60 YEARS
EMPLOYEE OWNED | COMMUNITY MINDED

AP&T

ALASKA POWER & TELEPHONE

annual report: 2017

2017

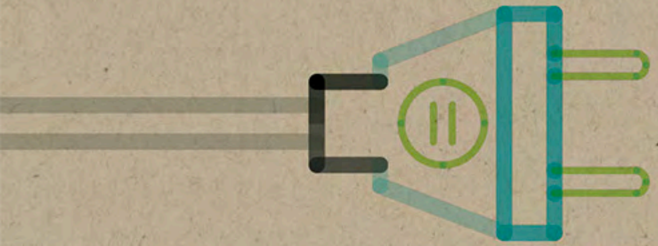
ENERGY

DATA

Our Past.
Our Future.

MISSION STATEMENT

To be a strong, growing, and innovative leader in the energy and communications industries



January
February
March
April
May
June
July
August
September
October
November
December

The year in review

TABLE OF CONTENTS

Mike Barry
BOARD CHAIRMAN

Chairman's Message to Shareholders

AN EVOLVING LEGACY

An historic benchmark, AP&T's 60th year was one of compelling progress on many fronts, and of transition for many tenured employee-owners.

From my perspective, AP&T continues to make significant progress. This past year exemplifies my observation. As we celebrated an historic benchmark, it was with the innate understanding that our 60th year embodied the breadth of a foundation that is an evolving legacy. Our employee-owners are not resting on the laurels of bygone years, but continue to provide outstanding service to our customers. This lays a strong foundation for growing cash flow, earnings and dividends. Our strong balance sheet gives us the ability to take advantage of opportunities that foster our future.

We will continue to look for good opportunities, always mindful we must stay within our core competencies. We will also explore ways to adjust our corporate structure to become more efficient in our use of capital, as well as maximize after-tax proceeds to our investors.

Last year we announced a plan to increase the size of our board of directors to seven from the current five. We have made excellent progress in that regard. We were blessed this past year to have Bob Engel join our board. Not only does Bob have an abundant knowledge of a wide range of business aspects, he has already demonstrated the benefits of his active participation.

Ketchikan's Randy Johnson is the board's nominee to be the fourth independent director. Randy operates Tyler Rental throughout SE Alaska. He also has mining interests and was the developer of the Ketchikan Shipyard. His successful business experience, in our market area, brings valuable expertise to our board.

Last, but not least, Bob Grimm is the board's nominee for the seventh director. Bob's history of leadership with AP&T underscores his value as a director.

You will read elsewhere, in this report, numerous details of the compelling progress we have made. As we begin our seventh decade as an enterprise, we recognize that our board and employee-owners repeatedly demonstrate an outstanding ability to meet challenges. By working together, they convert challenges to opportunities. Personally, I look forward to the future knowing we have the wherewithal to succeed. Thank you to all for your hard work and perseverance.

Mike Barry

Board Chairman
Alaska Power & Telephone Co.

BOARD OF DIRECTORS

Left to right: Tom Ervin, Director | Mike Barry, Chairman | Mark Foster, Director | Michael Garrett, Director, President, CEO | Bob Engel, Director

President & CEO'S Report

Crew lead Steve Alcock and cable technician Nick Espeseth lay-out the next segment of Fiber to be strung in AP&T's Haines location.

Michael Garrett
DIRECTOR, PRESIDENT, CEO

President & CEO's Report

SIX DECADES OF DEDICATION

As AP&T turns 60, we won't slow down; we will continue to transform with the times. We are dedicated to keeping the right resources in place to manage today's risks, and capture shareholder value within the best opportunities before us.

John D. Rockefeller said, "the secret of success is to do the common things uncommonly well." This has been very true of AP&T. Our 60 years of achievement and sustainability are attributable to the uncommon dedication and excellence of our employee-owners. Our hard work is reflected in 2017's strong financial results. The company generated $15.5 million in operating income, a 62% increase over 2016. Gross revenue for 2017 was $56.3 million, an increase of 17% over last year. These excellent results are the product of careful risk management, a disciplined approach to cost control, and four-walls improvements and efficiencies.

Under typical circumstances, AP&T's performance in 2017 would have produced record high net income of $7 million, or $5.38 in earnings per share (EPS). However, due to changes in the federal tax code, AP&T net income was enhanced by a $3.2 due to changes in deferred taxes. Net income after this adjustment was $10.2 million, producing an even higher record EPS of $7.88.

Lynn Canal Fiber: A Scalable Solution for Alaska and Yukon

The year 2017 marked the Lynn Canal Fiber (LCF) project's first full year of operation. The LCF offers up to seven terabytes of capacity between Juneau, Haines and Skagway, and is sized to eventually meet the current and future data transport needs of Canada's Yukon Territory and Alaska's need for an alternate route to the world. In 2017, AP&T's crews worked to build new last-mile fiber facilities in the Lynn Canal region, helping to increase our customers' access to higher internet speeds at lower cost. The work there will take a few more years to finish to the point where our customers see the full benefit. AP&T entered into a memorandum of understanding with the historic White Pass & Yukon Route Railway for use of the railroad's private right-of-way for a fiber optic cable to Yukon Territory. In the event the Government of Yukon decides it wishes to move forward with an interconnection to our facilities, AP&T will muster the resources needed to construct additional fiber to the Canadian border, which we estimate can be completed in single construction season. The LCF would have no trouble meeting Yukon's requirements for 20 Gbps of capacity, scalable to 120 Gbps over time. AP&T remains willing and eager to assist our neighbors in the Yukon, by offering the flexible, affordable and secure data transport solutions needed to support ongoing economic development, as well as enhance quality of life.

Hiilangaay Hydro Construction Continues

Completing construction of the Hiilangaay (HEE-lung-eye) hydro project will be a major focus for AP&T's engineering personnel and management in 2018. The project is owned by Haida Energy, a joint

continued...

"Our years of achievement and durability are attributable to the uncommon dedication and excellence of our employee-owners."

venture between Haida Corporation and AP&T. Over the past year, AP&T has finished the project's transmission line, tailrace and powerhouse foundation. This was complex work in a remote location with challenging access requirements. AP&T has strengthened its productivity by leveraging skilled local subcontractors with specialized experience in logistics, construction, drilling, blasting and equipment operation. The project is currently on budget—and we intend to keep it that way through careful cost-control, risk management and productivity-enhancing subcontracts. Our team anticipates fully completing the project in early 2019, well before the Federal Energy Regulatory Commission's deadline of December 31, 2019.

Other new renewable energy projects will take a backseat until market conditions are more favorable. In 2017, AP&T demobilized equipment at the Soule hydro project. As grants expire, our team is concluding wind reconnaissance projects near Tok, as well as stream gauging work at Yerrick Creek. Alaska's senators and congressman introduced legislation extending the timeline for undertaking the Mahoney Lake hydropower project until it is a more timely fit with regional energy needs. We are looking beyond renewable energy projects to lower the cost of energy to our customers in the interior. We are hopeful 2018 will lead to a win-win solution involving interconnection with Golden Valley or other Railbelt providers.

2018: A Year of Opportunities

There is no doubt 2018 will be a busy year for AP&T. Work crews will continue to build-out last-mile fiber optic infrastructure to improve our customers' internet speeds and experience. This year we are focusing on new projects in Haines. Government approval of the Yukon Fiber project would mean rapidly tooling up to extend LCF facilities to the Alaska/Yukon border. AP&T bid on two Defense Logistics Agency utility privatization contracts - one at Joint Base Lewis-McChord in Washington State, and one at U.S. Army Garrison-Hawaii facilities on Oahu. We will be working through governmental review processes with hopes of winning a contract, offering an appropriate balance of risk and reward. AP&T will continue to emphasize company-wide efficiency and cost-savings, creating process improvements to enhance the value we provide our customers and shareholders alike.

Transitioning to Tomorrow's Workforce

AP&T's employee-owners are the reason for our success and longevity. Many of us have been with the company for 20, 30, and even 40 years. Starting in 2017, AP&T implemented succession planning to allow our pioneers to smoothly transition to the prosperous retirement they deserve. It is crucial to also ensure AP&T has the talent and skill sets needed to continue to perform with seamless excellence, staying in front of tomorrow's risks, requirements and opportunities. We recognize the vital importance of attracting and retaining top talent. Our employee-ownership model, attractive benefits plans and pro-employee corporate culture create a nurturing and supportive environment that positions us to continue to maintain a world-class workforce long-term.

AP&T's workforce is not only multiskilled, but multilocational. As AP&T changes with the times, we are becoming increasingly defined by use of remote access technologies to work collaboratively and problem solve, with increasing efficiency across diverse geographical locations. Our workflow today incorporates video conference collaboration, an increased penetration of automation and supervisory control and data acquisition technologies, remote camera systems, and the use of a virtual network operations control center. Our broadband deployment sees to the edge of our network, and as our customers value the "internet of things," we are in a unique position to help them get the best internet experience possible.

Cyclist Greg LeMond said "it never gets easier, you just go faster." As AP&T turns 60, we won't slow down. We will continue to transform with the times, keep the right resources in place to manage today's risks, and capture shareholder value within the best opportunities before us.

Michael Garrett

Michael Garrett

President & CEO
Alaska Power & Telephone Co.

Andrew Bailey
Journeyman Lineman, Tok AK

Meet EV! The newest addition to the AP&T fleet.

The all-electric 2017 Chevy Bolt will ply the roads of POW Island powered by clean, renewable hydroelectric energy. The Port Townsend, WA Crew was pretty excited to "test" her, prior to her journey north.

Holley Drake (seated) & Kay Ackerman
Skagway Customer Service Representatives

Shown in front of Skagway's new $1m power plant switchgear upgrade, AP&T's recently-retired Chief Engineer Vern Neitzer was instrumental in the development of every significant energy-related project accomplished in the past 45 years at AP&T.

New Skagway Switchgear: 2017

Operations

Greg Mickelson
VP POWER OPERATIONS

Tom Ervin
VP TELECOM ENGINEERING/ OPERATIONS

Operations

TIMELY INVESTMENT & EXPANDING FIBER FOOTPRINT SPUR GROWTH

Tied to the growth of any company is the timely investment of resources, coupled with the ability to leverage opportunity that aligns with core competencies. Such was the case for AP&T in 2017 for both energy and data/telecom operations.

Energy Operations

The many opportunities 2017 provided to celebrate all that AP&T has accomplished in and with our communities the past six decades, did not slow the progress of achievements likely to be celebrated during our next 60 years of growth and shared successes.

In 2017, net revenue from regulated power operations increased 4.2%, over 2016, to $16.7 million. Energy sales increased by 3.8% to 65.8 GWH. Diesel-based generation increased by 20.7%, while hydroelectric generation decreased by 0.95%. A new rate case resulted in a 5% overall increase reflecting the rising cost of doing business in rural Alaska. New rates went into effect December 15, 2017. Different service areas experienced varying levels of rate increases/decreases, depending on service costs.

AP&T welcomed Sundance Mining as a new key account customer on Prince of Wales Island. Sundance's 25 employees have been developing mining claims near the historic Dawson Mine, adjacent the community of Hollis. AP&T was pleased to assist Sundance in sourcing and installing the equipment needed to acquire electricity through the Prince of Wales grid system under tariffed rates.

AP&T's line crews completed construction of 14 miles of new transmission line for the Hiilangaay hydropower project. The project involved a 5,200-foot water crossing, with a midpoint on Jumbo Island. Construction was performed in a remote location outside of the primary road system, supported by landing craft, barge and helicopter.

Careful preparation and timely investment in system improvements and upgrades are cornerstones of successful operations. In 2017, AP&T's power and engineering personnel performed many important upgrades that will remain essential elements of our operations far into the future. Work included a breaker replacement for the Tok diesel power plant; installation of a 3518 CAT gen set a new, remotely dispatchable 2,500 kW standby generator in Klawock. New upgrades to AP&T's fuel tank farm in Eagle will help assure years of safe and reliable storage. Additionally, AP&T initiated a $1million upgrade to the Skagway power plant's switchgear—some of AP&T's oldest equipment in service, dating back to the 1950s. Our crews have been replacing older customer meters with new units, allowing for remote disconnections and reconnections. These upgraded meters reduce travel requirements and costs, allowing AP&T personnel to focus on other key operational requirements.

2500kW Standby Generation, Klawock

The installation crew for AP&T's new 2500kW standby generation module in Klawock included L-R: Joshua Stukey, Lloyd Crookes, Glenn Stefan and Cody Schwegel.

Data/Telecom Operations

AP&T's 2016 completion of the Lynn Canal Fiber (LCF) project set the pace for 2017 telecom operations. AP&T formed an in-house fiber construction crew to extend passive optical network infrastructure to our customers. We have been able to provide increased fiber-to-the-home connectivity and offer higher speeds at a better value. The crew consists of telecom specialists from a variety of AP&T service locations, as well as apprentices from AP&T's power operations.

The fiber crew completed a combined total of 13.5 miles of last-mile fiber build-out in Skagway and Haines facilitating customer access to the increased bandwidth made possible by the LCF project. Additionally, AP&T constructed 8.5 miles of fiber serving the core business/residential area in Tok. Our telecom crews also upgraded the central offices, including installation of some of the latest optical equipment, supporting fiber to the home capabilities. In addition to improving the experience and value our customers receive, completion of these projects helps AP&T meet the service requirements associated with new Alternative Connect America Cost Model (ACAM) funding, a critical component of telecom operational revenue.

By working together on new fiber deployment projects, AP&T employees with varying levels of expertise achieved an accelerated transfer of knowledge, skills and experience that will prove invaluable to our company and customers far into the future. We look forward to continuing fiber infrastructure upgrades to increase our customers' access to fiber-optic facilities, in step with market demand and service requirement targets.

A key objective of AP&T's LCF project was to install adequate backhaul capacity to meet future bandwidth and redundancy requirements of the Yukon Territory. In furtherance of this objective, AP&T realized two key strategic objectives. We negotiated a memorandum of understanding with the White Pass & Yukon Route railroad for use of the railway right-of-way to place fiber to Yukon territory. We also completed preliminary field engineering, in advance of construction activities, supporting this project's completion in 2019.

AP&T's Management of Information Services and Data Networking Group teams continue to play a vital role in AP&T's success, growth and reliability. Our talented tech personnel have helped develop new tools to strengthen company workflow, including the recent company-wide deployment of video-conferencing software. Online payment systems helped improve and streamline revenue connection. Security updates and protections continue to be a key area of emphasis, ensuring our facilities and customers are protected from bad actors. Our IT and telecom personnel have contributed to improved efficiency of our power operations, supporting increased penetration of SCADA and automation technology and developing communications capabilities at remote locations, such as the Hiilangaay construction site.

AP&T recognizes that our ability to function as a successful utility is rooted in the talents and capabilities of our employee-owners. Identifying and nurturing local talent will continue to be vital to meeting tomorrow's workforce needs. As we approach the future, we will continue to emphasize workforce development, on-the-job training and engagement with schools and training facilities within our service areas. By leveraging strategic partnerships and our young people's inherent fascination with technology, AP&T will ensure it has the best-in-class workforce needed to remain a leader in rural utility service in Alaska.

Hiilangaay Hydro Project

Jumbo Island Power Line Crossing
HETTA INLET

Hiilangaay Hydro powerhouse takes shape
NEAR HYDABURG, ALASKA

Business Development

Jason Custer
BUSINESS DEVELOPMENT

Business Development

SUCCESS IS KNOWING WHEN AN IDEA'S TIME HAS COME

Steve Jobs said "most overnight successes took a long time," which is certainly true in the utility sector. Business development activities in 2017 involved following through on many key priorities established in 2016, maximizing value and minimizing risk for our shareholders.

Hiilangaay Hydro: Completion within Sight

AP&T's engineering and management team have been leading construction of the 5MW Hiilangaay hydropower project on Prince of Wales under a $21.3 million cost-plus Engineering, Procurement, and Construction contract which includes a possibility for a performance-based bonus. The Hiilangaay project is owned by Haida Energy, a 50/50 joint venture between AP&T and Haida Corporation, and funded through grants and a 50-year low interest loan administered by the Alaska Energy Authority. Hiilangaay will reduce diesel-based generation on Prince of Wales Island while providing a surplus of clean energy for future economic development and growth. The AP&T team is working with the support of experienced local subcontractors to deliver a top quality facility to Haida Energy and the ratepayers on Prince of Wales Island, while carefully managing risk and controlling costs to reasonable and appropriate levels. AP&T has completed the transmission line extension to the facility, which allows the remote construction camp to operate on grid-power. The project's powerhouse is scheduled for completion in spring of 2018, after which time the turbine, generator and other powerhouse equipment will be installed. During the summer of 2018, AP&T will be constructing the diversion dam and penstock. AP&T is currently on schedule to complete the project in late 2018 or early 2019 (depending on winter weather), well ahead of FERC's deadline of December 31, 2019.

Utility Privatization at U.S. Military Installations

AP&T filed proposals for privatizing the electrical distribution facilities at Joint Base Lewis-McChord (Washington State), and the U.S. Army Garrison–Hawaii. Our team is currently working through the government review processes with hopes of winning a contract that offers our shareholders an appropriate balance of effort, risk and reward. We hope to be able to share additional information about the outcome of these efforts later in 2018.

Yukon Fiber: Supporting Our Neighbors' Needs

AP&T's seven terabit Lynn Canal Fiber project, completed in late 2016, is sized to serve AP&T's customers in Haines and Skagway, as well as meet current and future data transport needs of Canada's Yukon Territory, which currently relies upon a single fiber optic connection to the rest of the world. AP&T's LCF project is capable of providing Yukon Territory with scalable capacity from 20 Gbps to 120 Gbps and higher, in step with economic growth. The Government of Yukon stated that it will announce in 2018 whether it desires to develop a new fiber optic route through Alaska using the LCF project, or whether it will build a much longer and more costly "all-Canada" project which would travel to the community of Inuvik on Canada's north slope, and then south down the

Don Nickich, Southeast Alaska Microwave Network Engineer. One of the many talented employee-owners based out of AP&T's Ketchikan, AK location.

> *"One must pass through the circumference of time before arriving at the center of opportunity."*
>
> *– Baltazar Gracián*

Keeping a watchful eye on the Falls Creek Hydro facility are Donald Duke and Martin Rogers in Gustavus.

McKenzie Highway. AP&T's analysis indicates the significantly shorter Alaska route can be constructed at a lower cost and less risk, and offers an excellent value to Yukon Territory. To help streamline the development timeline, AP&T entered into a memorandum of understanding with the historic White Pass & Yukon Route Railway for location of the project within the railroad's right-of-way. Working with WP&YR would simplify the permitting process while eliminating costly traffic control and deep burial requirements that would exist if the project were constructed along the Klondike Highway.

New Transmission Interties: Gustavus, and Beyond

The National Park Service is working actively with AP&T to establish a design-build contract to construct the Gustavus Intertie project in 2019. The project will allow NPS facilities at Glacier Bay National Park to interconnect with AP&T's underutilized Falls Creek hydropower project and discontinue their current practice of self-generating electricity with diesel generators. With this project, AP&T will gain the distinction of supplying clean, renewable energy to one of America's most unique national parks, a UNESCO World Heritage Site. Thanks to the efforts of Alaska's US delegation, full funding for the project was added through the 2018 omnibus spending bill.

In Ketchikan, AP&T is working to permit a transmission interconnection between its communication site on High Mountain and Ketchikan Public Utilities' grid. The High Mountain Intertie will allow AP&T to utilize clean, locally-produced hydroelectricity to power its communication facilities as well as those of other parties, reducing the use of mountaintop diesel generators, and very costly helicopter-based refueling trips.

With support from AP&T, the Northway Village Council received grant funding to study the possibility of a future electrical intertie to Tok. Elsewhere in the interior, 17 communities and tribes are working to promote a new "roadbelt" transmission intertie, which would connect the Tok region microgrid to Anchorage and Fairbanks, creating new opportunities to access affordable energy and renewables. AP&T will be collaborating in these initiatives, helping to provide technical information and support when possible.

AP&T's Future: Right Opportunities at the Right Time

Baltasar Gracián wrote "one must pass through the circumference of time before arriving at the center of opportunity." While AP&T reviews many opportunities, the key to success is knowing when an idea's time has come, and taking action when the balance of risk, timing and economics are ideal. AP&T has historically grown through strategic acquisitions. Opportunities for mergers and acquisitions will remain an area of interest, especially when AP&T is able to leverage its existing resources to realize synergistic benefits and efficiencies. In the telecom sector, AP&T will be considering new opportunities to build and grow scalable middle-mile backhaul facilities. AP&T is currently unable to continue to pursue new renewable energy development, until the avoided cost of diesel fuel increases significantly. However, the resources we have studied over the years remain available if economic conditions shift. Through disciplined planning, patience, and persistence, AP&T will continue to capture value for our customers and shareholders, focusing on the right opportunities at the right time. ■

Celebrating 60!

YEARS
EMPLOYEE OWNED | COMMUNITY MINDED

Celebrating 60!

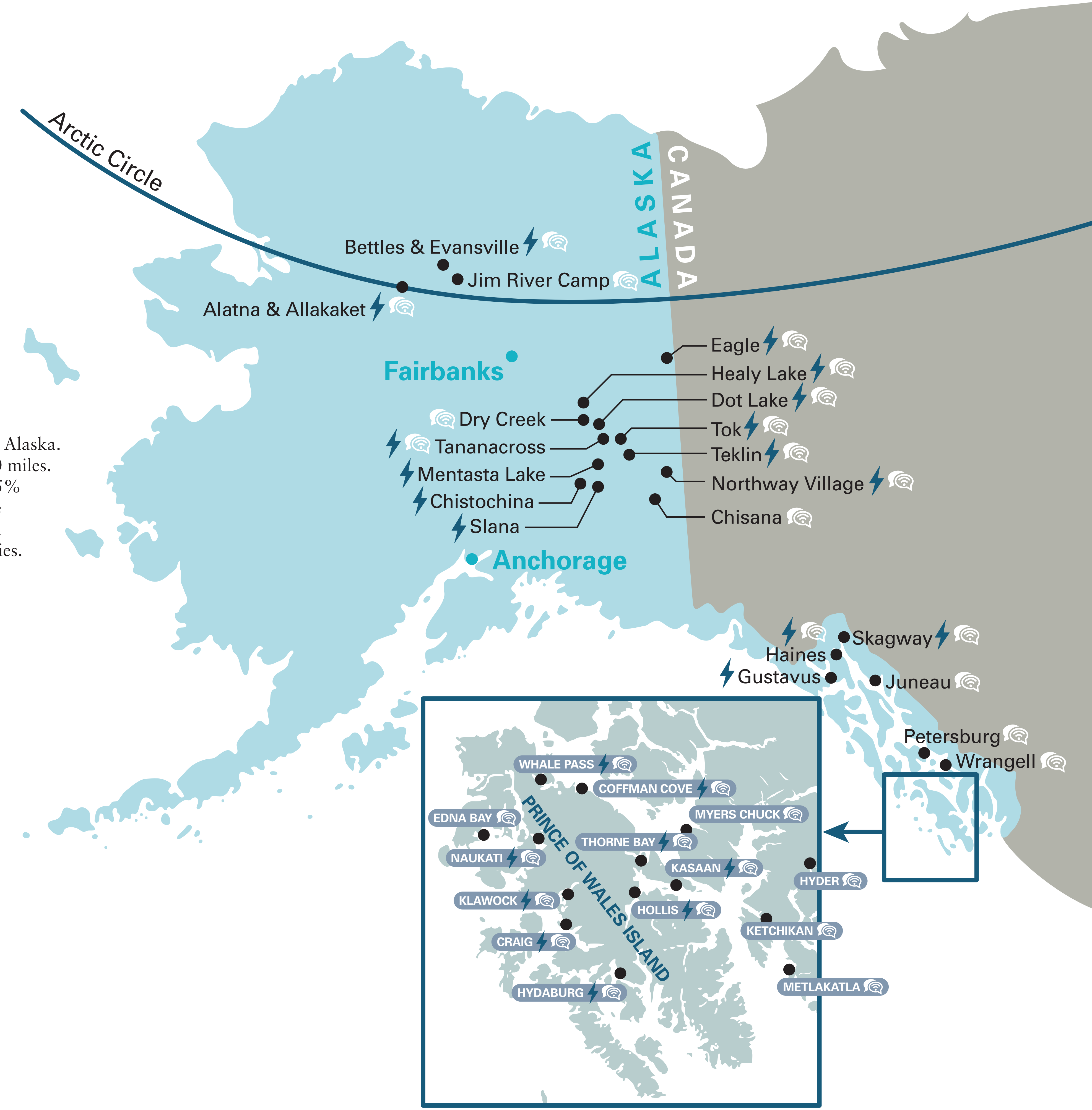
Service Area Map

ENERGY SERVICES

DATA/TELECOM SERVICES

AP&T's service area spans a distance from the Arctic Circle to the southernmost tip of Alaska. This is the equivalent of the distance between Seattle and Denver, approximately 1,100 miles. The energy generation portfolio is approximately 75% clean renewable hydro, with 25% fossil-fuel based. Both the Southeast Microwave Network (a 350 mile facility), and the 86-mile undersea Lynn Canal Fiber connecting the communities of Juneau, Haines and Skagway comprise the core infrastructure of AP&T's data/telecom outside plant facilities.

www.APTalaska.com



ALASKA POWER & TELEPHONE COMPANY

In the air, Nick Espeseth, Tony Wise and Lucas Shilts build-out AP&T's fiber optic network.

Upper Lynn Canal

Annual Financial Report

Company Overview

Founded in 1957, prior to statehood, Alaska Power & Telephone Company's 60-year history encompasses much more than the length of its existence and breadth of its service territory. It probes the depth of the pioneering spirit, as evidenced in its continuing legacy through the accomplishments of its employee-owners today.

Alaska Power & Telephone Company's 2017 was indeed an exciting year, ushering in a number of promising opportunities. Having completed its first full year of operations, the Lynn Canal Fiber Project is just beginning to show its true value. The FCC's implementation of the Alternate Connect America Module (ACAM) will provide needed funding for the Company to significantly increase its high-speed broadband presence in rural communities. Additionally, the recently-enacted Tax Cut and Jobs Act (TCJA) has reduced the Company's federal income tax rate from 34% to 21%, which will enable AP&T to deploy additional resources which benefit customers, shareholders, and the Company.

AP&T experienced revenue growth of 17.3%, during 2017, to a total of $56.3 million. Additional ACAM-related funding benefited both the regulated and non-regulated telecommunication segments. The Company generated $10.6 million of income, before tax and after adjusting the tax provision for the non-cash generating effects contained in the TCJA, ended the year with $10.2 million in net income. Based on a weighted-average of 1.29 million shares, the Company generated earnings of $7.88 per share. Total assets decreased by $800,000 to $125 million. Total long-term debt, including leases, decreased by 10.1%, or $6 million, to a total of $54.2 million. Shareholders' equity increased by 21.9%, or $8.6 million, to a total of $48 million—after distributing $1.96 million as shareholder dividends.

Operations by Segment

Electric Operations – Total 2017 sales for electric operations were 66.6 GWh, a 3.9% increase over the previous year. Hydroelectric resources provided 74.2% of all generation, a 4.8% decrease from 2016, while diesel generation increased by 20.7%. Gross revenue generated by power operations was $20 million, a 6.6% increase over 2016. In addition to an increase in electrical demand, AP&T's rate case was adjudicated in the fall of 2017, with rates becoming effective during the fourth quarter. Total operating expenses for 2017 increased by 3.5%, or $388,000, to a total of $11.4 million. Operating income for the year was $5.1 million, an increase of $737,000 or 16.8%.

Telecommunications Operations – Gross revenues for regulated telecommunications operations were $18.2 million for the year, a 17.8%, or $2.8 million, increase over 2016. Again, this is primarily the results of additional funding provided by the Company electing the ACAM model. Operating expenses for the year decreased by $652,000, or 5.8%, to a total of $10.5 million. A change in methodology for capitalizing general and administrative expense to conform to FCC rules can be credited for $300,000 of the decrease. As a result, regulated telecommunication services' operating income increased by $3.5 million, to a total of $4.9 million.

Darren Belisle
Power Operations Manager
UPPER LYNN CANAL

Tok Customer Service Team
L-R Monica Edwards, Mary Lou York, Joyce Smith & Louisa James

Jason Sanford, Mickey Henton & John Harvey gear-up for the big event in Tok.

Non-regulated Operations – Consisting of AP&T Wireless, AP&T Long Distance and engineering services, non-regulated operations generated $18.2 million of gross revenue, an increase of 31%, or $4.3 million. Revenues for AP&T Wireless increased by $2.1 million, or 21.3%, to $12.1 million, as a result of a portion of ACAM funding being used to support broadband buildout. Long Distance services contributed $205,000. Engineering and contract services related to the construction of Prince of Wales Island's Hiilangaay hydroelectric project provided revenue of $5.9 million. Combined operating expenses for the segment were $10.8 million, a $2.2 million increase—all of which was directly related to the hydro project. Net revenue related to developing the hydro project was $400,000. Combined operating income for the segment was $5.4 million, a 44.3%, or $1.7 million, increase.

Other Income and Expense

AP&T receives patronage-based dividends from CoBank, our primary lender. 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. The Company recorded patronage dividends of $547,000, for 2017, and $542,000 for 2016. In 2017, AP&T exceeded its equity obligations to CoBank, resulting in the Company receiving $410,000 in cash patronage and an additional $105,000 in equity retirement, during the spring of 2018.

Through the various acquisitions of power-related assets, 1995–1997, and telecommunications assets, in 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 2017 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 3%, or $6.3 million, to $218.1 million. Net property, plant and equipment decreased by 1.4% to a total of $91 million, during 2017, from $92.3 million the prior year. The Company's investments decreased by $2 million, as the sale of Hidroelectrica Juayua was finalized. As a result, working capital increased by 20%, to $4 million, from $3.4 million at the end of 2016. Interest-bearing liabilities, including leases at year-end 2017, were $54.2 million, a decrease of 10.1%, or $6.1 million. Common stock transactions with the Company's Employee Stock Ownership Plan led to a net decrease in both shares outstanding and additional paid-in capital totaling $324,000, or 6.2%. Retained earnings were increased by $10.2 million, as a result of income from operations, while being reduced by $1.96 million in declared shareholder dividends. The improving market value of the Company's interest rate swap resulted in a $416,000 positive adjustment to "other comprehensive loss." During 2017, total equity increased by 21.9%, or $8.6 million, compared to a decrease of 2.2% the prior year. AP&T's 2017 year-end equity, as a percentage of total capital, increased by 18.9%, to 47%, compared to 39.5% at the end of 2016.

Liquidity and Capital Resources

Operating Activities – Cash flows provided by 2017's operating activities were $17.3 million, a 37.1%, or $4.7 million, increase over the previous year. If changes in year-over-year net income are set aside, the differences are primarily due to changes in 2017 income taxes and losses on abandoned projects and asset impairments taken during the previous year.

Investing Activities – Net cash used for 2017's investing activities decreased by 56.7% to a total of $7 million; $16.1 million was used in 2016. The $2 million in cash proceeds from the sale of the Company's interest in Hidroelectrica Juayua partially offset $9.1 million in capital expenditures for the year.

Financing Activities – In 2017, the Company used $7.8 million of cash for financing activities, compared to providing $3.4 million, during the previous year. Cash used for long-term debt transactions totaled $6 million, during 2017. During 2016, the Company received $9.9 million in loan proceeds while making payments of $5.5 million on long-term debt and leases. The Company used a net of $325,000 of cash to settle stock transactions with its Employee Stock Ownership Program in 2017, having used $89,000 in 2016. Cash used for payments of dividends increased by $488,000 to $1.4 million, a 52.4% increase over 2016 dividend payments of $930,000. AP&T ended the year with $4.5 million of cash on hand, compared to $2 million at the end of 2016.

Issues, Risks and Challenges

There will always be risks and challenges facing a business. This includes the effects and uncertainties of future events, such as:

- 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 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
CEO, President

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

AP&T FIVE YEAR SUMMARY

$ Expressed in thousands except per share data

	2013	2014	2015	2016	2017
OPERATING RESULTS					
Operating Income by Segment					
Electric Services	$ 3,096	$3,830	$4,944	$4,387	$5,124
Telecommunications	$1,469	$2,071	$1,919	$1,432	$4,937
Non-Regulated Operations	$2,558	$3,590	$3,438	$3,737	$5,394
Total Operating Income	$7,123	$9,491	$10,301	$9,556	$15,455
Operating Margin	16.52%	21.54%	23.30%	19.91%	27.46%
Net Income	$1,390	$2,781	$3,295	$(354)	$10,205
EBITDA	$14,627	$17,602	$17,218	$11,667	$24,058
Cash Flow from Operations	$11,450	$10,655	$13,772	$12,629	$17,308
Earnings (loss) per Share — Basic	$1.04	$2.10	$2.53	$(0.27)	$7.88
FINANCIAL POSITION					
Total Capitalization	$95,310	$98,459	$95,943	$99,638	$102,193
Weighted-Average Shares Outstanding	$1,341,585	$1,324,625	$1,304,030	$1,299,128	$1,294,569
Book Value per Share — Basic	$26.98	$28.75	$30.98	$30.36	$37.19
Share Price per Valuation	$28.11	$29.90	$35.18	$49.30	$TBD
KEY RATIOS					
Cash From Operations/Revenue	26.6%	24.2%	31.2%	26.3%	30.7%
Debt/Capitalization	62.0%5	61.8%	58.0%	60.5%	53.0%
Equity/Capitalization	38.0%	38.2%	42.0%	39.5%	47.0%
Return on Assets	1.2%	2.2%	2.7%	-0.3%	8.2%
Return on Equity	3.8%	7.4%	8.2%	-0.9%	21.2%
Dividends per Share	$0.42	$0.43	$0.74	$0.97	$1.51

ALASKA POWER & TELEPHONE COMPANY
AND SUBSIDIARIES

MOSSADAMS

Table of Contents

MOSSADAMS

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, 2017 and 2016, 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.

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, 2017 and 2016, 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 4, 2018

ASSETS

	December 31, 2017	December 31, 2016
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$ 111,323,910	$ 108,556,177
Telecommunications	100,174,636	96,896,366
Nonutility	6,593,907	6,341,085
	218,092,453	211,793,628
Less accumulated depreciation and amortization	127,077,716	119,516,888
	91,014,737	92,276,740
Utility plant under construction	3,853,637	1,587,820
Total property, plant, and equipment	94,868,374	93,864,560
OTHER ASSETS		
Investments	5,645,078	7,619,127
Goodwill, net of amortization	2,095,726	3,888,458
Rate stabilization asset	5,006,651	4,828,720
Other assets	1,106,929	1,078,144
Total other assets	13,854,384	17,414,449
CURRENT ASSETS		
Cash and cash equivalents	4,521,614	2,029,462
Receivables, less allowance for doubtful accounts of $34,768 in 2017 and $35,103 in 2016	7,450,005	6,015,572
Securities available for sale	2,798	2,798
Inventory and other current assets	3,492,987	3,323,941
Income tax refunds receivable	803,038	3,149,595
Total current assets	16,270,442	14,521,368
Total assets	$ 124,993,200	$ 125,800,377

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2017	December 31, 2016
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,291,276 and 1,297,861 shares issued and outstanding in 2017 and 2016, respectively	$ 1,291,276	$ 1,297,861
Additional paid-in capital	3,636,503	3,954,589
Retained earnings	44,909,946	36,367,181
Accumulated other comprehensive loss	(1,813,004)	(2,229,455)
Total stockholders' equity	48,024,721	39,390,176
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	7,583,333	8,450,000
Other long-term debt	40,027,572	45,582,838
Total long-term debt	47,610,905	54,032,838
FINANCE LEASES	126,929	170,487
INTEREST RATE SWAP	2,507,959	3,691,150
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	13,888,357	16,683,532
Other deferred credits	582,728	662,449
Total other liabilities and deferred credits	14,471,085	17,345,981
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	5,821,643	5,125,105
Current portion of finance leases	40,671	243,853
Current portion of long-term debt	6,389,287	5,800,787
Total current liabilities	12,251,601	11,169,745
Total liabilities and stockholders' equity	$ 124,993,200	$ 125,800,377

See accompanying notes.

Consolidated Statements of Operations

	Years Ended December 31, 2017	Years Ended December 31, 2016
REVENUE		
Electric	$ 19,906,152	$ 18,678,273
Telecommunications	18,180,833	15,430,075
Other nonregulated	18,202,171	13,896,444
	56,289,156	48,004,792
EXPENSES		
Electric	11,440,696	11,052,473
Telecommunications	10,536,771	11,189,260
Other nonregulated	10,806,156	8,564,906
Operations and maintenance expense	32,783,623	30,806,639
Depreciation and amortization expense	8,050,572	7,642,628
	40,834,195	38,449,267
Income from operations	15,454,961	9,555,525
OTHER INCOME (EXPENSE)		
Dividend income	559,690	557,611
Amortization of goodwill	(1,792,732)	(1,792,732)
Loss on abandoned project	(14,999)	(2,683,571)
Asset impairment	-	(3,346,000)
Miscellaneous	7,397	(36,169)
Total other expense	(1,240,644)	(7,300,861)
Interest income	104,364	118,368
Interest expense	(3,688,181)	(3,482,647)
Net interest expense	(3,583,817)	(3,364,279)
Income (loss) before income taxes	10,630,500	(1,109,615)
Provision for income taxes	(425,487)	755,930
Net income (loss)	$ 10,205,013	$ (353,685)
Basic and diluted earnings (loss) per share	$ 7.88	$ (0.27)
Weighted-average basic and diluted shares outstanding	1,294,569	1,299,128

See accompanying notes.

Alaska Power & Telephone Company
Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2017	Years Ended December 31, 2016
Net income (loss)	$ 10,205,013	$ (353,685)
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	1,183,191	1,324,374
Income tax expense related to fair value adjustment to interest rate swap liability	(766,740)	(524,453)
Comprehensive income	$ 10,621,464	$ 446,236

See accompanying notes.

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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 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
Net income	-	-	10,205,013	-	10,205,013
Sale of common stock	19,052	943,148	-	-	962,200
Repurchase of common stock	(25,637)	(1,261,234)	-	-	(1,286,871)
Fair value adjustment to interest rate swap, net of tax	-	-	-	416,451	416,451
Dividends to shareholders	-	-	(1,960,443)	-	(1,960,443)
Other	-	-	298,195	-	298,195
Balance at December 31, 2017	$ 1,291,276	$ 3,636,503	$ 44,909,946	$ (1,813,004)	$ 48,024,721

See accompanying notes.

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 10,205,013	$ (353,685)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	9,934,783	9,571,840
Allowance for funds used during construction (AFUDC)	-	(308,248)
Asset impairment	-	3,346,000
Loss on abandoned project	14,999	2,683,571
Loss from disposal of assets	15,910	9,247
Noncash patronage dividends	(136,832)	(135,413)
Deferred income taxes	(3,245,500)	715,616
Accretion (erosion) of rate stabilization asset	(177,931)	276,174
Changes in assets and liabilities		
Receivables	(1,434,433)	173,046
Income taxes	2,346,557	(3,558,012)
Other assets and liabilities	(214,817)	208,466
Net cash from operating activities	17,307,749	12,628,602
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(9,103,515)	(16,220,018)
Proceeds from investment in nonaffiliate	110,881	79,593
Proceeds from sale of investment	2,000,000	-
Net cash from investing activities	(6,992,634)	(16,140,425)

See accompanying notes.

	Years Ended December 31, 2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$ -	$ 9,900,000
Payments on long-term debt	(5,833,433)	(5,090,845)
Payments on finance leases	(246,740)	(437,349)
Proceeds from sale of common stock	962,200	1,512,260
Repurchase of common stock	(1,286,871)	(1,601,418)
Dividends paid	(1,418,119)	(930,409)
Net cash from financing activities	(7,822,963)	3,352,239
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,492,152	(159,584)
CASH AND CASH EQUIVALENTS, beginning of the year	2,029,462	2,189,046
CASH AND CASH EQUIVALENTS, end of the year	$ 4,521,614	$ 2,029,462
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense, net of AFUDC	$ 3,664,710	$ 3,011,629
Income taxes	$ 1,355,000	$ 1,615,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 416,451	$ 799,921
Accrued dividends payable	$ 542,324	$ 327,710
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.

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 collectibility 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 2017 or 2016. 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 no AFUDC in 2017 and $308,248 in 2016.

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.

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

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 2017. Total amortization expense related to goodwill for the years ended December 31, 2017 and 2016, was $1,792,732.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2017 and 2016, the carrying amount of goodwill was $2,095,726 and $3,888,458, which included accumulated amortization of $7,170,677 and $5,377,945, respectively.

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.

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

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2017 and 2016, the Company had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

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 $520,503 and $533,362 at December 31, 2017 and 2016, respectively.

Revenue recognition – e**lectric** – 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, 2017 and 2016, are approximately $8.8 million and $3.3 million, respectively. The total amount billed through December 31, 2017 and 2016, are approximately $11.1 million and $3.7 million, respectively.

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

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

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).

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

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 2017 and 2016, 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, 2017 and 2016.

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, 2017 or 2016.

The Company's wireline and wireless universal service support revenue is intended to compensate the Company for the high cost of providing rural telephone service. Universal service support revenue includes funds received for Alternative Connect America model (A-CAM), high cost loop support (HCLS), interstate common line support (ICLS), Connect America Fund Intercarrier Compensation (CAF-ICC), and other miscellaneous programs. A-CAM support is based on an amount determined by the FCC, which is fixed for ten years and requires build-out obligations be met beginning in 2021. HCLS and ICLS are based on the Company's relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with switched access services and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by 5% each year in determining CAF support.

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.

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

Note 1 – Summary of Significant Accounting Policies (continued)

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 reformed the High Cost Program supporting rate-of-return carriers that was effective January 2017. The FNPRM created two paths to a Connect America Fund for rate of return carriers. The Company elected to receive support under the model based option (A-CAM). A condition of receiving A-CAM support is the Company is no longer eligible to receive HCLS or ICLS (now CAF-BLS). The FCC has also created a mechanism to ensure the $2 billion budget for Universal Service Support is not exceeded.

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 2017 or 2016. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,294,569 in 2017 and 1,299,128 in 2016.

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

Advertising costs – AP&T expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2017 and 2016, were $136,600 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2017 and 2016.

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, 2017 and 2016, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

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

The Company has evaluated subsequent events through April 4, 2018, which is the date the consolidated financial statements were available to be issued.

Reclassifications – Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. The reclassifications have no effect on net income or total equity.

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 $245,813 and $219,942 for 2017 and 2016, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2018	$ 218,419
2019	173,584
2020	141,774
2021	118,254
2022	100,583

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 $716,589 and $719,944 in the years ending 2017 and 2016, respectively.

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:

	2017
Telecommunications central office assets	$ 1,223,400
Bucket truck	224,408
Accumulated depreciation	(370,582)
	$ 1,077,226

Note 3 – Lease Agreements (continued)

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.

2018	$ 40,671
2019	40,671
2020	40,671
2021	58,438
Total minimum lease payments	180,451
Less amount representing interest	(12,851)
Present value of net minimum lease payments	$ 167,600

Note 4 – Property, Plant, and Equipment

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

	Plant Account	Accumulated Depreciation	2017 Net Balance	2016 Net Balance	Depreciation Rate
Regulated electric					
Hydroelectric	$ 28,803,471	$ 11,086,301	$ 17,717,170	$ 18,218,887	2%
Other generation	23,359,496	12,773,961	10,585,535	9,921,885	4% to 8%
Transmission and distribution	43,664,544	27,745,752	15,918,792	16,622,147	2.5% to 4%
Other	14,257,204	9,660,507	4,596,697	4,508,205	2.5% to 20%
Land	807,040	-	807,040	807,040	---
Utility plant acquisition adjustment	429,317	401,600	27,717	44,345	6%
	111,321,072	61,668,121	49,652,951	50,122,509	
Regulated telecommunications					
General support assets	9,214,321	6,547,276	2,667,045	2,380,685	2.5% to 20%
Central office assets	31,634,693	25,012,368	6,622,325	7,065,725	8% to 14%
Cable and wire facilities	24,521,401	19,546,018	4,975,383	4,664,362	3% to 6%
Land	308,156	-	308,156	308,156	---
	65,678,571	51,105,662	14,572,909	14,418,928	
Other nonregulated					
Buildings	6,367,143	3,521,729	2,845,414	2,667,003	4%
Nonregulated telecommunications	34,496,066	10,782,204	23,713,862	24,838,699	4% to 20%
Plant held for future use	2,838	-	2,838	2,838	---
Land	226,763	-	226,763	226,763	---
	41,092,810	14,303,933	26,788,877	27,735,303	
Total property, plant, equipment	$ 218,092,453	$ 127,077,716	$ 91,014,737	$ 92,276,740	

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 consolidated balance sheet date. In 2016, the Company determined that the Soule River Hydro, LLC 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 consolidated statement of operations.

Alaska Power & Telephone Company
Notes to Consolidated Financial Statements

Note 5 – Investments

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

	2017	2016
Investment in National Bank of Cooperatives (CoBank)	$ 4,351,125	$ 4,332,910
Investment in Ketchikan Electric Company, LLC (KEC)	600,000	600,000
Investment in Hydro West Holdings, Inc. (Holdings)/ Hidroelectrica Juayua, S.A. (HJ)	-	2,000,000
Investment in Haida Energy, Inc.	609,836	609,836
Other	84,117	76,381
	$ 5,645,078	$ 7,619,127

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 $547,330 and $542,376 for 2017 and 2016, 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 2017 or 2016.

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.

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, 2017, 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:

	2017	2016
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%.	$ 9,454,500	$ 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%.	8,450,000	9,316,667
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 4.07% at December 31, 2017. Interest rate swap agreement below reduces exposure to interest rate fluctuations.	29,845,828	33,879,316
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%.	3,916,667	4,250,000
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.	2,329,544	2,483,989
Other term debt	3,653	3,653
	54,000,192	59,833,625
Less current portion	(6,389,287)	(5,800,787)
	$ 47,610,905	$ 54,032,838

Annual maturities for the five years beginning January 1, 2018, are $6,389,287, $5,781,812, $6,109,198, $6,499,510, and $13,417,846, respectively, and $15,802,539 thereafter.

Alaska Power & Telephone Company
Notes to Consolidated Financial Statements

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 $2,507,959 and $3,691,150 at December 31, 2017 and 2016, 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, 2017 or 2016.

Note 7 – Income Taxes

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

	2017	2016
Current	$ 3,670,987	$ (1,472,795)
Deferred	2,735,062	716,865
Deferred - Change in federal rate	(5,980,562)	-
	$ 425,487	$ (755,930)

Note 7 – Income Taxes (continued)

The “Tax Reform Act” was enacted December 22, 2017. The law includes significant changes to the U.S. corporate system, including a Federal corporate rate reduction from 35% to 21%. As a result of when the Act was signed into law, the Company’s deferred tax assets and liabilities were required to be remeasured using the lower 21% federal rate as of December 31, 2017. This resulted in a one-time favorable charge to tax expense of approximately $6 million.

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

	2017	2016
Income tax provision at federal rate of 34%	$ 3,469,704	$ (120,253)
State income taxes, net of federal benefit	555,785	(13,072)
Permanent items	(356,247)	(177,738)
Other	77,799	(444,867)
Change in valuation allowance before change in federal rate	2,659,008	-
Change in federal rate	(5,980,562)	-
Provision for income taxes	$ 425,487	$ (755,930)

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

	2017	2016
Deferred tax (asset)		
Allowance for bad debt	$ (9,634)	$ (13,901)
Accrued employee benefits	(139,522)	(214,359)
Capital loss carryover	(1,860,634)	(990,000)
Book vs. tax basis of investments	(296,613)	(2,092,894)
Fair value adjustment of interest rate swap liability	(694,955)	(1,461,696)
Other	(5,930)	-
	(3,007,288)	(4,772,850)
Less valuation allowance	1,860,634	-
Total deferred tax assets	(1,146,654)	(4,772,850)
Deferred tax liability		
Prepaid expenses	339,799	474,879
Tax amortization and depreciation greater than book	13,314,625	19,215,102
Deferred revenues and expenses	1,380,587	1,766,401
Total deferred tax liabilities	15,035,011	21,456,382
Net deferred tax liability	$ 13,888,357	$ 16,683,532

Note 7 – Income Taxes (continued)

The consolidated balance sheet includes an income taxes receivable amount of $803,038. This consists of a federal and state payable associated with 2017 tax year of $751,778 as well as an income tax receivable of $1,554,816 associated with 2016 net operating losses being carried back to tax years 2014 and 2015.

The change in the valuation allowance was an increase of $1,860,634 in 2017.

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 2017, employer matching contributions and profit sharing contributions were $485,244 and $268,984, respectively. In 2016, employer matching contributions and profit sharing contributions were $478,263 and $261,722, respectively.

Note 9 – Business Segment Information

AP&T's electric segment provides retail and wholesale electric service including both hydroelectric 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.

2017 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 19,906	$ 18,181	$ 18,202	$ 56,289
Depreciation and amortization	3,341	2,708	2,002	8,051
Operating income	5,124	4,937	5,394	15,455
Interest expense	634	-	3,054	3,688
Interest income	-	-	104	104
Total fixed assets	111,321	65,679	41,093	218,093
Total accumulated depreciation	(61,668)	(51,106)	(14,304)	(127,078)
Total fixed assets, net	49,653	14,573	26,789	91,015
Capital expenditure	2,912	2,929	3,263	9,104

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	2,796	3,483
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 10 – Other Assets

Other assets consist of the following at December 31:

	2017	2016
Deferred loan origination fees	$ 598,414	$ 689,893
Miscellaneous regulatory assets - power	264,242	191,850
Other	244,273	196,401
	$ 1,106,929	$ 1,078,144

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.

Epilogue


1


2


3


4


5


6


7


8


9


10

During 2017 I enjoyed the extreme privilege of attending several of AP&T's 60 Year community celebrations. I am most grateful for the opportunity to have captured some very special moments as our crews entertained their respective friends and neighbors at these events. Well done team!

As our celebratory year came to its finale, so did the working careers of a number of our long-tenured fellow employee-owners. Twenty-Seventeen, (and early 2018), marked the timeline in which ten of our colleagues' retired to enjoy the fruits of their labors—kill their alarm clocks and settle into the "new" routines of their choosing.

We celebrated them for the talent, contribution and "flavor" each added to our success over the combined **231 YEARS OF SERVICE** they engendered.

We wish them ALL the best!

1 Don Phillips
2 Dawn Suzuki
3 Joe Vanderzanden
4 Doug Bennett
5 Jim Schnabel
6 Mark Maggi
7 Vern Neitzer
8 Ken Nalan
9 Terry Schmitt
10 Bob Berreth

Mark S. McCready

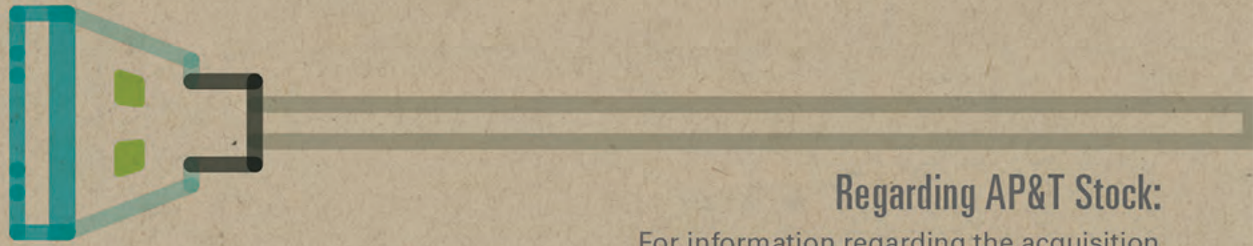
Director of Marketing
Alaska Power & Telephone Co.

NOTICE TO STOCKHOLDERS

Notice to Stockholders:
The annual meeting will be held on Wednesday, May 23, 2018 at Fort Worden Commons, 200 Battery Way, Port Townsend, Washington at 10:00am; with the Board of Directors Meeting following.

Annual Report Production:
Mark McCready, Jason Custer, Sandy Hershelman, Polly Macomber & Printery Communications of Port Townsend, Washington. (www.printery.com)

Photo Credits:
Rick Dahms, Mark McCready, Tracy Moore, Christina Becwar, Mandy Kivisto, Nick Espeseth & Kasey Smith

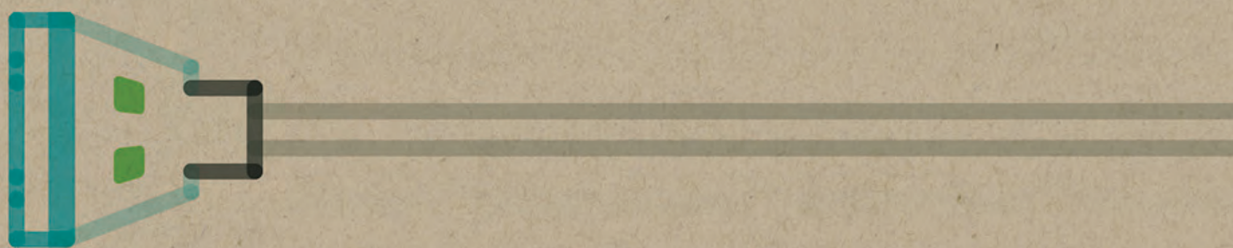


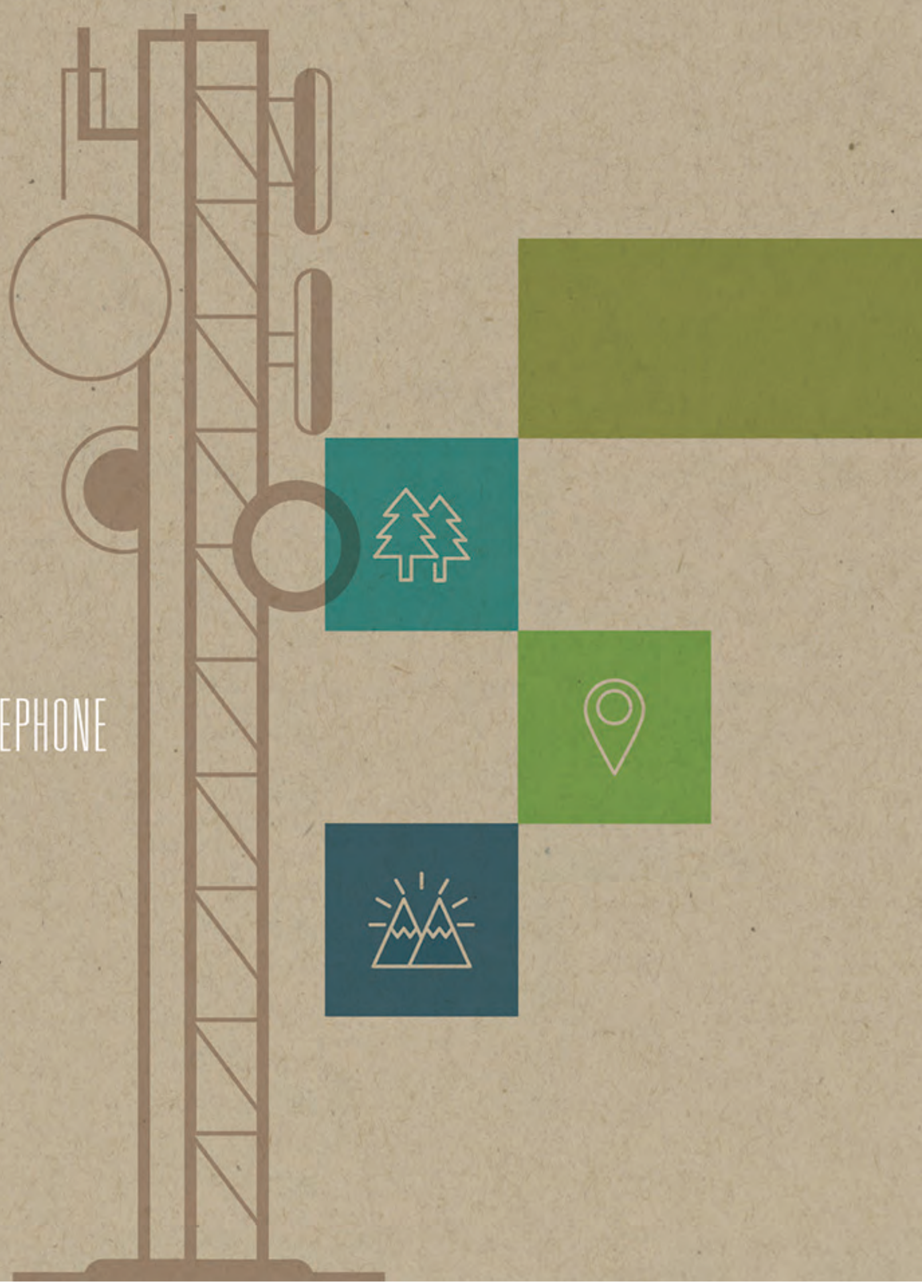
Regarding AP&T Stock:

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

Darrell A. Patrick
SJ Wolfe Investments
Broker Dealer
Cutter & Company
6450 Poe Ave. Suite 510
Dayton, OH 45414

1-937-890-5093
Toll Free 888-586-9288
dpatrick@cutterco.com
www.cutter-co.com
Member SIPC





ALASKA POWER & TELEPHONE

P.O. Box 3222
193 Otto Street
Port Townsend, WA
98368-0922

1.800.982.0136
www.APTAlaska.com