ALASKA POWER & TELEPHONE

AP&T

2018

ANNUAL REPORT

OUR MISSION

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

CONTENTS

CHAIRMAN'S MESSAGE

"Difficulties and Opportunities"

In the words of Winston Churchill, "a pessimist sees the difficulties in every opportunity; an optimist sees the opportunity in every difficulty." Last year we increased the number of directors on our board from five to seven. The demise of Bill Squires, an important leader on our board, was not an insignificant difficulty. Bob Engel replaced Bill and has brought valuable insight and experience to us. Last year we added to the board Randy Johnson, a successful businessman with operations in our service areas, along with our retired CEO Bob Grimm.

We have had difficulties historically, and we will have difficulties in the future. Our employee-owned culture has proven effective in confronting those difficulties. For some time, we have faced the difficulty of a lack of population or organic load growth in our market area. This has shown some signs of abating recently. We are well-positioned to support growth in the communities we serve. Tourism continues to grow in Southeast Alaska.

Our pivot some years ago to the transport of bandwidth in our region provided a wonderful opportunity to grow earnings without leaving our core. I believe that we will struggle to duplicate that growth in transport. There may be other opportunities in transport but not to the extent to provide the growth in earnings we have previously enjoyed.

Another area where we have realized growth is in our ability to provide broadband service to our customers. We should all take pride in the fact that AP&T delivers broadband to its customers at speeds which are the envy of most rural Alaskans. Our efforts here have served our customers well and positioned us and our customers to enjoy the benefits of the Alternative Connect America Model (ACAM) program. While AP&T will continue to roll out increased broadband offerings to our customers, the greatest impact on our earnings has already occurred and further revenue growth from this segment will moderate.

AP&T's history of overcoming difficulties has held us in good stead all of the time I have known of our company.
A current difficulty is how can we deploy the capital our business is creating and maintain growth in our share value. We have a capable management team that will target opportunities going forward. In my experience, it is much better to have capital in hand and the financial ability to take advantage of discovered opportunities than to be constrained by a lack of capital. We have a capable board in place to vet new opportunities for the benefit of our shareholders, employees, and customers. We have an employee culture that has demonstrated the ability to follow-through and execute for success in the field.

I believe that the company's employee-owner culture, proven effectiveness of its management team, and the recently acquired expertise on our board position us very well to embrace the future with optimism.

Mike Barry
Chairman, Alaska Power & Telephone

JOIN AP&T IN REMEMBERING FORMER CHAIRMAN BILL SQUIRES
at this year's Bill Squires Memorial Golf Tournament.
See page 52 for details.

CORY NELSON is one of three apprentice linemen that finished their apprenticeship in 2018 under the sponsorship of AP&T and are now journeymen linemen. The others were Dean Kerr from POW, and Devin Warren from Tok, just after the first of the year (1/18/2019).

WE ARE THE RESULT OF OUR HARD WORK.

PRESIDENT & CEO'S MESSAGE TO OUR SHAREHOLDERS

"Employee-Owned, Community Minded"

For years, AP&T's motto has been "Employee Owned, Community Minded" – a mindset that has never been more relevant than at present. Our goal for this year's report is to showcase the great folks that enable AP&T to provide high quality services to the customers we serve, and help keep us on a path of future growth and success.

One of our greatest challenges in coming years will be succession planning and transitions as members of our workforce reach retirement. Like most companies we have a tenured staff that are expert in their fields and have amassed a great amount of institutional knowledge and memory. (See page 52 for a celebration of employees who retired during 2018.) Transition requires building tomorrow's leadership today, and creating paths for development of our talented personnel.

In October of 2018 we promoted the following employees to leadership roles as officers of the company.

Ben Beste - Vice President – Power / Special Projects
Jason Custer - Vice President – Business Development
Zach Layman - Vice President – Telecom Engineering
Mary Jo Quandt - Vice President – Chief Customer Officer
Jeff Rice - Vice President – Power Engineering

In addition, Tom Ervin was promoted to Executive Vice President – Chief Operating Officer. Additional officers of AP&T are Ashley Nelson – Corporate Secretary, Greg Mickelson – Vice President / GM of Power Operations, and Chad Haggar – Chief Financial Officer.

In the pages which follow, each of these fine leaders will discuss the team they lead, key accomplishments in 2018, and future opportunities.

Tax Cut and Jobs Act

2018 brought a change to the tax system through the Tax Cut and Job Act (TCJA). The TCJA, which was made into law in December 2017, is intended to spur economic growth with tax savings.   To that end, I pledged to utilize AP&T's tax savings from the TCJA to increase the benefits and support we are able to offer to our customers and employees, while ensuring a sustainable, growing dividend for our shareholders. A description of these new benefits is provided on page 50.

AP&T's Vision

AP&T's vision statement is "To be a Strong, Growing, and Innovative Leader in the Energy and Communications Industries." This statement has remained relatively consistent through the years, and remains our guide for focusing our efforts to create shareholder value now and in the future.

How we define ourselves:

Strong – financially sound and dominant.
Growing – expanding our presence; offering new and better services; increasing shareholder value.
Innovative – adapting and shaping markets; adopting technological changes responsibly; identifying new opportunities.

As you read the various sections of this report you will see how all our employees embrace our vision statement and what they are doing to grow, innovate and lead. In 2018 we pursued various new opportunities discussed in the Business Development Report. We continue to vet opportunities to develop terrestrial and submarine fiber routes in Alaska, review potential merger and acquisition deals, and analyze investments that are in line with our vision statement. Additionally, AP&T is developing a new and reinvigorated investment policy to provide a clear path to success through growth.

Our core operations are the lifeblood of AP&T; without them we would not have the means to pursue new opportunities. In 2018 our teams worked hard to improve our energy service quality, reduce outages, and upgrade outside plant to meet the stringent performance requirements of regulators. This hard work is noticed and appreciated both by the communities we serve, and regulators. We continue to do our upmost to build and maintain excellent relationships everywhere we do business.

Construction of the 5MW Hiilangaay hydropower project was a key focus in 2018. AP&T is constructing the project for Haida Energy, a 50/50 joint venture between AP&T and Haida Corporation, under an engineering, procurement and construction contract with a guaranteed maximum price. In early 2019, it became clear that AP&T would reach the point of total assumption of costs in mid-2019, and that construction activities will not be a source of profit, as initially contemplated. The good news is that the project is on track for completion by the end of 2019, and that most major procurements are complete. I have confidence our skilled personnel managing construction activities will minimize AP&T's out-of-pocket expenses in completing the project.

While financial results are not the only measure of organizational success, no one can deny their importance. We use key performance indicators in measuring financial success and goals for the future, as well as verifying we meet the requirements of our lenders. Please refer to the management discussion and analysis section for our discussion of company performance.

Thanks to all the women and men who make up the heart and soul of AP&T.

Michael Garrett
President & CEO

High Mountain communications tower near Ketchikan – a critical component of the SAMN network. In 2018, Ketchikan's Jason Spear led a team which developed an armored on-ground transmission cable connecting the High Mountain site to the Ketchikan grid system. The project reduces the need for helicopter refueling trips, and allows the site to run off of clean, locally-produced hydropower.

TELECOM OPERATIONS

2018 was yet another busy year, especially with capital build-out projects in the Upper Lynn Canal area involving Passive Optical Networks to customer premises. These projects are primarily to meet ACAM goals put forth by the FCC for minimum bandwidth capabilities. Although these requirements can be met with existing copper facilities, fiber becomes a permanent solution to technical hurdles in supplying broadband to the home or business.

AP&T spent $1.93 million on four PON/fiber-specific capital projects in Haines, $479,000 on two fiber-related projects in Skagway, and an additional $303,000 on fiber design and related projects in the Craig, Petersburg, Wrangell, Tok and Metlakatla exchanges. It is anticipated that the Haines build-out will be complete in 2020, and Skagway will be complete in 2021. Virtually all of this work was completed with in-house crews from other locations, and was augmented with contract labor focused on cutover of the customer premises to the new facilities.

With the advent of "ACAM-II" in late 2018, AP&T will place a renewed focus on building-out fiber in the Petersburg and Wrangell exchanges. Relatively high population density in these communities will make the new ACAM-II goals easier to achieve. ACAM reporting requirements are based on census data associated with the communities we serve. We are required to identify these locations via HUBB reporting. This has driven the need for a GIS-based database system that integrates with AP&T's NISC software. AP&T has created a new full-time mapping and facilities database department based in Juneau to help meet these requirements, while also improving facility management for power and telecom operations. This has been an operational need for many years and involves the accumulation of a huge amount of customer location data and facility inventory. Although this will be a heavy lift for the next few years, it will result in more efficient operations and engineering activity.

AP&T employees from various locations collaborated to complete an armored on-ground transmission cable on High Mountain near Ketchikan. Sam Nelson and Cory Nelson from Skagway (not related!), plus Tyler Bosdell.

In 2018 the SAMN network performed extremely well despite challenges at some sites, including sustained 130mph winds during a two-week period in December. This is a testament to the work performed over several years to harden these facilities. We invested approximately $600K in link upgrades to improve total system bandwidth capacity. In addition, we invested in a ground-laid 7.2KV power cable that connects the High Mountain communications site to the Ketchikan power grid. This has resulted in significant annual fuel cost savings, as well as savings on generator maintenance.

AP&T is well-prepared to face the challenges the future holds. Moving forwards, our team will continue to explore new opportunities to invest in new telecom projects that help improve the value we are able to our customers and shareholders.

Tom Ervin
Executive Vice President, Chief Operating Officer

THE SKAGWAY SWITCHGEAR REPLACEMENT PROJECT was one of AP&T's largest technical challenges in 2018. Sam Nelson and Jordan Frost stand between the new (left) and old (right) switchgear.

POWER OPERATIONS

Hydropower operations were severely impacted in 2018 due to low snowpack throughout Southeast Alaska and low rainfall throughout the year. Our generation from hydro resources was down 5.3% compared to 2017. As a result we had a corresponding 13.6% increase in diesel generation support for our power operations. Black Bear Lake did not fill for the first time in history since it went online in September of 1995. Long range forecasts are for increased precipitation this winter and spring in 2019.

The Upper Lynn Canal saw the completion of new plant switchgear in Skagway. This was a $1 million project that was started in 2017 and completed in the spring of 2018. We also completed $250k worth of upgrades to the Goat Lake Hydro PLC and intake. The main project for Haines in 2018 was the highway relocation effort, which required us to move existing utilities in coordination with the contractors for the State of Alaska at a cost of $230k. The National Park Service (NPS) received a federal appropriation for the construction of an electrical intertie between Gustavus and their facilities 8 miles out of town. We continue to work with the NPS and community of Gustavus to schedule and complete this work.

The Tok region was very busy in catching up on generation maintenance in 2018. Staff completed the overhaul of unit number 5 and also a top end overhaul on unit number 3. A new PLX metering system was installed in Tok that will allow remote connection and disconnection of customer meters. This should reduce our labor and vehicle expense greatly in the future. The power plant in Eagle was expanded in 2018 to allow for further upgrades to switchgear and generation in 2019/2020. We installed cameras and further automation in our power plants in Bettles and Allakaket. These upgrades were necessary due to the retirement of our only employee in Bettles, Alan Manns, and the decreased flight services into these remote communities.

THE EV VS. 30 MPG GASOLINE VEHICLE

7,202 Miles Logged on the EV

2,085 Kilowatt Hours of Energy

240 Equivalent of 240 Gallons of Gasoline

$521.25 Spent on Electric "Fuel"

$948.26 Equivalent Gasoline Cost (at $3.95 / gallon)

The Prince of Wales region completed several system upgrades in 2018 with the help of our engineers. These new improvements have reduced our outage times and also improved overall operations. The new power rates that were filed previously had a positive effect on demand in Whale Pass. The addition of this community to the Prince of Wales grid rate resulted in our sales in Whale Pass increasing 11.6% in 2018.

AP&T also deployed Prince of Wales Island's first all-electric vehicle in February of 2018. One year after it was received it has logged 7,202 miles, and consumed 2,085 kWhs of energy valued at $521.25. A car with an efficiency of 30 mpg would have used 240 gallons which, at a recent cost of $3.95 per gallon would equal $948.26, plus the cost of at least 2 oil changes. Based on these excellent cost-savings and performance, AP&T anticipates adding additional EVs to its fleet in the near-term.

"EV" AP&T's first electric vehicle, named "EeVee" ("EV") has been a great success. Look for more EVs in our future!

Greg Mickelson
Vice President, GM of Power Operations

CUSTOMER SERVICE

Dedicated to Care

The Customer Service Representative ("CSR") presents a competent first point of contact in the front line of the company, providing quality customer service and efficient operations of the commercial office. We are as multi-faceted as the company we represent.

PRINCE OF WALES CUSTOMER SERVICE REPRESENTATIVES
Rachel Morris, Karen Hobart-Simpson, and Nora Kampnich.

We are the face of Alaska Power & Telephone.

We are the smile our customers see when they walk in the door.

We are the ears that listen to their needs, problems and concerns.

We are the eyes that look for solutions.

We are the voice that consoles and offers direction to our customers.

We will make every customer feel that they are the most important customer of our day.

We work with and support our team members in the local office, our billing and corporate offices, and other properties.

We are Alaska Power & Telephone Company.

Service is not what you do, but who you are. I am constantly amazed at the caring spirit our CSRs show to their customers. They truly have the welfare of their customers at heart even when dealing with challenging situations.

One of the highlights this past year was our annual NISC training in St Louis. Five of our CSRs, the Billing Manager, and I attended this training. Valuable knowledge was gained on this trip with the added bonus of connecting with co-workers to exchange ideas and problem solve.

In 2018 we said goodbye to a couple of our customer service representatives and the Billing Manager. These employees had close to or more than 20 years of employment with AP&T. We appreciate their many years of service and wish them well in the future. These shoes are hard to fill, and I am very proud of the employees that have stepped up to brave this challenge.

KAREN HOBART-SIMPSON receives her 5-year service award from Greg Mickelson.

AP&T'S TOK TEAM – a friendly group!
Amanda Omta, Louisa James, Mary Lou York, Joyce Smith, and Dolly Henton.

AP&T'S METLAKATLA TEAM decorated the office – and themselves – in pink for breast cancer awareness month. Thanks, Kathy Brendible, Bryan Hayward, and Joni Faulkner!

JONI FAULKNER received her 15 year service award from Brent Akers.

People will forget what you said. They will forget what you did. But they will never forget how you made them feel. Thank you to all of our CSRs that are in their offices daily, doing their best to make their customers feel they are important to us and we are here to serve them. You are the "face" of AP&T.

Mary Jo Quandt
Vice President - Chief Customer Officer

TELECOM ENGINEERING

BRYAN HAYWARD
an AP&T Metlakatla employee, completes fiber optic training.

2018 was another successful year for AP&T Telecom Engineering. While there are simply too many projects to mention, here are few highlights.

Transport Network Upgrades – As our broadband products develop, the demand on the transport network continues to grow. In order to meet this demand, we continue exploring ways to expand the microwave network south of Juneau. In 2018 we took a two-pronged approach to satisfying the immediate demand and building for the future.

Microwave Upgrades - RF engineering was able to find additional frequencies between Ketchikan and Juneau, so we decided to invest in upgrading our equipment to utilize them. The equipment changes at each site were significant challenges, especially considering that most sites are at the tops of mountains and only reachable via helicopter. Our engineers and technicians worked hard to come up with a plan that would allow us to add the equipment for this additional channel with the least amount of service interruption. Their design worked extremely well and the actual upgrade went great with very limited downtime.

Direct Internet Access Bandwidth in Ketchikan – In 2018, we were able to purchase additional capacity out of Ketchikan at an affordable price. This will allow us to utilize our microwave transport network more effectively. This was a complex challenge, but our talented staff was able to skillfully balance connectivity to the internet between multiple providers and two locations.

The result of all this work is that more bandwidth is available in our transport network to support future growth.

Systems Engineering – AP&T Engineering/Development continues to work toward better integration between the various telecom software systems we have. In 2018, we made significant progress in two primary areas.

Trouble Tickets - We completely revamped how we address Internet Trouble tickets. Now instead of a system for the 3rd party off-hours technical support company, and one for AP&T employees, we all use the same system. This provides better trouble routing and visibility of the issue for Technical Support, Customer Service, Technicians, and Engineering.

Customer Management & Billing – Software development and modifications in staff procedures have enhanced both public- and private-facing customer management. An automated process of verifying a customer's provisioned

Solar energy and diesel-based generation work together to keep the Eagle microgrid running. David Helmer delivers fuel before the Taylor Highway is shut down for the winter.

service and their charges will increase the accuracy of billing and enable us to better serve our valued customers. These types of projects are not often widely visible, but they are valuable for two reasons. First, we want to provide the best service possible to our customers, and make sure trouble tickets are resolved quickly and billing is accurate is vital. Second, we want AP&T employees spending less time doing paperwork and more time building the network and services that our customers will need moving forward.

New Craig Central Office – After careful analysis, AP&T decided to replace the Central Office in Craig. The engineering design and site prep work were both completed in 2018. The building itself is nearly complete and should arrive in Craig soon. This Central Office will be the first building that we plan to use for fiber deployments only. The cutover is expected to take several years as we migrate customers to fiber.

AP&T is already moving ahead with many new projects in 2019.

Zachary Layman
Vice President - Telecom Engineering

MICKEY HENTON & GLENN STEFAN
work to mix and pour concrete for new Tok PLX metering system equipment.

POWER ENGINEERING & SPECIAL PROJECTS

This year began with a focus on Skagway's diesel powerhouse, installing new switching equipment, and inspecting and upgrading many of the plant's systems. Some parts of the power generation system were automated and many control systems from past days of Skagway's history were replaced. In addition, two of the four engines in the plant received extensive overhaul work to prepare them for peaking operations for the Upper Lynn Canal region in years to come.

AP&T began working towards upgrading Whale Pass diesel plant generation facilities from a small containerized plant to a larger permanent powerplant facility. This is our last 'diesel only' service area on Prince of Wales Island. The new facility will increase our generation capacity for the community's growing load and improve automation and operational efficiency. Design is complete and the plant will break ground in Spring of 2019.

Goat Lake Hydro's electronics received some attention. This plant has been faithfully operating since 1997 and after 21 years it was time to change out a large part of the computer and other control equipment both in the powerplant and at the lake site. Both replacements went smoothly, and brought additional capabilities and visibility to the operations, especially at the lake site. With upcoming sensor upgrades at the lake dovetailing with the upgrades, operations should better be able to anticipate problems with the various systems onsite, as well as weather conditions and lake level.

At the Eagle powerplant further improvements were made during 2018, including enlarging the powerhouse and upgrading systems for improved performance.

Construction activities continued on the Hiilangaay project through 2018. The powerhouse was erected, turbine generator equipment delivered and installed, access roads and bridges built, and penstock right of way established. The balance of powerhouse

SAM NELSON & JORDAN FROST

at work building a riser in Skagway.

Right Top: Hiilangaay powerhouse equipment is installed within the powerhouse. The unique turquoise color was selected by AP&T's business partners Haida Corporation based on a naturally-occurring mineral found on Haida Gwaii.

Right Bottom: Subcontractor SE Roadbuilders perform drilling and blasting for the Hiilangaay hydropower project.

equipment will be installed during the first and second quarters of 2019. Delivery and installation of the 3,500 ft penstock, and construction of the intake and spillway are scheduled for the second and third quarters of 2019. The project will be completed and commissioned during the fourth quarter. Demobilization will occur in early 2020. This 5MW hydroelectric project will be completed by the end of the year and will provide another reliable renewable source of power for the island.

Ben Beste
Vice President – Power / Special Projects

Jeff Rice
Vice President – Power Engineering

HIILANGAAY POWERHOUSE

constructed by local subcontractor B3 Construction.

BYPASS AREA

at the Hiilangaay hydropower project.

OLSON MARINE LOADS THE STATOR

for the Hiilangaay hydropower project into the powerhouse. Olson is 100% Haida Corporation shareholder-owned, and is one of the key subcontractors helping to make the project a success.

BUSINESS DEVELOPMENT

AP&T's concept of "business development" is grounded in strategic patience - finding the best opportunities at the best time. Additionally, it emphasizes hands-on risk management, and maximizing the value of existing commitments. Construction of the 5MW Hiilangaay Hydropower Project – a 50/50 joint venture between AP&T and Haida Corporation – was a core focus for AP&T in 2018. After demobilization occurs in early 2020, AP&T will have a significant surplus of renewable energy to available support future economic growth. In 2019, AP&T will be debuting a new EV incentive program to help empower our customers and employee-owners who wish to substitute fossil fuels with locally-produced renewable energy.

In 2018, Congress provided funding required to construct the Gustavus Intertie project; AP&T is now working with the National Park Service to finalize arrangements for construction in 2019 or 2020. The project will incorporate Glacier Bay National Park facilities onto the Gustavus grid system, allowing for sale of otherwise unutilized energy from the Falls Creek hydropower project, and resulting in a meaningful rate reduction for the growing community of Gustavus. In 2018, President Trump signed the America's Water Infrastructure Act (AWIA) into law. AWIA provides AP&T and its partners Cape Fox Corporation and the City of Saxman with 10 additional years on the existing license for the yet-to-be developed 9.6MW Mahoney Lake hydroelectric Project so that the project can be constructed for the nearby Ketchikan region when timing and demand are ideal.

During the heights of trade tensions between the US and Canada, the Government of Yukon declined the opportunity to partner with AP&T to build a redundant fiber optic route to interconnect with AP&T's Lynn Canal Fiber (LCF) Project, and instead, chose to build new fiber north to Inuvik, keeping the project 100% within Canada at a significantly higher cost. AP&T is exploring alternative options for increased utilization of the LCF project, and eventual interconnection with Yukon Territory.

AP&T is awaiting the results of its proposal to acquire the electrical transmission and distribution facilities at the US Army Garrison - Hawaii through a 50-year privatization contract. In 2018, the Government declined a similar AP&T proposal to acquire facilities at Joint-Base Lewis McChord, and instead selected a bidder offering lower pricing. AP&T will only commit to opportunities of this type if pricing adequately covers costs and provides a reasonable, risk-appropriate margin.

AP&T is retuning its investment and business development strategies based on 2018 developments so that it is poised to capture the future's best opportunities. M&A opportunities and development of middle-mile communications transport facilities are current areas of focus and exploration. AP&T wishes to capture the best opportunities at the best time, while staying true to the principals summarized in its vision statement, and minimizing adverse impacts upon existing operations and commitments.

AP&T continues to investigate alternatives to diesel-based generation in our interior service areas. In 2018, our team explored the possibility to eventually interconnect the Tok grid system with the Anchorage/Fairbanks "railbelt" grid system. We continue to analyze alternative generation options, such as solar energy, but can only invest in new generation resources when benefits outweigh costs and risks.

Resource development prospects are brightening near AP&T's service areas. Sundance Mining's Dawson Mine is in commercial operation, and interconnected with the Prince of Wales grid as an AP&T customer. Sundance's energy needs are anticipated to increase in 2019 as they add new equipment. The USFS is working to develop an alternative to the Roadless Rule, which has significantly constrained economic opportunity in southeast Alaska over the last two decades. Recent State/Federal land exchanges have provided increased timber supply certainty for our forest products manufacturing customers, some of which have diversified into new products. Advanced precious metals exploration activities continue near Haines (Constantine's Palmer Project) and Tok (Royal Gold's Tetlin Project), providing significant short-term local expenditures and economic benefits. If these projects realize commercial development as they hope to do in several years, they will eventually result in significant new community and job growth. Progress has been made on the Ambler Mining Road project, which would improve sustainability of the communities of Bettles and Allakaket. Meanwhile, economists forecast tourism to grow significantly in southeast Alaska over the next five years. Yet at the same time, there is a significant degree of uncertainty regarding the impact that potential State budget cuts may have upon the economies of the rural communities we serve.

Overall, we believe AP&T's future is bright, holding many upcoming opportunities to leverage our core competencies and diverse service territories, and to return increased value to customers and shareholders alike. With equal measures of creativity and discipline, we will focus on capturing the best opportunities at the best time.

Jason Custer
Vice President - Business Development

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 this 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.

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ALASKA
CANADA
Bettles & Evansville
Jim River Camp
Alatna & Allakaket
Fairbanks
Eagle
Healy Lake
Dot Lake
Dry Creek
Tok
Tanacross
Tetlin
Mentasta Lake
Northway Village
Chistochina
Slana
Chisana
Anchorage
Skagway
Haines
Gustavus
Juneau
Petersburg
Wrangell
WHALE PASS
COFFMAN COVE
EDNA BAY
MYERS CHUCK
THORNE BAY
NAUKATI
KASAAN
HYDER
KLAWOCK
HOLLIS
KETCHIKAN
CRAIG
HYDABURG
METLAKATLA
PRINCE OF WALES ISLAND

ANNUAL FINANCIAL REPORT

Company Overview

Alaska Power & Telephone Company provides energy and telecommunication services to 40 rural and remote areas within Alaska. AP&T's service area spans an estimated 1,100 miles, approximately the distance between Seattle and Denver. Many of these locations require air and sea transportation as few are on the road system. AP&T's long history and success in the communities it serves is driven by its greatest assets, its employee-owners and their accomplishments.

During 2018 total revenue from all operations decreased by $376,000 to a total of $55.9 million. Net income for the year was $6.5 million down from the prior year of $10.2 million. The primary difference between years related to the enactment of the Tax Cut and Jobs Act in 2017. In 2017, net income was influenced positively due to a reduction of deferred taxes as the tax rate was reduced from 34% to 21%. The Company generated $16 million of cash from operations and invested $9.8 million into property plant and equipment paid down long-term debt by $6.5 million. Total long-term debt as of December 31, 2018 was $47.9 million and stockholder equity was $52.3 million, giving AP&T a debt to equity ratio of 47.8% / 52.2%. Even though stockholder equity increased in 2018, dividends paid to shareholders was an all-time high of $2.4 million. Based on a weighted-average of 1.29 million shares, the Company generated earnings per share of $5.01.

Operations by Segment

Electric Operations – Total 2018 sales for electric operations were 66.2 GWh, roughly the same as 2017. Hydroelectric resources provided 70.7% of all generation, a 3.6% decrease from 2017, while diesel generation increased by 13.6%. The fall of generation from hydro and the increase in generation from diesel were directly related to the drought conditions experienced in southeast Alaska. Gross revenue generated by power operations was $21.5 million, an 8.1% increase over 2017, and operating expenses increased by $2 million. The increases in revenue and expense again were caused by the drought of 2018. Operating income for the year was $4.6 million, a decrease of $550,000 or 10.7%.

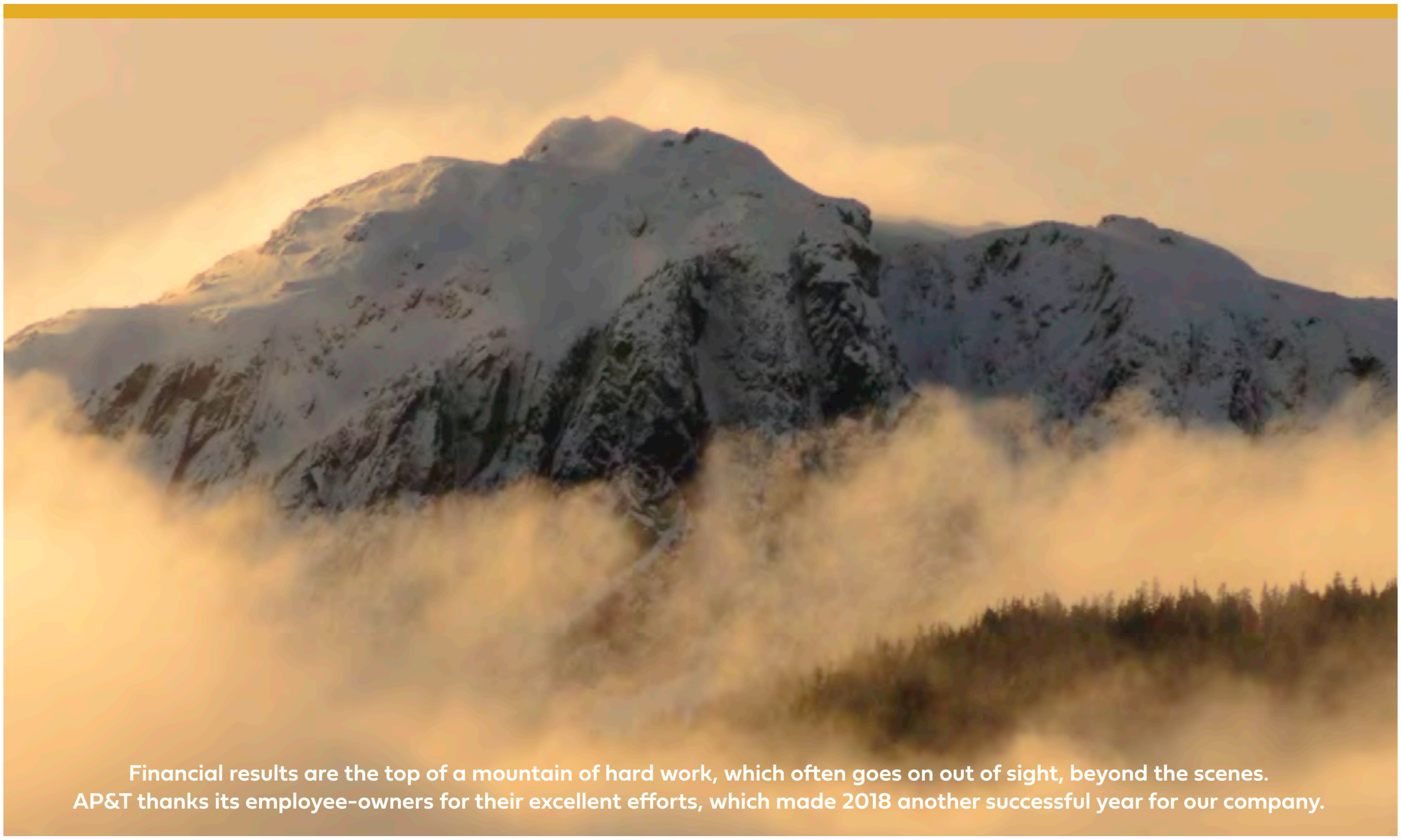
Telecommunications Operations – Gross revenues for regulated telecommunications operations were $17 million for the year, a 6.5% or $1.2 million decrease from 2017. This decrease was expected due to changes in access charges in both the state and interstate jurisdiction. Operating expenses for the year increased by $93,000, or 0.9%, to a total of $10.6 million. As a result, regulated telecommunication services' operating income decreased by $1.2 million, to a total of $3.8 million.

Non-regulated Operations – Consisting of AP&T Wireless, AP&T Long Distance, and engineering services, non-regulated operations also generated $17.4 million of gross revenue, a decrease of 4.5% or $812,000. The primary source of revenue from non-regulated operations is derived from AP&T Wireless operations. Revenues for AP&T Wireless increased by $386,000, or 3.2%, to $12.5 million. Long distance services contributed $180,000 in revenue. Engineering and contractual services related to the construction of Prince of Wales Island's Hiilangaay hydroelectric project provided revenue of $4.7 million. Combined operating expenses for the segment were $10.8 million, which was virtually the same as 2017.

At the end of 2018 it became clear the costs to complete the Hiilangaay project would exceed the maximum contract price; therefore any profit has been deferred. The impact on 2018 results of this adjustment is a reduction of revenue in the amount of $890,000. Combined operating income for the segment was $4.6 million, a 15.4% or $829,000 decrease.

Other Income and Expense

AP&T receives patronage-based dividends from CoBank, its primary lender. CoBank bases its patronage on 1% of AP&T's average outstanding loan balances. During September of 2018, CoBank also



Financial results are the top of a mountain of hard work, which often goes on out of sight, beyond the scenes. AP&T thanks its employee-owners for their excellent efforts, which made 2018 another successful year for our company.

declared a special dividend in the rate of 0.2% of balances thus passing along a portion of the benefit derived from the Tax Cut and Jobs Act. As a result, the Company recorded patronage dividends of $571,000 for 2018, and $547,000 for 2017.

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 has been recording $1.8 million in amortization expense for telecom with 2018 being the last year of this amortization.

Financial Condition

During 2018, AP&T increased its investment in gross plant in service by $8.3 million or 3.8% to a total of $226.4 million. Net property, plant and equipment increased by 1.6% to $93 million. As a result of the Company internally financing its plant additions, working capital decreased by $2.4 million to a total of $1.6 million. Interest-bearing liabilities, including leases at year-end 2018, were $47.9 million, a decrease of 10.6% or $5.7 million. Common stock transactions with the Company's Employee Stock Ownership Plan led to a 10.6% net decrease in both shares outstanding and additional paid-in capital totaling $520,000. Retained earnings increased by 9% or $4 million after being reduced by $2.4 million in declared shareholder dividends. The improving market value of the Company's interest rate swap resulted in a $750,000 positive adjustment to "other comprehensive loss." During 2018, the Company generated a return on assets of 5.2% and a return on equity of 12.3%.

Liquidity and Capital Resources

Operating Activities – Cash flows provided by operating activities during 2018 decreased by 7.5% to $16 million. During 2017, the Company received a $3.7 million favorable adjustment to deferred taxes due to the Tax Cut and Jobs Act. Year-over-year changes in deferred income taxes and taxes payable offset one another. Cash provided by the recovery of various assets and payable provided $2.4 million in positive cash flow during 2018 resulting in a net decrease of $1.3 million from the prior year.

Investing Activities – Net cash used for investing activities during 2018 were $9.9 million, an increase of $3 million over the previous year. The acquisition of plant increased by $700,000 in 2018 to $9.8 million, while $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 2017.

Financing Activities – The Company used $8 million of cash during 2018 for financing activities, an increase of 2.8% or $221,000 year-over-year. Net cash used for long-term debt transactions totaled $6 million during the year, a decrease of $336,000. The Company used a net of $520,000 of cash to settle stock transactions with its Employee Stock Ownership Program during the year, an increase of $195,000. Cash used for payments of dividends increased by $362,000 to $1.78 million, a 25.5% increase over 2017. AP&T ended the year with $2.5 million of cash on hand, compared to $4.5 million at the end of 2017.

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:

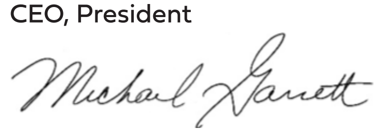
- Alaska's continuing unstable economic environment could have a negative impact and restrict growth opportunities.

- 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
CEO, President



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

AP&T 5 YEAR SUMMARY

$ Expressed in thousands except per share data

	2014	2015	2016	2017	2018
Operating Results					
Operating Income					
Electric Services	$ 3,830	$ 4,944	$ 4,387	$ 5,124	$ 4,574
Telecommunications	$ 2,071	$ 1,919	$ 1,432	$ 4,937	$ 3,783
Non-Regulated Operations	$ 3,590	$ 3,438	$ 3,737	$ 5,394	$ 4,565
Total Operating Income	$ 9,491	$ 10,301	$ 9,556	$ 15,455	$ 12,922
Operating Margin	21.54%	23.30%	19.91%	27.46%	23.11%
Net Income	2,781	3,295	$ (354)	10,205	6,452
Cash Flow from Operations	$ 10,655	$ 13,772	$ 12,629	$ 17, 308	$ 16,004
Earnings (loss) per Share - Basic	$ 2.10	$ 2.53	$ (0.27)	$ 7.88	$ 5.01
Financial Position					
Total Capitalization	$ 98,459	$ 95,943	$ 99,638	$ 101,594	$ 100,254
Weighted-Average Shares Outstanding	1,324,625	1,304,030	1,299,128	1,294,569	1,286,718
Book Value per Share - Basic	$ 28.75	$ 30.98	$ 30.36	$ 37.19	$ 40.82
Share Price per Valuation	$ 29.90	$ 35.18	$ 49.30	$ 56.73	**TBD**
Financial Position					
Cash from Operations/Revenue	24.2%	31.2%	26.3%	30.7%	28.6%
EBITDA	$ 17,602	$ 17,218	$ 11,667	$ 24,058	$ 21,399
EBITDA / Revenue	39.9%	39.0%	24.3%	42.7%	38.3%
Debt / Capitalization	61.8%	58.0%	60.5%	52.7%	47.8%
Equity / Capitalization	38.2%	42.0%	39.5%	47.3%	52.2%
Return on Assets	2.2%	2.7%	-0.3%	8.2%	5.2%
Return on Equity	7.4%	8.2%	-0.9%	21.2%	12.3%
Dividends Declared / Share	$ 0.44	$ 0.75	$ 0.97	$ 1.51	$ 1.86

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

ALASKA POWER & TELEPHONE COMPANY AND SUBSIDIARIES

December 31, 2018 and 2017

MOSSADAMS

Table of Contents

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, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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, 2018 and 2017, 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, 2019

Alaska Power & Telephone Company
Consolidated Balance Sheets

ASSETS

	December 31, 2018	December 31, 2017
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$ 114,845,331	$ 111,323,910
Telecommunications	104,649,509	100,174,636
Nonutility	6,935,702	6,593,907
	226,430,542	218,092,453
Less accumulated depreciation and amortization	133,390,162	127,077,716
	93,040,380	91,014,737
Utility plant under construction	3,359,548	3,853,637
Total property, plant, and equipment	96,399,928	94,868,374
OTHER ASSETS		
Investments	5,912,451	5,645,078
Goodwill, net of amortization	302,988	2,095,726
Rate stabilization asset	4,992,864	5,006,651
Other assets	848,251	508,515
Total other assets	12,056,554	13,255,970
CURRENT ASSETS		
Cash and cash equivalents	2,535,518	4,521,614
Receivables, less allowance for doubtful accounts of $37,486 in 2018 and $34,768 in 2017	7,382,886	7,450,005
Securities available for sale	2,849	2,798
Inventory and other current assets	3,700,601	3,492,987
Income tax refunds receivable	2,022,225	803,038
Total current assets	15,644,079	16,270,442
Total assets	$ 124,100,561	$ 124,394,786

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2018	December 31, 2017
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,282,159 and 1,291,276 shares issued and outstanding in 2018 and 2017, respectively	$ 1,282,159	$ 1,291,276
Additional paid-in capital	3,125,479	3,636,503
Retained earnings	48,966,432	44,909,946
Accumulated other comprehensive loss	(1,063,430)	(1,813,004)
Total stockholders’ equity	52,310,640	48,024,721
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	6,553,579	7,402,448
Other long-term debt	34,465,909	39,610,043
Total long-term debt	41,019,488	47,012,491
FINANCE LEASES	97,886	126,929
INTEREST RATE SWAP	1,471,060	2,507,959
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	14,532,945	13,888,357
Other deferred credits	601,961	582,728
Total other liabilities and deferred credits	15,134,906	14,471,085
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	7,266,944	5,821,643
Current portion of finance leases	36,473	40,671
Current portion of long-term debt	6,763,164	6,389,287
Total current liabilities	14,066,581	12,251,601
Total liabilities and stockholders’ equity	$ 124,100,561	$ 124,394,786

See accompanying notes.

Alaska Power & Telephone Company
Consolidated Statements of Income

	Years Ended December 31, 2018	2017
REVENUE		
Electric	$ 21,520,659	$ 19,906,152
Telecommunications	17,002,367	18,180,833
Other nonregulated	17,390,268	18,202,171
	55,913,294	56,289,156
EXPENSES		
Electric	13,464,414	11,440,696
Telecommunications	10,630,041	10,536,771
Other nonregulated	10,814,429	10,806,156
Operations and maintenance expense	34,908,884	32,783,623
Depreciation and amortization expense	8,082,171	8,050,572
	42,991,055	40,834,195
Income from operations	12,922,239	15,454,961
OTHER INCOME (EXPENSE)		
Dividend income	574,912	559,690
Amortization of goodwill	(1,792,736)	(1,792,732)
Loss on abandoned project	(130,683)	(14,999)
Miscellaneous	(49,953)	7,397
Total other expense	(1,398,460)	(1,240,644)
Interest income	54,288	104,364
Interest expense	(3,281,601)	(3,688,181)
Net interest expense	(3,227,313)	(3,583,817)
Income before income taxes	8,296,466	10,630,500
Provision for income taxes	(1,844,586)	(425,487)
Net income	$ 6,451,880	$ 10,205,013
Basic and diluted earnings per share	$ 5.01	$ 7.88
Weighted-average basic and diluted shares outstanding	1,286,718	1,294,569

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2018	2017
Net income	$ 6,451,880	$ 10,205,013
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	1,036,899	1,183,191
Income tax expense related to fair value adjustment to interest rate swap liability	(287,325)	(766,740)
Comprehensive income	$ 7,201,454	$ 10,621,464

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, 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
Net income	-	-	6,451,880	-	6,451,880
Sale of common stock	17,370	968,015	-	-	985,385
Repurchase of common stock	(26,487)	(1,479,039)	-	-	(1,505,526)
Fair value adjustment to interest rate swap, net of tax	-	-	-	749,574	749,574
Dividends to shareholders	-	-	(2,395,394)	-	(2,395,394)
Balance at December 31, 2018	$ 1,282,159	$ 3,125,479	$ 48,966,432	$ (1,063,430)	$ 52,310,640

See accompanying notes.

	Years Ended December 31, 2018	Years Ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,451,880	$ 10,205,013
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	9,966,390	9,934,783
Loss on abandoned project	130,683	14,999
Loss from disposal of assets	55,295	15,910
Noncash patronage dividends	(121,616)	(136,832)
Deferred income taxes	357,263	(3,245,500)
Accretion (erosion) of rate stabilization asset	13,787	(177,931)
Changes in assets and liabilities		
Receivables	67,119	(1,434,433)
Income taxes	(1,219,187)	2,346,557
Other assets and liabilities	301,929	(214,817)
Net cash from operating activities	16,003,543	17,307,749
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(9,799,704)	(9,103,515)
Proceeds from investment in nonaffiliate	105,483	110,881
Proceeds from sale of investment	-	2,000,000
Purchase of investments	(251,291)	-
Net cash from investing activities	(9,945,512)	(6,992,634)

Alaska Power & Telephone Company
Consolidated Statements of Cash Flows

	Years Ended December 31, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$ 754,906	$ -
Payments on long-term debt	(6,465,512)	(5,833,433)
Payments on finance leases	(33,241)	(246,740)
Proceeds from sale of common stock	985,385	962,200
Repurchase of common stock	(1,505,526)	(1,286,871)
Dividends paid	(1,780,139)	(1,418,119)
Net cash from financing activities	(8,044,127)	(7,822,963)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,986,096)	2,492,152
CASH AND CASH EQUIVALENTS, beginning of the year	4,521,614	2,029,462
CASH AND CASH EQUIVALENTS, end of the year	$ 2,535,518	$ 4,521,614
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense, net of AFUDC	$ 3,281,601	$ 3,664,710
Income taxes	$ 3,460,000	$ 1,355,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 749,574	$ 416,451
Accrued dividends payable	$ 615,255	$ 542,324

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.

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.

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

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 2018 or 2017. 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 2018 and 2017.

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 2018. Total amortization expense related to goodwill for the years ended December 31, 2018 and 2017, was $1,792,736 and $1,792,732, respectively.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2018 and 2017, the carrying amount of goodwill was $302,988 and $2,095,726, which included accumulated amortization of $8,963,415 and $7,170,677, 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.

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

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, 2018 and 2017, 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 $601,961 and $520,503 at December 31, 2018 and 2017, 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, 2018 and 2017, are approximately $15.3 million and $8.8 million, respectively. The total amounts billed through December 31, 2018 and 2017, are approximately $17.3 million and $11.1 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.

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

AP&T also receives significant universal service support revenue based on the higher costs of providing rural telecommunications service. 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 2018 and 2017, 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, 2018 and 2017.

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, 2018 or 2017.

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), 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. 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.
- Alaska Universal Service support revenues are administered by the Alaska Universal Service Administrative Company (AUSAC), based on rules established by the RCA.

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

Note 1 – Summary of Significant Accounting Policies (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 December 2018 that provides additional support for increased deployment obligations. The Company is currently assessing the impact of the Order on its operations.

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 2018 or 2017. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,286,718 in 2018 and 1,294,569 in 2017.

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, 2018 and 2017, were $93,743 and $136,600, 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, 2018 and 2017.

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, 2018 and 2017, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

New accounting standards - Beginning in 2019, the Company will adopt the Financial Accounting Standards Board Accounting Standards Codification Topic 606 *Revenue from Contracts with Customers*, using the modified retrospective method. The core principle of the standard is that a company should recognize revenue at the time goods and services are transferred to a customer in an amount that reflects the consideration the company is expected to receive. In addition, the standard requires deferral of incremental contract acquisition costs with recognition over the expected period of benefit. The adoption of the standard will also result in additional disclosures around performance obligations, deferred contract assets and liabilities, and significant judgements used by the Company in applying the new five-step revenue model. The Company is still in the process of determining the impacts of the changes.

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2019, 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 $232,204 and $245,813 for 2018 and 2017, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2019	$	192,359
2020		160,548
2021		137,028
2022		114,451
2023		102,135

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 $680,246 and $716,589 in the years ending 2018 and 2017, 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:

	2018
Telecommunications central office assets	$ 1,223,400
Bucket truck	224,408
Accumulated depreciation	(511,887)
	$ 935,921

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.

2019	$ 40,671
2020	40,671
2021	60,907
Total minimum lease payments	142,249
Less amount representing interest	(7,890)
Present value of net minimum lease payments	$ 134,359

Note 4 – Property, Plant, and Equipment

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

	Plant Account	Accumulated Depreciation	2018 Net Balance	2017 Net Balance	Depreciation Rate
Regulated electric					
Hydroelectric	$ 29,106,868	$ 11,558,501	$ 17,548,367	$ 17,717,170	2%
Other generation	24,975,493	13,680,131	11,295,362	10,585,535	4% to 8%
Transmission and distribution	44,842,892	29,055,946	15,786,946	15,918,792	2.5% to 4%
Other	14,663,511	9,693,537	4,969,974	4,596,697	2.5% to 20%
Land	807,040	-	807,040	807,040	---
Utility plant acquisition adjustment	429,317	418,228	11,089	27,717	6%
	114,825,121	64,406,343	50,418,778	49,652,951	
Regulated telecommunications					
General support assets	9,308,807	6,673,752	2,635,055	2,667,045	2.5% to 20%
Central office assets	32,806,103	26,428,024	6,378,079	6,622,325	8% to 14%
Cable and wire facilities	26,807,696	19,898,947	6,908,749	4,975,383	3% to 6%
Land	460,962	-	460,962	308,156	---
	69,383,568	53,000,723	16,382,845	14,572,909	
Other nonregulated					
Buildings	6,708,939	3,643,202	3,065,737	2,845,414	4%
Nonregulated telecommunications	35,265,941	12,339,894	22,926,047	23,713,862	4% to 20%
Plant held for future use	20,210	-	20,210	2,838	---
Land	226,763	-	226,763	226,763	---
	42,221,853	15,983,096	26,238,757	26,788,877	
Total property, plant, equipment	$ 226,430,542	$ 133,390,162	$ 93,040,380	$ 91,014,737	

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.

Note 5 – Investments

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

	2018	2017
Investment in National Bank of Cooperatives (CoBank)	$ 4,367,258	$ 4,351,125
Investment in Ketchikan Electric Company, LLC (KEC)	600,000	600,000
Investment in Haida Energy, Inc. (HE)	861,076	609,836
Other	84,117	84,117
	$ 5,912,451	$ 5,645,078

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 $571,204 and $547,330 for 2018 and 2017, respectively, related to these earnings.

Ketchikan Electric Company, LLC – AP&T owns a 50% share of Ketchikan Electric Company, LLC (KEC) and accounts for the investment using the equity method. The principal purpose and business of KEC is to construct, own, operate, and manage a hydroelectric power system in the Ketchikan Gateway Borough. The investment represents capital contributions to KEC, as the Company is still in the development stage. There was no activity in 2018 or 2017.

Haida Energy, Inc. – AP&T owns a 50% share of Haida Energy, Inc. (HE), which was formed to develop, own, and operate a hydroelectric power project on Reynolds Creek in Alaska. The Company is constructing the project on behalf of HE under a cost-plus-fee arrangement and has billed HE $17.3 million on cumulative project costs of $15.3 million through December 31, 2018. The project was funded through a combination of grants and loans from the Alaska Energy Authority (AEA) and notes payable from the other shareholder. The Company accounts for this investment using the equity method.

Alaska Power Company (APC) entered into a power sales agreement with HE in 2015 that requires APC to purchase sufficient power from HE to cover the principal payments on the loans that HE has with AEA, up to a maximum of $20,000,000. The required purchase of power begins on the earlier of the commercial operation date of the Reynolds Creek project or January 31, 2020. If the project is not operational before the loan agreement deadline, then APC will be required to make the loan payments on behalf of HE. Management expects that the project will be operational and generating sufficient power sales to cover the loan payments by the end of 2019. As a result, no liability has been recorded on the Company's financial statements at December 31, 2018.

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, 2018.

Note 6 – Long-Term Debt

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

	2018	2017
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%.	$ 8,860,500	$ 9,454,500
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%. Net of unamortized issuance costs of $163,087	7,420,246	8,269,115
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 5.27% at December 31, 2018. Interest rate swap agreement reduces exposure to interest rate fluctuations. Net of unamortized issuance costs of $343,847	25,150,965	29,428,299
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%.	3,583,333	3,916,667
Notes payable to state of Alaska, secured by certain electric assets, with fixed interest rates ranging from 0.00% to 5.45%, maturing at various dates from 2019 through 2037.	2,163,683	2,329,544
Other term debt	603,925	3,653
	47,782,652	53,401,778
Less current portion	(6,763,164)	(6,389,287)
	$ 41,019,488	$ 47,012,491

Annual maturities for the five years beginning January 1, 2019, are $6,763,164, $7,035,794, $7,426,129, $14,344,490, and $5,612,665, respectively, and $6,600,410 thereafter.

Amortization of debt issuance costs is reported in the income statement as amortization expense.

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 $1,471,060 and $2,507,959 at December 31, 2018 and 2017, 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, 2018 or 2017.

Note 7 – Income Taxes

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

	2018	2017
Current	$ 1,487,323	$ 3,670,987
Deferred	357,263	2,735,062
Deferred - Change in federal rate	-	(5,980,562)
	$ 1,844,586	$ 425,487

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:

	2018	2017
Income tax provision at federal rate of 21% and 34%, respectively	$ 1,742,258	$ 3,469,704
State income taxes, net of federal benefit	426,771	555,785
Permanent items	(217,167)	(356,247)
Other	(107,276)	77,799
Change in valuation allowance before change in federal rate	-	2,659,008
Change in federal rate	-	(5,980,562)
Provision for income taxes	$ 1,844,586	$ 425,487

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

	2018	2017
Deferred tax (asset)		
Allowance for bad debt	$ (10,393)	$ (9,634)
Accrued employee benefits	(169,017)	(139,522)
Capital loss carryover	(1,860,634)	(1,860,634)
Book vs. tax basis of investments	(296,613)	(296,613)
Fair value adjustment of interest rate swap liability	(407,631)	(694,955)
Other	(5,659)	(5,930)
	(2,749,947)	(3,007,288)
Less valuation allowance	1,860,634	1,860,634
Total deferred tax assets	(889,313)	(1,146,654)
Deferred tax liability		
Prepaid expenses	338,283	339,799
Tax amortization and depreciation greater than book	13,715,075	13,314,625
Deferred revenues and expenses	1,368,900	1,380,587
Total deferred tax liabilities	15,422,258	15,035,011
Net deferred tax liability	$ 14,532,945	$ 13,888,357

Note 7 – Income Taxes (continued)

The consolidated balance sheet includes a total income taxes receivable amount of $2,022,225 at December 31, 2018. This consists of a federal receivable of $1,748,109 and a state receivable of $274,116.

The company has a capital loss carryover totaling $6,714,666. Of this total loss, $2,500,000 will expire December 31, 2020, and $4,214,666 will expire December 31, 2022.

There was no change in the valuation allowance of $1,860,634 in 2018.

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 2018, employer matching contributions and profit sharing contributions were $499,986 and $365,676, respectively. In 2017, employer matching contributions and profit sharing contributions were $485,244 and $268,984, 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.

2018 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 21,521	$ 17,002	$ 17,390	$ 55,913
Depreciation and amortization	3,481	2,590	2,011	8,082
Operating income	4,574	3,783	4,565	12,922
Interest expense	573	-	2,709	3,282
Interest income	-	-	54	54
Total fixed assets	114,826	69,384	42,221	226,431
Total accumulated depreciation	(64,406)	(53,001)	(15,983)	(133,390)
Total fixed assets, net	50,420	16,383	26,238	93,041
Capital expenditure	2,912	4,468	2,420	9,800

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

Note 10 – Other Assets

Other assets consist of the following at December 31:

	2018	2017
Miscellaneous regulatory assets - power	167,803	264,242
Other	680,448	244,273
	$ 848,251	$ 508,515

MOSSADAMS

MIKAEL ASHE, JACOB HOPPE & GARY SODERBERG
on Prince of Wales Island.

SUPPORTING OUR CUSTOMERS & EMPLOYEES

New AP&T Initiatives

AP&T recognizes that our success as a company is intrinsically linked to the success and well-being of our employees and the communities we serve. The Tax Cut and Jobs Act, which went into effect in December of 2017 with the objective of spurring economic development through tax savings, allows AP&T to broaden the support it provides to the people who are vital to our company's success. Some initiatives began in 2018; the remainder will be initiated in 2019.

For AP&T Customers

Electric Vehicle Incentive Program – In 2019, AP&T will begin providing incentives to customers and employees who purchase electric vehicles.

Rate Reductions – The Tax Cut and Jobs Act will allow AP&T to provide some customers with rate reductions which help to keep energy costs affordable. Contact your local AP&T service center for additional details.

For Communities AP&T Serves

AP&T Community Giving Program – AP&T has established a Charitable Contributions Fund to support and empower non-profit organizations that improve the quality of life in the communities that we serve. Charitable contributions are advised by a panel of AP&T employees. For details on how to apply, please visit: https://www.aptalaska.com/community-giving/

Bandwidth Donations – AP&T will consider opportunities to donate additional bandwidth for special projects at schools, and to enable virtual field trips.

PHYLLIS SAGE AND STACIE TURNER

in AP&T's Haines office.

AP&T'S FIRST OFFICIAL "CARFIE" ?

Greg Mickelson behind the wheel of the EV, with Cody Schwegel riding shotgun. In the backseat are Carl Schwegel, Mikael Ashe, and Lloyd Crookes.

For AP&T Employees

Employee Assistance Program – To help support the well-being of our employee-owners, AP&T has teamed with Alliance Work Partners to provide an employee assistance program offering a very diverse range of benefits. Services include wellness coaching, financial planning services, access to legal/financial support, short-term counseling, and personal growth tools.

Medical Travel Benefit – Healthcare services in rural Alaska can be limited. In order to ensure that our employees have access to the best medical service possible, AP&T has increased its medical travel benefit to $5,000 per employee per year.

Employee Hardship Fund – AP&T has established an employee hardship fund, which is available to provide supplemental support to employees during times of significant misfortune.

Electric Vehicle Incentive Program – AP&T employees will also be incentivized to become electric vehicle owners, and will receive a commission for each new EV user they originate in an AP&T electrical service area.

Employee Compensation – AP&T will be taking prompt action on the recommendations resulting from its recent compensation review.

Additionally, AP&T continues to offer a comprehensive benefits package to help support the well-being of our employees and their families, and to help attract and retain a highly-skilled workforce.

For Shareholders

An increase in sustainable dividends, consistent with the board-authorized dividend policy.

EMPLOYEE RETIREMENTS IN 2018

While we are delighted to see our fellow AP&T employees move forward to realize long-held dreams of a prosperous retirement, we certainly miss our colleagues' presence.

MARY LOU YORK
Her retirement celebration was well enjoyed by the AP&T team!

In 2018 we bid farewell to four of the best and brightest:

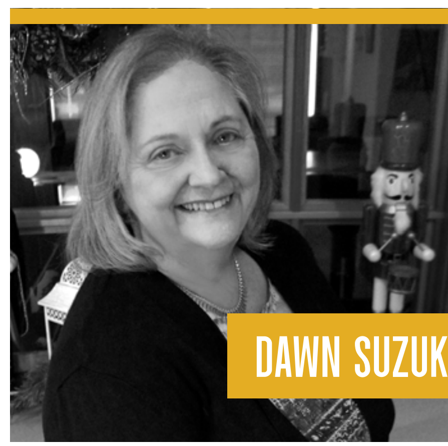
Mary Lou York
Alan Manns
Glen Martin
Dawn Suzuki

Congrats on this tremendous milestone, and best wishes from all of us at AP&T!

Note: Employees retiring during calendar year 2019 will be recognized in the 2019 Annual Report.

ALAN MANNS

GLEN MARTIN



DAWN SUZUKI

3RD ANNUAL
William Squires Memorial Golf Tournament

Location: Port Townsend Golf Club – 1948 Blaine Street, Port Townsend, WA
Date: May 23rd, 2019
Tee Time: 3pm
2 Person Best Ball Scramble
Entry Fee: $25. $15 goes to the ALS Association in memory of former AP&T Chairman William Squires.

2017 Winners – Mark McCready / Patsy Caldwell. $1,435 raised.
2018 Winners – Michael Barry / Chad Haggar. $2,000 raised.

Employees and shareholders are welcome to attend!

NOTICE TO STOCKHOLDERS

Notice to Stockholders:
The annual meeting will be held on Thursday, May 23, 2019 at Fort Worden Commons, 200 Battery Way, Port Townsend, Washington at 10:00am; with the Board of Directors Meeting following.

Annual Report Production:
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The AP&T Management Team

Disclaimer:
The narrative descriptions of the Company's acitivites 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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