, to a total of $11.2 million. Depreciation, including amortization, increased by $264,000 to $2.8 million. As a result, regulated telecommunication services' operating income decreased by $487,000, or 25.4%, to $1.4 million.

Non-regulated Operations – Consisting of AP&T Wireless, AP&T Long Distance and engineering services, non-regulated operations generated $13.9 million of gross revenue, an increase of 44.5% or $4.3 million. Revenues for AP&T Wireless increased by $866,000, or 9.5%, to $10 million. Long Distance services contributed $225,000, while engineering and contract services related to the construction of Prince of Wales Island's Hiilangaay hydroelectric project provided revenue of

$3.7 million. Combined operating expenses for the segment were $8.5 million, a $3.5 million increase, of which $3.3 million were directly related to the hydro project. Combined operating income for the segment was $3.7 million, an 8.7% $300,000 increase.

Other Income and Expense

AP&T receives patronage-based dividends from CoBank, our primary lender, and Northwest Farm Credit Services, which has participated with CoBank in several of our recent financings. CoBank bases its patronage on 1% of AP&T's average outstanding loan balances, returning 75% to us in cash, while the remainder generally increases the equity investment in the bank. AP&T recorded patronage dividends of $543,000 for 2015, and $550,000 for 2014.

Through the various acquisitions of power-related assets, during 1995 through 1997, and telecommunications assets, during 1999, AP&T had recorded $9.2 million of goodwill. Since then, AP&T has continuously tested the underlying assets for impairment and found none. Recent accounting standards changes allow the option to amortize goodwill. Accordingly, management elected to amortize power-related assets, over a period of 10 years, and telecommunication assets over five years. As a result, AP&T recorded $1.8 million in amortization expense, during both 2015 and 2016.

AP&T routinely participates in various preliminary survey investigations in an attempt to develop renewable resources and further reduce our reliance on fossil fuels for generation. Whenever it's determined a particular project isn't feasible, we record the appropriate charge against results of its operations. Accordingly, during the fall of 2016, we recorded a $2.7 million loss on abandoned project related to Soule hydropower.

Also in the fall of 2016, AP&T entered into an agreement to sell our interest in El Salvador's Hidroelectrica Juayua. This transaction was completed in January 2017. As a result, a $3.3 million impairment was recorded in the statement of operations.

Financial Condition

AP&T's investment in gross plant in service increased by 6.5%, or $13.1 million, to $213.3 million. Net property, plant and equipment increased by 7.3% to a total of $93.9 million, during 2016, from $87.4 million the prior year. The increase in plant is primarily related to the completion of the Lynn Canal Fiber project. Interest-bearing liabilities, including leases at year-end 2016, were $60.2 million, an increase of 8.3% or $4.6 million. AP&T made full use of the $9.9 million financing commitment from CoBank to facilitate the completion of the Lynn Canal Fiber project. As a result, working capital increased to $3.3 million, from $1.4 million at the end of 2015. We also increased our line of credit with CoBank to $5 million, with a zero balance at year-end 2016. Employee Stock Ownership Plan common stock transactions led to a net decrease in both shares outstanding and additional paid-in capital totaling $90,000. A net loss from 2016 operations reduced retained earnings by $354,000, while shareholder dividends reduced equity by an additional $1.26 million. An $800,000 positive adjustment to "other comprehensive loss" reflected the improving fair market value of the interest rate swap, effective August 2013. In total, 2016 equity decreased by $901,000, or 2.2%, compared to an increase of 7.2% in 2015. AP&T's 2016 year-end equity, as a percentage of total capital, decreased by 2.5% to 39.5%, compared to 42% at the end of 2015.

Liquidity and Capital Resources

Operating Activities – Cash flows provided by operating activities, during 2016, were $12.6 million, an 8.3%, or $1.1 million, decrease over 2015. This change was primarily driven by an increase in income taxes recoverable, related to discontinued operations.

Investing Activities – Net cash used for investing activities increased by 53.3% to a total of $16.1 million, during 2016, compared to $10.5 million in 2015. The primary focus of these expenditures was the completion of the Lynn Canal Fiber project.

Financing Activities – A total of $3.4 million of cash was provided by 2016 financing activities, compared to $6.4 million in 2015. AP&T secured $9.9 million of fixed-term financing, during 2016, while paying $5.5 million toward existing long-term debt. Net transactions in AP&T stock used $90,000 of cash in 2016, compared to $220,000 in 2015. Cash used for payment of 2016 dividends was $930,000, compared to $967,000 in 2015. Cash on hand at year-end 2016 was $2 million, compared to $2.2 million at the end of 2015.

Issues, Risks and Challenges

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

- Alaska's continuing unstable economic environment could have a negative impact and restrict growth opportunities.

- Our continued reliance on government subsidies to our regulated electric and telecommunications customers could be affected by legislative or regulatory changes. The subsidies help customers pay rates ensuring a fair return to your company.

- If AP&T 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 our future.

- We face risks related to our operations: Unexpected changes in compliance regulations; political, legal and economic instability; seasonal factors affecting hydrology; as well as unforeseen adverse tax consequences. All of which could create adverse effects on AP&T's long-term financial projections.

Michael Garrett,
President & CEO

Chad A. Haggar, CPA
CFO, VP, Treasurer

$ expressed in thousands per share data

	2012	2013	2014	2015	2016

OPERATING RESULTS

	2012	2013	2014	2015	2016
Operating Income by Segment					
Electric Power	$4,909	$3,096	$3,830	$4,944	$4,387
Telecommunications	2,059	1,469	2,071	1,919	1,432
Non-Regulated Operations	2,105	2,558	3,590	3,438	3,737
Total Operating Income	$9,073	$7,123	$9,491	$10,301	$9,556
Operating Margin	21.4%	16.5%	21.5%	23.3%	19.9%
Net Income	$3,425	$1,390	$2,781	$3,295	$(354)
EBITDA	$15,094	$14,627	$17,602	$17,218	$11,667
Cash Flow from Operations	$13,087	$11,450	$10,655	$13,772	$12,629
Earnings (loss) per Share - Basic	$2.55	$1.05	$2.10	$2.53	$(0.27)

FINANCIAL POSITION

	2012	2013	2014	2015	2016
Total Capitalization	$96,348	$95,310	$98,459	$95,943	$99,638
Weighted-Average Shares Outstanding	1,341,584	1,324,365	1,324,625	1,304,031	1,299,128
Book Value per Share - Basic	$25.22	$26.98	$28.75	$30.98	$30.35
Share Price per Valuation	$28.10	$28.11	$29.90	$35.18	TBD

KEY RATIOS

	2012	2013	2014	2015	2016
Cash From Operations/Revenue	30.9%	26.6%	24.2%	31.2%	26.3%
Debt/Capitalization	64.9%	62.0%	61.8%	58.0%	60.5%
Equity/Capitalization	35.1%	38.0%	38.2%	42.0%	39.5%
Return on Assets	2.8%	1.2%	2.2%	2.7%	-0.3%
Return on Equity	10.1%	3.8%	7.4%	8.2%	-0.9%

AUDITORS REPORT

Report of Independent Auditors and
Consolidated Financial Statements for

Alaska Power & Telephone Company and Subsidiaries

December 31, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Alaska Power & Telephone Company and Subsidiaries

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, 2016 and 2015, and the related consolidated statements of operations, 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.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2016 and 2015, 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, 2017

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2016	December 31, 2015
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$ 108,556,177	$ 106,122,563
Telecommunications	96,896,366	80,345,731
Nonutility	6,341,085	4,377,606
	211,793,628	190,845,900
Less accumulated depreciation and amortization	119,516,888	112,832,633
	92,276,740	78,013,267
Utility plant under construction	1,587,820	9,434,065
Total property, plant, and equipment	93,864,560	87,447,332
OTHER ASSETS		
Investments	7,619,127	10,909,307
Goodwill, net of amortization	3,888,458	5,681,190
Rate stabilization asset	4,828,720	5,104,894
Other assets	1,078,144	1,122,282
Total other assets	17,414,449	22,817,673
CURRENT ASSETS		
Cash and cash equivalents	2,029,462	2,189,046
Receivables, less allowance for doubtful accounts of $35,103 in 2016 and $35,484 in 2015	6,015,572	6,188,618
Securities available for sale	2,798	2,798
Inventory and other current assets	3,323,941	3,197,595
Income tax refunds receivable	3,149,595	-
Total current assets	14,521,368	11,578,057
Total assets	$ 125,800,377	$ 121,843,062

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2016	December 31, 2015
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,297,861 and 1,300,395 shares issued and outstanding in 2016 and 2015, respectively	$ 1,297,861	$ 1,300,395
Additional paid-in capital	3,954,589	4,041,213
Retained earnings	36,367,181	37,978,985
Accumulated other comprehensive loss	(2,229,455)	(3,029,376)
Total stockholders' equity	39,390,176	40,291,217
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	8,450,000	9,316,667
Other long-term debt	45,582,838	40,633,635
Total long-term debt	54,032,838	49,950,302
FINANCE LEASES	170,487	212,655
INTEREST RATE SWAP	3,691,150	5,015,524
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	16,683,532	15,443,463
Other deferred credits	662,449	775,727
Total other liabilities and deferred credits	17,345,981	16,219,190
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	5,125,105	4,256,963
Income taxes payable	-	408,417
Current portion of finance leases	243,853	414,626
Current portion of long-term debt	5,800,787	5,074,168
Total current liabilities	11,169,745	10,154,174
Total liabilities and stockholders' equity	$ 125,800,377	$ 121,843,062

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2016	2015
REVENUE		
Electric	$ 18,678,273	$ 19,529,028
Telecommunications	15,430,075	15,055,096
Other nonregulated	13,896,444	9,619,219
	48,004,792	44,203,343
EXPENSES		
Electric	11,052,473	11,403,005
Telecommunications	11,189,260	10,591,339
Other nonregulated	8,564,906	5,037,900
Operations and maintenance expense	30,806,639	27,032,244
Depreciation and amortization expense	7,642,628	6,870,453
	38,449,267	33,902,697
Income from operations	9,555,525	10,300,646
OTHER INCOME (EXPENSE)		
Dividend income	557,611	543,356
Amortization of goodwill	(1,792,732)	(1,792,732)
Loss on abandoned project	(2,683,571)	-
Asset impairment	(3,346,000)	-
Miscellaneous	(59,449)	(495,876)
Total other expense	(7,324,141)	(1,745,252)
Interest income	118,368	3,691
Interest expense	(3,459,367)	(3,739,496)
Net interest expense	(3,340,999)	(3,735,805)
Income (loss) before income taxes	(1,109,615)	4,819,589
Provision for income taxes	755,930	(1,524,198)
Net income (loss)	$ (353,685)	$ 3,295,391
Basic and diluted earnings (loss) per share	$ (0.27)	$ 2.53
Weighted-average basic and diluted shares outstanding	1,299,128	1,304,030

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2016	2015
Net income (loss)	$ (353,685)	$ 3,295,391
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	1,324,374	980,117
Income tax expense related to fair value adjustment to interest rate swap liability	(524,453)	(388,126)
Comprehensive income	$ 446,236	$ 3,887,382

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Net Loss	-	-	(353,685)	-	(353,685)
Sale of common stock	21,764	1,490,496	-	-	1,512,260
Repurchase of common stock	(24,298)	(1,577,120)	-	-	(1,601,418)
Fair value adjustment to interest rate swap, net of tax	-	-	-	799,921	799,921
Dividends paid to shareholders	-	-	(1,258,119)	-	(1,258,119)
Balance at December 31, 2016	$ 1,297,861	$ 3,954,589	$ 36,367,181	$ (2,229,455)	$ 39,390,176

See accompanying notes.

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (353,685)	$ 3,295,391
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	9,571,840	8,646,216
Allowance for funds used during construction (AFUDC)	(308,248)	(140,654)
Asset impairment	3,346,000	-
Loss on abandoned project	2,683,571	-
Loss from disposal of assets	9,247	1,055
Noncash patronage dividends	(135,413)	(137,095)
Deferred income taxes	715,616	(74,189)
Accretion (erosion) of rate stabilization asset	276,174	(26,407)
Changes in assets and liabilities		
Receivables	173,046	761,922
Income taxes	(3,558,012)	973,389
Other assets and liabilities	208,466	472,441
Net cash from operating activities	12,628,602	13,772,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(16,220,018)	(10,528,215)
Proceeds from investment in nonaffiliate	79,593	-
Net cash from investing activities	(16,140,425)	(10,528,215)

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$ 9,900,000	$ -
Payments on long-term debt	(5,090,845)	(4,815,370)
Payments on finance leases	(437,349)	(400,778)
Proceeds from sale of common stock	1,512,260	923,576
Repurchase of common stock	(1,601,418)	(1,143,930)
Dividends	(930,409)	(967,332)
Net cash from financing activities	3,352,239	(6,403,834)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(159,584)	(3,159,980)
CASH AND CASH EQUIVALENTS, beginning of the year	2,189,046	5,349,026
CASH AND CASH EQUIVALENTS, end of the year	$ 2,029,462	$ 2,189,046
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense, net of AFUDC	$ 3,011,629	$ 3,876,363
Income taxes	$ 1,615,000	$ 625,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 799,921	$ 591,991
Accrued dividends payable	$ 327,710	$ 276,014
Acquisition of equipment from finance leases	$ 224,408	$ -

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.; and 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 accordance 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.

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2016 or 2015. 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 $394,065 and $140,654 of AFUDC in 2016 and 2015, 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 2016. Total amortization expense related to goodwill for the years ended December 31, 2016 and 2015, was $1,792,732.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2016 and 2015, the carrying amount of goodwill was $3,888,458 and $5,681,190, which included accumulated amortization of $5,377,945 and $3,585,213, respectively.

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2016 and 2015, 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 $533,362 and $579,779 at December 31, 2016 and 2015, 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 – Construction – Revenue from cost-plus-fee contracts is recognized on the basis of costs incurred during the period plus the fee earned. Revenues are recognized as costs are billed. Total costs through December 31, 2016, are approximately $3.3 million. The total amount billed through December 31, 2016, is approximately $3.7 million.

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.

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

Revenue recognition – Telecommunications (continued) – 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.

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 2016 and 2015, 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, 2016 and 2015.

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, 2016 or 2015.

Regulation – Telecommunications - The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Regulatory Commission of Alaska. The FCC also has preemptive authority to regulate intrastate telecommunications services, including intrastate access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal service support revenues are administered by the Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated and include equipment sales, directory, rents, and other incidental services.

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Regulation - Telecommunications (continued) –

Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services.

All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlements, universal service support, rate development, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) in 2016 that reforms the High Cost Program supporting rate-of-return carriers. The FCC has also created a mechanism to ensure the $2 billion budget for Universal Service Support is not exceeded. The following changes have been implemented to modernize the program:

- Provides support for stand-alone broadband;
- Requires broadband deployment based on the number of locations lacking service and the cost of providing service;
- Requires allowances for capital investments and limits on operational expenses; and
- Phases out support for areas served by a qualifying competitor.

The FNPRM also created two paths to a Connect America Fund for rate of return carriers. The legacy mechanism reforms the existing Interstate Common Line Support (ICLS) mechanism to support stand-alone broadband. The model based option is voluntary and is a fixed amount of support for ten years. The model based support mechanism includes build-out milestones that must be met beginning in 2021. In the event the Company does not meet the milestones, a portion of the support received will be paid back to the Universal Service Fund. The Company is expected to receive support under the model based option in future years.

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 2016 or 2015. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,299,128 in 2016 and 1,304,030 in 2015.

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.

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

Advertising costs – AP&T expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2016 and 2015, were $103,867 and $115,825, respectively.

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 adheres to 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, 2016 and 2015.

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, 2016 and 2015, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017, 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 $219,942 and $216,068 for 2016 and 2015, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2017	$ 204,216
2018	182,569
2019	137,447
2020	104,196
2021	80,676

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 $719,944 and $684,871 in the years ending 2016 and 2015, respectively.

Note 3 – Lease Agreements (continued)

Finance leases – AP&T leases certain equipment under finance leases. The lease arrangements require monthly payments through 2021.

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

	2016
Telecommunications central office assets	$ 1,223,400
Bucket truck	224,408
Accumulated depreciation	(229,277)
	$ 1,218,531

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 2016.

2017	$ 255,440
2018	40,671
2019	40,671
2020	40,671
2021	58,438
Total minimum lease payments	435,891
Less amount representing interest	(21,551)
Present value of net minimum lease payments	$ 414,340

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Property, Plant, and Equipment

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

	Plant Account	Accumulated Depreciation	2016 Net Balance	2015 Net Balance	Depreciation Rate
Regulated Electric					
Hydroelectric	$ 28,709,471	$ 10,490,584	$ 18,218,887	$ 18,905,347	2%
Other generation	21,889,436	11,967,551	9,921,885	8,905,416	4% to 8%
Transmission and distribution	42,826,140	26,203,993	16,622,147	17,421,699	2.5% to 4%
Other	13,891,935	9,383,730	4,508,205	4,241,770	2.5% to 20%
Land	807,040	-	807,040	807,041	---
Utility plant acquisition adjustment	429,317	384,972	44,345	60,973	6%
	108,553,339	58,430,830	50,122,509	50,342,246	
Regulated Telecommunications					
General support assets	8,772,714	6,392,029	2,380,685	2,294,751	2.5% to 20%
Central office assets	30,534,350	23,468,625	7,065,725	7,826,689	8% to 14%
Cable and wire facilities	23,311,469	18,647,107	4,664,362	3,539,417	3% to 6%
Land	308,156	-	308,156	308,156	---
	62,926,689	48,507,761	14,418,928	13,969,013	
Other Nonregulated					
Buildings	6,114,322	3,447,319	2,667,003	1,006,680	4%
Nonregulated telecommunications	33,969,677	9,130,978	24,838,699	12,536,232	4% to 20%
Plant held for future use	2,838	-	2,838	83,155	---
Land	226,763	-	226,763	75,941	---
	40,313,600	12,578,297	27,735,303	13,702,008	
Total property, plant, and equipment	$ 211,793,628	$ 119,516,888	$ 92,276,740	$ 78,013,267	

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 2015 balance also includes approximately $2.6 million in construction costs related to Soule River Hydro, LLC (SRH). SRH was a project company formed to construct a hydroelectric facility on the Soule River in Alaska. During 2016, the Company determined the project was no longer feasible and discontinued work on the project. As a result, a loss on the abandoned project of $2,683,571 was recorded in the statement of operations.

Note 5 – Investments

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

	2016	2015
Investment in National Bank of Cooperatives (CoBank)	$ 4,332,910	$ 4,292,505
Investment in Ketchikan Electric Company, LLC (KEC)	600,000	600,000
Investment in Hydro West Holdings, Inc. (Holdings)/Hidroelectrica Hidroelectrica Juayua, S.A. (HJ)	2,000,000	5,346,000
Investment in Haida Energy, Inc.	609,836	609,836
Other	76,381	60,966
	$ 7,619,127	$ 10,909,307

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 $542,376 and $549,691 for 2016 and 2015, respectively, related to these earnings.

Ketchikan Electric Company, LLC – AP&T owns a 50% share of 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 2016 or 2015.

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 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.

In 2016, the Company entered into a sales agreement to sell all 6 million preferred shares in HJ for $2 million. The client recorded an asset impairment of $3,346,000 in the statement of operations to adjust the value of the shares to the final sale price. The sale of the shares was finalized on January 9, 2017.

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2016, for all other investments, excluding the investment in HJ.

Note 6 – Long-Term Debt

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

	2016	2015
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 6-year amortization with a fixed interest rate of 4.98%.	$ 9,900,000	$ -
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%.	9,316,667	10,183,333
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, 2016. Interest rate swap agreement below reduces exposure to interest rate fluctuations.	33,879,316	37,618,449
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%.	4,250,000	4,583,333
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.	2,483,989	2,632,049
Other term debt	3,653	7,306
	59,833,625	55,024,470
Less current portion	(5,800,787)	(5,074,168)
	$ 54,032,838	$ 49,950,302

Annual maturities for the five years beginning January 1, 2017, are $5,800,787, $5,102,202, $5,448,926, $5,776,341, and $6,166,674, respectively, and $31,538,695 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 $3,691,150 and $5,015,524 at December 31, 2016 and 2015, 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 $5 million line of credit established with CoBank. There were no outstanding balances on the line of credit as of December 31, 2016 or 2015.

Note 7 – Income Taxes

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

	2016	2015
Current	$ (1,472,795)	$ 1,597,236
Deferred	716,865	(73,038)
	$ (755,930)	$ 1,524,198

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Income Taxes (continued)

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

	2016	2015
Income tax provision at federal rate of 34%	$ (120,253)	$ 1,625,767
State income taxes, net of federal benefit	(13,072)	267,936
Permanent items	(177,738)	(262,085)
Other	(444,867)	(107,420)
Provision for income taxes	$ (755,930)	$ 1,524,198

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

	2016	2015
Deferred tax (asset) liability		
Allowance for bad debt	$ (13,901)	$ (14,052)
Accrued employee benefits	(214,359)	(201,409)
Prepaid expenses	474,879	446,798
Tax amortization and depreciation greater than book	19,215,102	17,023,232
Deferred revenues and expenses	1,766,401	1,932,920
Capital loss carryover	(990,000)	-
Book vs. tax basis of investments	(2,092,894)	(1,757,878)
Fair value adjustment of interest rate swap liability	(1,461,696)	(1,986,148)
Net deferred tax liability	$ 16,683,532	$ 15,443,463

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 2016, employer matching contributions and profit sharing contributions were $478,263 and $261,722, respectively. In 2015, employer matching contributions and profit sharing contributions were $481,228 and $255,196, 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.

2016 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 18,678	$ 15,430	$ 13,897	$ 48,005
Depreciation and amortization	3,239	2,809	1,595	7,643
Operating income	4,387	1,432	3,737	9,556
Interest expense	686	1	2,772	3,459
Interest income	-	-	118	118
Total fixed assets	108,553	62,927	40,314	211,794
Total accumulated depreciation	(58,431)	(48,508)	(12,578)	(119,517)
Total fixed assets, net	50,122	14,419	27,736	92,277
Capital expenditure	2,912	3,312	9,996	16,220

ALASKA POWER & TELEPHONE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Business Segment Information (continued)

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
Total accumulated depreciation	(55,697)	(45,788)	(11,348)	(112,833)
Total fixed assets, net	50,342	13,969	13,702	78,013
Capital expenditure	2,636	1,586	6,447	10,669

Note 10 – Other Assets

Other assets consist of the following at December 31:

	2016	2015
Deferred loan origination fees	$ 689,893	$ 826,373
Miscellaneous regulatory assets - power	191,850	195,512
Other	196,401	100,397
	$ 1,078,144	$ 1,122,282

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.


WILLIAM A. SQUIRES ESQ.
1962-2016

IN MEMORIAM

WILLIAM A. SQUIRES
OUR CHAIRMAN, OUR FRIEND
WHO LEFT US TOO SOON

“The whole of our AP&T family are greatly saddened by the loss of our esteemed colleague and friend,” said Michael Garrett, AP&T’s President and CEO.“Bill’s steady and unswerving manner, coupled with his ability to put people at ease with his genuine warmth and smile quickly endeared him to all he came in contact with. His presence will be deeply missed by the entire AP&T family.”

By way of remembrance, Robert Grimm, past President/CEO and board member of AP&T stated,“-Bill willingly stepped into a leadership role during a challenging time, and proved to have both the skills and temperament to rally those around him to give their very best moving forward. Though too humble to admit it, those closest to him will quickly vouch for the fact that much of AP&T’s success this past 13+ years can be traced back to Bill’s leadership, passion for the industry and respect for the people with whom he worked.”

William A. Squires Esq., served as member of AP&T’s Board of Directors beginning in 2003, assuming the role of Board Chairman from 2010 through November 2016. He had previously held the position of Chief General Counsel for Blackfoot in Missoula Montana and was elevated to serving as Blackfoot’s CEO in 2012.

MISSION STATEMENT

To Be Strong, Growing, And Innovative In The Energy And Communications Industries

AP&T NOTICE TO STOCKHOLDERS

Notice To Stockholders:
The annual meeting will be held on Wednesday, May 24th, 2017 at The Elks Lodge, 555 Otto Street, 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, Sandy Hershelman, and Jason Custer
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The narrative descriptions of the Company's activities within this annual report contain certain forward-looking statements that involve risks and uncertainties. When used in this annual report, the words "anticipates," "believes," "estimates," "expects," and similar expressions are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in or implied by these forward-looking statements.

Regarding AP&T Stock:
For information regarding the acquisition or sale of AP&T stock, please contact:

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