Alaska Power & Telephone Company

MILES APART BUT **always connected**

2019
ANNUAL REPORT

APTalaska.com

Visit APTalaska.com/community-giving/ to learn more about new initiatives AP&T has put into action.

SUPPORTING OUR CUSTOMERS & COMMUNITIES

New AP&T initiatives in action.

In 2020 AP&T quickly responded to the COVID-19 pandemic and is currently providing support in the following ways:

- Temporarily suspending service disconnection for any household experiencing a financial hardship related to COVID-19.
- Waiving late fees and finance charges on all customer accounts.
- Waiving all data overage fees on broadband accounts.
- Converting its wifi hotspot platform to provide free service across its network.
- Performing telecommunications installations and upgrades for teachers for free.
- Installing internet for students without service for free.
- Incurring extra internet transport, tech, and engineering costs to provide these enhanced services and keeping the network running as well as it possibly can in a time of increased demand.
- Maintaining its existing workforce, and helping it adapt to new working requirements and conditions (closed offices, working/dispatching from home, new transportation requirements, new operational policies).
- Ensuring compliance with the Families First Law provisions applicable to its workforce (COVID-19-related leave).
- Maintaining an Employee Assistance Program (EAP) which helps provide emotional support, health/wellbeing, and financial resources to employees.
- Providing an Employee Hardship program.
- AP&T is maintaining its newly established Charitable Contribution program – a discretionary program it uses to give back to the communities it serves. AP&T anticipates making grants to help support community organizations which may face hardship due to COVID-19.

*Based on new 2019 AMP UP 'EV Incentive Program'

9

AMP UP EV INCENTIVE USERS*

BANDWIDTH DOLLARS DONATED

$34,836

*Based on new 2019 'Charitiable Contributions Fund'

$28,000

AP&T COMMUNITY GIVING PROGRAM*

2019 AT A GLANCE

8,151

ELECTRIC CUSTOMERS

67,047,582

KILOWATT HOURS SOLD

INTERNET CUSTOMERS

3,179

TELEPHONE CUSTOMERS

7,686

AP&T's mission is to be a strong, growing, and innovative leader in the energy and communications industries.

Contents

A MESSAGE FROM THE CHAIRMAN

Opportunities are ahead.

On January 16, 2020 we disclosed a cost escalation on the Híilangaay Hydropower Project which would result in a pretax charge in the range of $10.5 to 11.5 million to account for estimated cost increases. Given the significance of the amount and the fact that the magnitude of additional cost increases to complete the Project was discovered late in 2019; the Board of Directors established a Special Committee of independent directors who conducted a thorough investigation of the Project approval, construction, monitoring, accounting, and reporting in order to better understand the cost escalation and determine if there are any additional impacts; and to make recommendations to the Board as a result of that investigation.

The Special Committee was chaired by Bob Engel and included Randy Johnson. The Special Committee made recommendations to the Board of Directors. Please see Bob Engel's comments below. Many thanks to Bob and Randy and their team for this important assistance.

As you read elsewhere in this report, our operations, except for Híilangaay, performed at the expected high level. The Board is very pleased with the culture of success engendered by the men and women employed here and we are excited about the opportunities ahead of us. The Covid19 pandemic brings challenges to providing the necessary services to our customers. We greatly appreciate the dedication of our employees.

Bob Grimm resigned from the Board in April. We will conduct a search for someone to take his place. Bob's service to our company has been a significant contributor to our success and I give him a great deal of the credit in fostering the strong employee culture that moves the company forward through good and bad. Best of luck, Bob! You are highly appreciated!

Mike Barry

Board Special Committee Message

In late December 2019, the Board of Directors authorized a Special Committee to complete an independent investigation to determine the circumstances surrounding the substantial cost overruns on the Híilangaay Hydropower Project (Project). The Special Committee members, as noted by the Chairman, included the two independent directors who were not serving on the board of AP&T when the Project was sanctioned.

In January 2020, the Special Committee retained Orrick, Herrington & Sutcliffe LLP (Orrick) to conduct a privileged investigation to seek answers to specific questions surrounding the economic and cost facts and circumstances at the time of the Board's approval, including the preparation and review of cost estimates and the analysis of the overall economic viability of the Project; as well as the processes and controls in place to calculate actual cost incurred and estimating the cost to complete the Project, with specific focus on the preparation of updated estimates in 2019.

Orrick assembled an Investigation Team (Team) and the Board allowed the Special Committee the necessary resources and access to people to allow conduct a thorough investigation. The Team's investigation included targeted searches through e-discovery and data analytics that resulted in the review of approximately 7,000 documents, as well as interviews with thirteen individuals.

In summary, the Team concluded the overruns were caused by delays and additional costs, driven by a number of factors, that resulted in a combination of construction difficulties and redesign work. The Team did not find evidence of fraud, bad faith, or efforts to intentionally hide material information from the Board of Directors.

Notwithstanding, there were important lessons learned and the Special Committee provided a number of recommendations to the Board of Directors and management that we believe will provide for better risk assessment, project management, policies, processes, procedures, and controls. Both the Board of Directors and management have readily accepted and are in the process of implementing these recommendations.

Robert B. Engel
Independent Director

Randy Johnson
Independent Director

The hard work of AP&T's employee-owners sparks success for our company, and keeps our future bright.

A MESSAGE FROM THE PRESIDENT & CEO

Success is earned – every day.

Alaska Power & Telephone Company ("AP&T") is unique in that it is a single company developing complementary, basic services that you rarely see together. When you look at AP&T you wonder why other companies are not similarly organized. As our name implies AP&T offers Alaskan communities energy and communication services which are arguably the most essential services that drive community livability, growth and satisfaction. We also provide data transport services in Southeast Alaska to other long distance and wireless carriers. Our culture of employee ownership and deep roots in the communities we serve strengthen our resolve to create value for all of AP&T's stakeholders and grow responsibly.

In 2019, our core business results performed well. The number of energy customers served grew by 1.7%, with energy sales growing by 2%. Net energy revenue declined by $524,000 due to the implementation of the Tax Cut and Jobs Act in 2017 that required energy rates to decline by 3%. Overall financial results declined from 2018 but energy sales are stable in all the communities we serve. The focus for our core energy business is to lower operating costs by making prudent investments in generation and distribution plant. We have identified key investments in generation that will lower fuel costs and engine maintenance and over time will lower our overall expenses. Our teams are also proactive in developing additional demand for energy from new sources. We are focusing on larger scale customers like fish processors and mining operations, and the substitution of electricity for other fuels (transportation and heating). Key performance indicators for our energy divisions are shown below.

ENERGY	2019	2018	2017	2016	2015
EBITDA	$ 7,224,398	$ 8,043,901	$ 8,401,324	$ 7,958,137	$ 7,775,920
Operating Income	$ 3,433,406	$ 4,460,538	$ 5,007,910	$ 4,225,256	$ 4,773,249
Return on Assets	4.0%	5.6%	12.4%	4.4%	4.7%

This data excludes Hiilangaay.

We are a broadband company when we talk "telecom." In my discussion here, telecom encompasses traditional voice services, broadband and data transport services (thus combining both regulated and non-regulated operations). Telecom results of operations are influenced greatly by federal and state regulation. In 2019, we see the effects of lower Alaska Universal Service Fund revenue and a change in cost study results which affect revenue from federal sources. Data transport and broadband demand remains strong but revenue growth is affected and competitive with wholesale prices offered by other carriers. Overall telecom revenue for 2019 was $31,505,853 which is an increase of 6.8% over the previous year. Operating expenses for telecom have declined to $21,295,723, a 2.43% decrease over 2018.

We are intently focused on meeting and exceeding our Alternate Connect America Cost Model ("ACAM") service requirements. Prior investments in our Lynn Canal Fiber project (submerged fiber between Juneau, Haines and Skagway), our Southeast Alaska Microwave Network (SAMN), and our existing last mile facilities gives us a strong foundation to meet these goals. Our efforts the last two years to increase fiber to the home (FTTH) and deploying VDSL has borne fruit. Based on our mapping data, we are approximately 95% complete towards meeting ACAM 10 year performance goals (due in 2026). Here are our key performance indicators for telecom:

TELECOM	2019	2018	2017	2016	2015
EBITDA	$ 14,688,080	$ 13,726,942	$ 14,750,433	$ 9,591,153	$ 9,147,730
Operating Income	$ 10,210,130	$ 7,664,799	$ 8,481,452	$ 3,832,538	$ 3,950,581
Return on Assets	18.2%	12.5%	18.5%	5.8%	7.3%

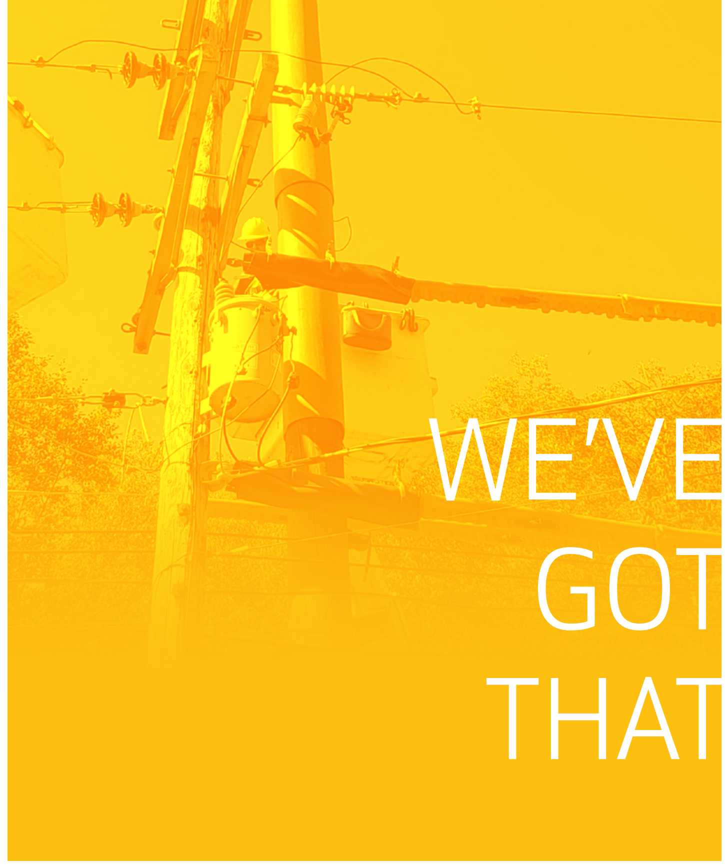
While the core business continues to produce strong financial performance, Híilangaay's challenges overshadowed 2019's financial results. The press release dated January 16, 2020 speaks for itself. The project has experienced a number of construction challenges since it began in 2016. Field conditions, design changes and weather have all played a role in the cost overruns and the 2019 pretax charge is estimated to be in the range of $10.5 million to $11.5 million. Costs to complete in 2020 are estimated to be in the range of $5.5 million to $6.5 million. We are doing everything we can to complete the project as soon as possible and minimize costs.

In 2019, we continued to work towards securing a long-term contract to acquire electrical distribution infrastructure at the Army Garrison on Oahu Hawaii. In Q3 of 2019, we learned that we did not win the bid. My take away from our efforts at Joint Base Lewis McChord ("JBLM") and Oahu are the dynamics of the privatization process has changed such that we cannot compete in the privatization of military bases using the pricing methods of five to ten years ago. We also cannot compete on price if we have nothing to leverage near the base in question. The scope and scale of the contracts we participated in were of such significance, our efforts to start from scratch could match the offers of companies that already procured similar contracts in other states. Mere relative proximity to a military base (our corporate office was less than 100 miles from JBLM) or that we provide similar services in rural and remote Alaska (compared to Hawaii) does not mean we can compete in more complex situations or offer cost savings compared to adjacent utilities. As we looked towards future efforts of the military to privatize its utilities, we see none where we have a competitive advantage.

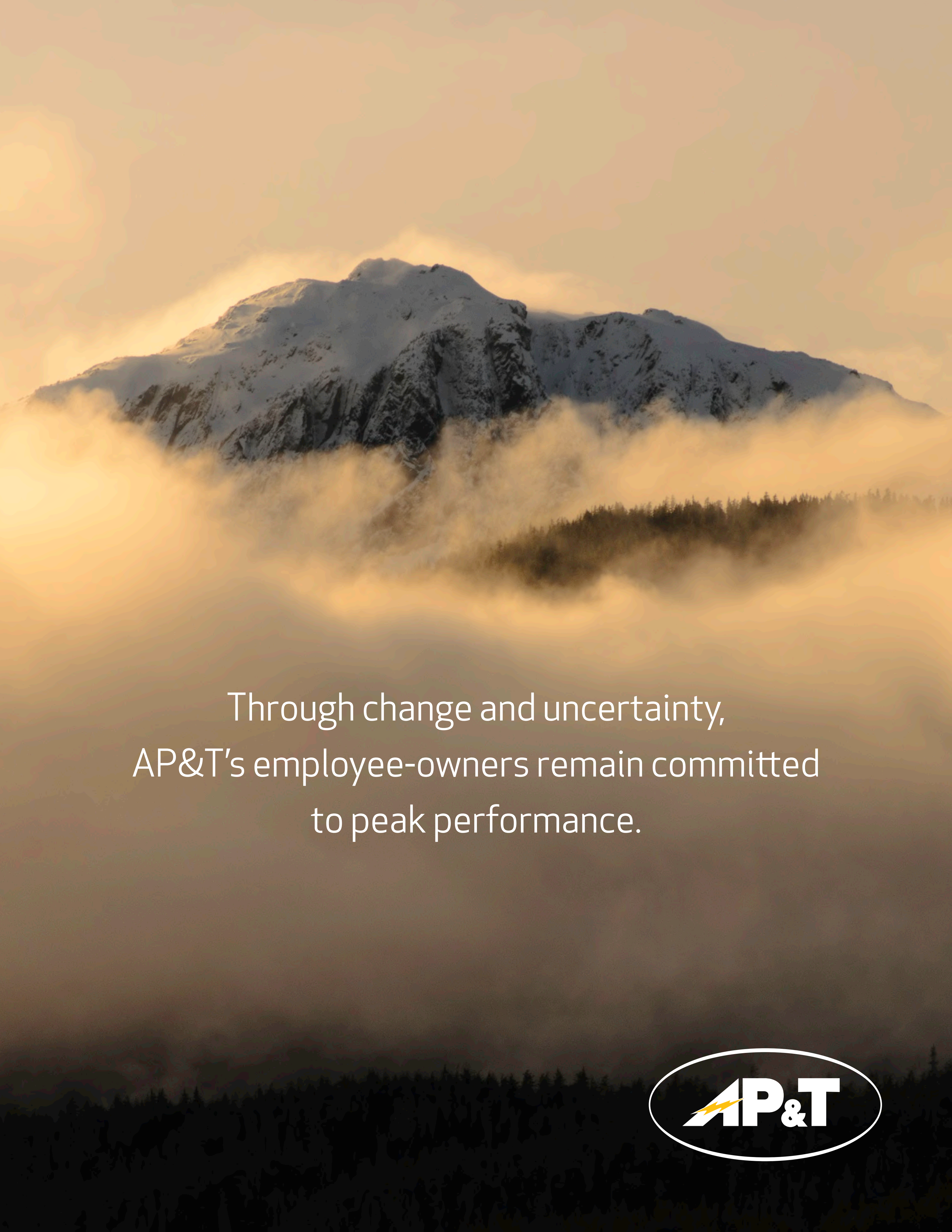
Responsible growth has been elusive in the energy sector in the last few years. We have seen value creation on the telecom side and we continue that pursuit. Our strategic focus for growth will be to develop middle mile opportunities. These projects will allow us to fix our data transport costs and give us opportunities to increase capacity to wholesale transport customers. We can now renew our focus back to interconnecting southeast Alaska to the world via Canada. Securing connectivity to the world will strengthen our position as a premier data transport provider in Alaska and allow us to shape regulation to serve communities that have little or no broadband. This connection will be the lynchpin to entering larger markets where we have the opportunity to grow using people and resources that are the lifeblood of AP&T. Efforts are underway to win a federal grant from the USDA ReConnect Program to provide broadband service to Coffman Cove and Kasaan along with constructed submerged fiber to connect Prince of Wales Island ("POW") with Petersburg and Juneau. This project dubbed SEALink (a name we used on a similar project in early 2000's) will be integral in serving the communities with up to 100Mbps service once the project is completed.

I wish all the news in my letter to you was positive and unfortunately it is not. Our company has weathered many different types of storms in its history. The challenges and failures of 2019 shall pass and we will have learned from them. But AP&T has never been stronger or more relevant to our customers. I believe our stakeholders may experience an increased level of anxiety and concern related to Híilangaay. Please remember that our success is not an entitlement, but something we need to earn, every day. The goal of our employee owners is to do everything we can to individually and collectively to exceed the expectations of all of our stakeholders.

Michael Garrett, CPA
CEO, President



good
energy


Through change and uncertainty,
AP&T’s employee-owners remain committed
to peak performance.
AP&T

WE'RE UP TO THE challenge

Delivering a diesel generator to AP&T's Taku Mountain telecommunications site via helicopter. Unique and challenging logistics are AP&T's specialty.

TELECOM OPERATIONS

Tom Ervin
V/P Telecom Operations

Time and energy well spent.

2019 was a challenging year by many standards, but due to the professionalism, diligence and hard work of everyone involved, we were up to the challenge.

In March, 2019 we suffered a failure of the fiber optic component of the Skagway-Kasidaya-Haines power system cable. Although there was a temporary impact to SCADA communications, all communications were re-routed via the recently installed ULC fiber cable. Although the cable remained energized, it was later determined by ROV exploration that there was an underwater event that caused the cable to move and resulted in strain. We have since commissioned a bathymetric/hydrographic survey to determine placement of a new section of cable between Skagway and Kasidaya. Once the survey data is available, we plan to implement an RFP process for the cable replacement, perhaps as soon as 2021, assuming necessary permit revisions are completed.

We continue to address deferred maintenance issues within power operations. We are in the process of installing a new generator in Haines to augment existing power generation. This will be invaluable in the event the subsea power cable fails. Right-of-way clearing across operations is high on our priority list, especially near transmission and distribution facilities. This is time and effort well spent, considering that it improves safety, line reliability and ultimately reduces outage times which translates directly into cost savings.

We continue to look for ways to reduce operating and maintenance costs across our operations. One area of focus is with our fleet of vehicles and equipment. We feel that the use of GPS tracking and associated telematics is one way to improve efficiency and reduce the rate at which our fleet is consumed. Our plan is to develop metrics for use at the management level to find ways to reduce trips to remote sites, improve driving habits, and record maintenance diagnostics for real time monitoring of vehicles' health. GPS tracking will augment these metrics, plus have the added benefit of real time location data for our vehicles and crews during storm damage repairs and other outage-related conditions.

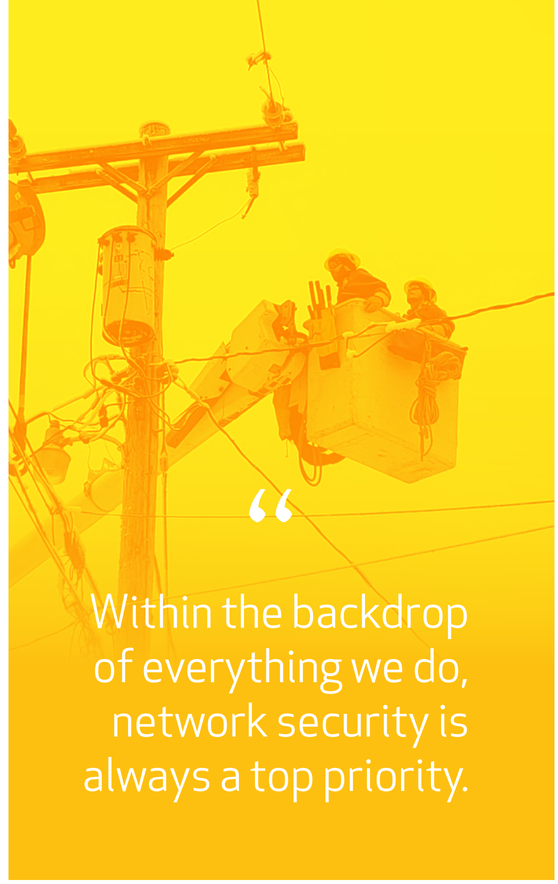
We made good progress towards AMI/smart meter implementation that will not only reduce truck rolls to customer premises, but also allow us to develop other uses for the technology as it becomes feasible. Possible applications may be time-of-use metering to allow better load management of hydro facilities, and perhaps electric vehicle (EV) charging opportunities as they become more ubiquitous at our locations. We also intend to add a full-time power metering position to the operation, to focus on remaining AMI implementation as well as developing ways to leverage this technology.

We have taken on the huge task of developing and implementing a comprehensive database and outside plant mapping program for our power and telecom facilities. We began in earnest in 2019 by taking a field inventory of facilities on POW which consisted of highly accurate GPS readings of pole and pedestal locations, and photographic data for each structure. These will be included as common facility information for power and telecom. Customer information will be integrated via our NISC platform, improving operational efficiency by allowing engineering departments to design and analyze various aspects of the power and communications/fiber optic infrastructure without the necessity of field visits for routine line extensions or network enhancements. We anticipate that POW will be completed in 2020, with ULC anticipated completion in 2021, the interior region in 2020 and the remaining outlying areas in 2023.

We have made extremely good progress with our ACAM broadband/build-out goals, with the primary focus being fiber build-out in the Upper Lynn Canal area. 2019 was the third year of fiber build-out utilizing in-house traveling construction crews. Due to their tremendous sacrifice and efforts, we are confident that we can meet ACAM/ACAM II performance goals. Going forward, we have adopted a diverse construction approach whereas we utilize local crews - many of them power linemen, to do the line construction while technical crews do splicing, testing and customer transitions. As our last mile projects expands, it will become more important to develop middle mile solutions consisting of a mix of terrestrial and subsea fiber construction and perhaps augmented with IRU agreements with other long-haul carriers to meet future bandwidth demands.

Our SAMN continues to perform superbly, in spite of demanding weather conditions that involve severe ice and wind loading conditions. We continue to evaluate network demands on SAMN and challenges relating to bandwidth needs of our customers and other carriers. We continue to make network capacity improvements by utilizing the latest microwave radio technology and modulation schemes that enables us to take advantage of a finite number of channels within the 6Ghz band. The SAMN will always play a vital role as a reliable, high speed network to serve our internal needs as well as provide wireless backhaul for third parties. As we build long haul fiber networks, we will be able to enhance bandwidth delivery to many of our SAMN sites as wireless carriers demand more capacity.

We see it every day in the news: large and small corporations suffering some type of network intrusion or customer data breach. Within the backdrop of everything we do, network security is always a top priority. Whether it is potential SCADA intrusion, denial of service attacks, firewall integrity, customer data, or malware, network security is our top concern. Our internal security council meets on a regular basis to continually review and analyze network threats, and adopt policies and procedures accordingly. We augment this program with employee/end user training that teaches best practices for network security on a daily basis, such as recognizing phishing attempts, robust password use and other measures. Security has to be a high priority every day, all day.



> "Within the backdrop of everything we do, network security is always a top priority.

Dave Pflaum and Evan Beckett digging out snow and ice at the High Mountain site.

Opening the doors of the future!
Hīilangaay hydro project control cabinets.

POWER OPERATIONS

Greg Mickelson

V/P Power Operations

Every drop counts.

2019 was another challenging year for power operations in Alaska. We continued to operate in drought conditions similar to the previous two years. While the drought continued, we were able to squeeze the most water possible out of our hydro operations. The year ending generation figures for hydro were up 5.1% compared to 2018 and diesel generation was down 8.9% for the entire company. This was a remarkable accomplishment considering the fact that most of SE Alaska was in extreme drought conditions, many other communities had to run additional diesel generators, and some had to lease them passing rate increases along to their customers. Our generation for the entire company saw a modest increase of 1.0% and sales increased by 2.0%

In the Tok region, we continue to catch up on deferred maintenance of our diesel plants and installed equipment, which will allow us to streamline those operations. We operate in very remote locations where the ability to travel on scheduled air taxi flights has continually declined. Most often we have to charter into some of these locations due to lack of scheduled flights, which increases our operational cost immensely. We purchased a new metering system in 2019 that will be installed in Allakaket in 2020. This new system will allow us to remotely disconnect and connect customer meters via a computer and therefore reduce our travel expense. This same system has been used in Tok over the past two years and has provided substantial cost savings on crew deployments.

The Upper Lynn Canal region continues to see increased growth in both the Haines and Skagway areas. The main driver in Skagway continues to be tourism. Haines has an abundance of available land, which is not the case in Skagway. A used 3512 high speed Cat generator was purchased for Haines in 2019 and much of the preparation work completed for the final install in 2020. This generator was necessary for firm backup of Haines if the undersea cable from Skagway fails. This unit is more closely sized to the load it would need to operate should the cable fail and

Don Duke in Gustavus, Alaska. Nothing beats the feeling of satisfaction and sense of accomplishment which comes from providing an essential service to your home community.

leaving Haines to rely upon Kasidaya Hydro only. The Kasidaya hydro unit is not isochronous and would require a diesel unit to control system frequency if the supply from Skagway is interrupted. We are working with contractors to perform the underwater survey necessary if the cable fails. Work continues in Gustavus to upgrade the original underground system and keep up with new growth.

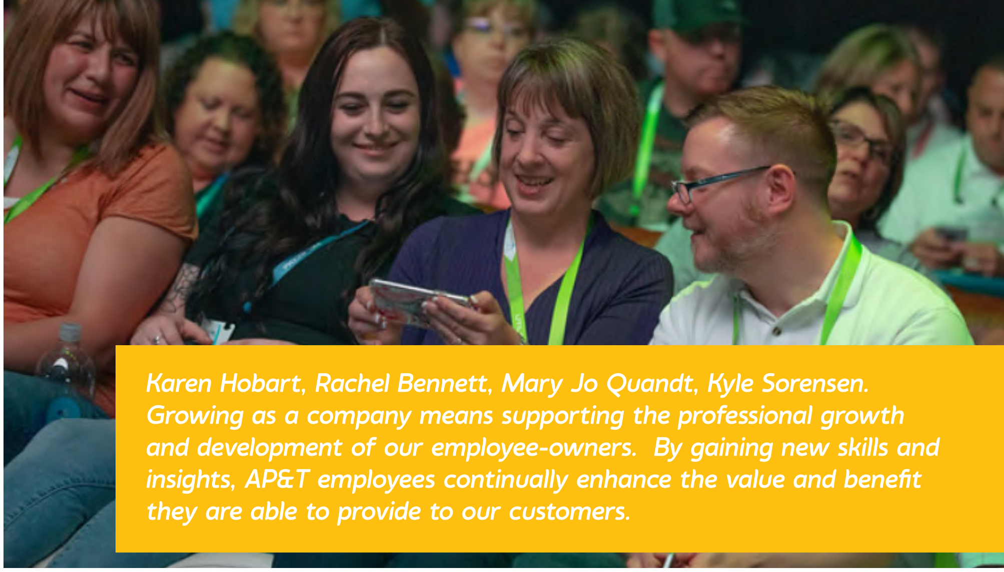
The Prince of Wales region had its first full year of providing power to the old Dawson gold mine near Hollis. The mine is still completing some of their planned expansions and hope to be at full operations by the spring of 2020. They peaked at 400kw currently, but we expect that to increase to about 600kw this spring. Silver Bay Seafoods Company has also increased their loads on POW in 2019. We budgeted to increase our substation transformer at False Island to accommodate their increased load in 2020. The generation on the POW Grid in 2019 increased by 3.5% and sales by 4.2% mainly due to Silver Bay and the Dawson Mine loads.

The work on the new power plant in Whale Pass began in 2019 and should be completed by April 2020. This was a completely new metal building, generators and switchgear. Whale Pass is not connected to the hydro grid on POW and will most likely require reliable diesel generation facilities for quite some time in the future. We continue to work with Mike Garrett on developing an off peak rate for electric vehicles and heat pump users. Our new billing system and the PLX meters can accommodate time of use billing which would be necessary to offer this option to our customers.

CUSTOMER SERVICE

Mary Jo Quandt

V/P Chief Customer Operations



Karen Hobart, Rachel Bennett, Mary Jo Quandt, Kyle Sorensen. Growing as a company means supporting the professional growth and development of our employee-owners. By gaining new skills and insights, AP&T employees continually enhance the value and benefit they are able to provide to our customers.

Dedicated to care.

Our customers are the most important visitors on our premises. They are not an interruption in our work; they are the purpose of it. They are doing us a favor by giving us an opportunity to serve them.

To be an effective Customer Service Representative ("CSR"), you must have the ability to relate to people in a way that makes them feel as if they are interacting with someone who genuinely cares and wants to solve their problem.

What skills come into play for a CSR on a daily basis when interacting with customers?

Empathy/Listening Skills/Patience/Ability to Remain Calm

When you cannot tell the customer exactly what they want to hear, a dose of care, concern and understanding will go a long way toward steering the situation to a better outcome. Customers need to feel confident that you have fully listened and understand their problems. You need to be the "rock" for the customers who think the world is falling apart because of their current problems. All of these skills require extreme patience, even on a good day.

Communication Skills/Positive Attitude

Communicating clearly is challenging, as only a small percentage of our communication comes from what we verbalize. The next highest percentage in communication is our tone of voice and the highest percentage is body language. Then you must take into account that the CSR is dealing with a diverse set of personalities on a daily basis.

CSRs must have the ability to deal with other people's frustrations day in and day out, while still maintaining that positive attitude. People with positive attitudes are able to focus on solutions.

Problem Solving Skills/Tenacity

The CSR must use their detective skills to gain a clear picture of the customer's problem and come up with a solution. I have witnessed the impressive tenacity of our CSRs and their willingness to go the extra mile when researching solutions for their customer.

Ability to Let It Go/Sense of Humor

When we come across a challenging customer, it can sometimes be difficult to "let it go" but that is exactly what is required of the CSR. They need to put the stress of the last encounter behind them and take care of the next customer with a positive and friendly attitude. A good sense of humor goes a long way in accomplishing this task.

I highly respect and feel privileged to know the skilled individuals that make up our AP&T Customer Service staff. The best part of my job is interacting with our CSRs whether it is at monthly meetings or our annual training trips. They are truly caring people and I am proud to be a part of their team.

TELECOM ENGINEERING

Zachary Layman

V/P Telecom Engineering

Newly-upgraded telecommunications equipment enhances AP&T's Petersburg, Ketchikan, and Metlakatla microwave backhaul capabilities. AP&T constantly seeks opportunities to improve upon its existing systems, offering more value to customers and shareholders alike.

Success made possible.

2019 had a good variety of planned projects as well as several unplanned ones that kept the entire Telecom team very busy.

SAMN Upgrades – Following the backbone microwave work that AP&T did in 2018, we focused on bandwidth bottlenecks on some of the spurs off of this network down into communities. We selected the paths with the greatest need, which are listed below. These upgrades were all needed before we could offer improved Broadband speeds in Petersburg, Metlakatla, and on Prince of Wales Island.

Lindenberg Mountain to Petersburg – This microwave path was upgraded to provide eight times more capacity.

High Mountain to Metlakatla – This microwave path was upgraded to provide five times more capacity aggregated between two paths.

High Mountain to Ketchikan – This microwave path was upgraded to provide approximately three times more capacity aggregated between two paths.

This work was complicated by the fact that the radio manufacturer stopped building the radios we have been deploying for the past several years and went to a new model. As is usual, the AP&T team worked together to evaluate the new radio, and after extensive testing and negotiations with the vendor, we are happy with the new radios. Even though there was significant delay getting the radios, the SAMN team did a fantastic job preparing the sites during the summer, and even though they did not receive the new radios until September, they still managed to get all three links up and operational before November. A tremendous job!

Broadband Improvements – After the microwave upgrades were complete AP&T moved forward with upgrading broadband tiers in all communities south of Juneau and Tok. The top tier in these communities went from an 8/1 Mbps tier to 25/3 Mbps with a much higher usage cap as well. This project started in December and is still ongoing in 2020. An upgrade like this involves many departments such as Sales/Marketing, Engineering, Billing, Support, and Telecom Operations. The final portion of this project that we are still working on is the upgrades on the last mile to the customer. We are utilizing VDSL on customers with shorter loops, and doing bonded ADSL2+ where necessary on longer loops. Engineering and Operations are continuing to work through these upgrades for customers that require bonded service. Since much of Alaska is experiencing a winter with extreme cold and lots of snow, some of these upgrades will be finished this spring and early summer.

Fiber Projects – AP&T did several fiber projects in 2019, which were driven by customer demand, primarily other carriers. These projects were a result of significant work on the part of Broadband Sales. While there were many smaller projects, here is a highlight of the two largest.

- AP&T received requests for service between Juneau and several communities in Southeast with USDA forest service locations. The communities that we were able to provide service were in Petersburg (multiple locations), Thorne Bay and Craig. The Thorne Bay location required a fiber build to serve.

- A state-wide carrier won the contract to serve Tanana Chiefs in Tok late in 2019, and partnered with AP&T to provide the last mile and transport to three locations in Tok, and locations in Tanacross, Tetlin, and Northway. Tok and Northway required rather extensive fiber builds. Engineering and Operations came together to turn this around very quickly and we were able to meet the desired cutover date. The fiber crew was putting fiber up in the cold and snow of November to meet this schedule, and they did a great job meeting a very tight timeline!

Overall 2019 was another successful year with a significant amount of work accomplished by both the Engineering and Operations teams. This success is only made possible by the dedication and hard work of the men and women of AP&T.

MILES APART BUT

always connected

POWER ENGINEERING

Jeffrey Rice, P.E.
V/P Power Operations

Time and energy well spent.

The Alaska Power & Telephone, Power Engineering department as of 2020 consists of three electrical engineers, three mechanical engineers and a civil engineer. Three of these members are new hires and have been leading or assisting with projects around the utility. Bill Farrell, P.E. is a new electrical engineer working out of the Juneau office and brings over 10 years of utility project management and engineering experience to the company. David Chamberlain is an Engineer in Training (EIT) hired from the Alaska Center for Energy and Power internship program and brings enthusiasm for new energy sources and a strong work ethic. Matthew Groshek is a mechanical EIT currently living in Sitka who brings recent experience in small engine and hydro systems to the company.

Whale Pass is a small community isolated from the hydro grid on Prince of Wales Island. Its diesel plant was a modular design but was aging and required replacement. AP&T operations and engineering designed and constructed a permanent diesel plant in 2019. Final electrical work and commissioning is occurring in the first quarter of 2020. The plant is a new style using commonly found, low cost, packaged gensets combined with completely automated paralleling switchgear. The design is a prototype for future low cost generation options for AP&T's remaining small communities relying primarily on diesel generation. The plant is of a similar size to the Slana diesel plant built in 2015 but for roughly half the cost.

Prince of Wales Island has also been preparing for Híilangaay hydro operations and a 25% increase in peak grid load due to an expansion of the Silver Bay Seafood plant service. This effort includes upsizing Craig's False Island Substation by 3 megawatts of capacity and adding additional 35kV transmission interrupters to decrease outage response times.

In Upper Lynn Canal a bathometry study was commissioned to prepare to replace the Skagway to Kasidaya segment of the undersea power cable connecting Skagway, Kasidaya and Haines. The cable fiber lost connectivity from Skagway and a sea floor survey in April showed the cable under tension, possibly due to subsea ground movement. The bathometry survey is planned to precede a RFP for a new cable system between Skagway and Kasidaya including a new landing point on the Skagway side to better avoid hazards such as those impacting the existing cable. Partially due to concerns of cable failure and isolation of Haines from the Goat Lake hydro project, a used low-hour Caterpillar 3512B 1500kW containerized generating set was purchased and delivered to Haines in 2019. This unit can automate restoration of the generation bus at Haines and is being installed in 2020.

In Tok, AP&T is participating in a federally-funded project to investigate a southern "roadbelt" intertie between Anchorage and Fairbanks that would route through the Tok area. We will continue to watch this development, with hopes it might help provide lower cost power to the Tok region.

Goat Lake and Kasidaya hydro both received attention to their communications and electrical systems. Obsolete control system PLCs were replaced in Kasidaya, Haines and Lutak hydro. Goat Lake received a new fiber optic cable between the intake facilities and the powerhouse, functionally replacing a failing copper telephone cable. Kasidaya hydro received phone and camera upgrades and a resettable lockout system to allow remote restarts and decrease plant downtime after load rejections.

Híilangaay powerplant electrical powerhouse construction was largely completed. The engineering team and onsite crews powered through a difficult repair on the generator stators resulting from a manufacturer's defect. At the end of 2019, with medium and low voltage power cabling mostly complete and tested, the project three phase transmission, 35kV interrupters, plant medium voltage switchgear, station service and Motor control center were energized to provide permanent circuit heat through the construction shutdown season.

Thanks to all the people that worked hard throughout the year to keep us successful!

SPECIAL PROJECTS

Benjamin Beste, P.E.
V/P Special Projects
PM Hiílangaay Hydroelectric Project

Installation of the penstock for the Hiílangaay hydropower project. AP&T's design used an innovative light-weight fiberglass-reinforced plastic material found in hydropower projects in Norway. This allowed AP&T to position pipe by excavator, minimizing the need for costly specialty cranes."

Hiílangaay Hydroelectric Project.

During the construction season of 2019 contractors and AP&T crews were able to complete the installation of the 3,500 foot penstock. Starting in March, the penstock - consisting of about 3,100 feet of buried fiberglass reinforced plastic pipe and 400 feet of elevated steel pipe - was connected from the intake structure to the powerhouse by Thanksgiving. This work included building access roads, excavating pipe trenches, excavating and constructing nine large thrust blocks, and excavating and constructing five pipe pedestals.

Other work accomplished on the project site includes completing the installation of equipment into the powerhouse and adjacent substation, the excavation and construction of the inlet channel and bridge, and the installation of the permanent dock and ramp in Copper Harbor.

Personnel maintained and improved the work camp that supported over thirty workers during the year, and the heavy equipment and vessels that were vital to daily operations.

As we commence the 2020 construction season we have received most materials and project equipment onto the project site. AP&T personnel will complete the installation work in the powerhouse, will construct the facilities at the project intake and will connect power and communication circuits between the powerhouse and the intake. The balance of powerhouse work and the equipment installation work at the project intake will be completed by the end of summer in 2020.

After construction and installation work is complete, AP&T personnel will perform acceptance testing, proceed with the commissioning of the power project and make the powerplant ready for commercial operation.

Looking into the future AP&T has been contracted to provide O&M service for the powerplant. The autonomous station will be monitored and controlled remotely and O&M crews will be dispatched from Klawock.

With great respect of AP&T and personnel,

Benjamin Beste

Vision becomes reality in the field. Larry Coupe inspecting progress at the Híilangaay construction site.


AP&T

BUSINESS DEVELOPMENT

Jason Custer, CMA, PMP
V/P Business Development

Opportunities, technology, and innovation are within AP&T's reach.

In 2019, the federal government declined a proposal from AP&T to privatize electrical distribution and transmission facilities at the US Army Garrison – Oahu. The winning bidder's pricing was surprisingly lower than AP&T's, implying significant performance risks. This outcome reflects AP&T's current attitude that it will only undertake sizeable new special projects when they are carefully estimated and adequately funded, with an appropriate balance of risk/reward.

The year 2020 puts a new decade of opportunities, technology, and innovation within AP&T's reach. Key business development priorities in focus for our future include the following:

New Fiber Facilities. Demand for broadband continues to grow rapidly, driven by proliferation of new consumer devices, streaming technologies with increasing bandwidth requirements, and the vital role which connectivity has come to play in virtually every aspect of life and industry. AP&T is in a unique position to both build out last mile facilities to respond to customer demand, and invest in new middle mile facilities enhancing its capabilities as a carrier's carrier. In early 2020, AP&T announced it is pursuing USDA ReConnect grant funds to support development of advanced broadband within the communities of Kasaan and Coffman Cove, and construction of new middle-mile fiber assets between Prince of Wales Island, Petersburg, and Juneau. At the same time, AP&T has tremendous unutilized capacity available on its Juneau / Skagway Lynn Canal fiber project, which it seeks to develop as an alternative route for transporting data through Yukon Territory. In addition, the AP&T team is actively exploring partnerships with other service providers that will help enhance long-term value for customers and shareholders.

Strategic Acquisitions. AP&T has been evaluating numerous acquisition and investment opportunities coinciding with the company's core competencies. The AP&T team recognizes that finding the right-sized opportunity at the right time – and ensuring that there are no adverse impacts to legacy operations - is vital to success. Buying at a fair price is also a critical consideration. Recent acquisitions within the telecom and energy sectors reflect investors paying ever-higher premiums to acquire assets, and an increased presence of international investors with low-cost capital.

While the best fruit may be found out on a limb, the weight-bearing properties of the branch need to be well-understood in advance, and fall protection is a must. AP&T will be conducting thorough due diligence and risk analysis for all potential acquisitions, and will only take action if it has the resources available to execute.

Interties. AP&T acquired right of way for construction of a power cable between its Kasaan Mountain communications site, and the Prince of Wales utility grid system. The Kasaan intertie project, scheduled for construction in 2020, will replace costly mountaintop diesel-based generation with more affordable energy supplied mostly by hydropower facilities, including the soon to be complete Híilangaay hydropower project. This project will replicate the success of AP&T's High Mountain transmission line, and a recent transmission line extension to AP&T communication facilities on Auke Mountain.

AP&T is working with the National Park Service to begin design-build activities for a federally-funded intertie between the community of Gustavus and off-grid NPS facilities in Glacier Bay National Park. This long-envisioned project will increase energy sales and help to keep local rates affordable, while utilizing the underutilized Falls Creek hydropower project to displace diesel-based generation in one of America's premier national parks.

In spring of 2020, AP&T will be undertaking hydrographic surveys of the Skagway/Kasidaya power cable as a step towards investing in replacement of the cable in 2021. This will ensure that the communities of Haines and Skagway can continue to enjoy the benefits of a larger economy of scale, and shared hydropower assets, for years to come. The Denali Commission has initiated an ambitious project to plan a regional intertie connecting Anchorage to Fairbanks through Tok. If developed, this project would bring significant benefits to AP&T's interior service areas, and create new opportunities for nearby resource development, including mining and renewable energy resources.

New Uses of Electricity. Recognizing the value of renewable energy, AP&T's customers are beginning to utilize electricity in new and exciting ways. Customers are increasingly selecting air source heat pump technology as a cost-effective replacement for aging heating systems, and for newbuild projects. In early 2020, AP&T formed an innovative partnership with Sitka Conservation Society to establish an Americorps position to help promote awareness of heat pump technology, assist with economic analysis for conversions, and develop pilot projects in AP&T service areas.

Customers are also utilizing AP&T's newly established electric vehicle incentive program, and pioneering use of EVs in rural Alaska. However, uncertainty about the future of the Alaska Marine Highway System has caused some of our customers to temporarily put the brakes on planned EV acquisitions. AP&T has also been exploring opportunities to help support increased use of energy by commercial and industrial customers, and exploring other electric-based technology that can help increase sales, and utilize hydropower excesses which will available through the Híilangaay hydropower project.

Moving forwards, one of the key unknowns AP&T faces is the future of the State of Alaska's budget, which has been on a course of unsustainable spending for a number of years. In 2019, the Alaska Marine Highway System faced tremendous cuts, with some AP&T service areas losing service for extended periods of time. The Power Cost Equalization fund, which provides financial support to many of AP&T's residential electric customers, was temporarily unavailable. The university system and key public services were hit by tremendous budget reductions, some of which were restored. Volatile service availability and uncertainty about what the future brings causes businesses throughout Alaska – including AP&T – to proceed with extreme caution when planning new investments. While competing theories of how best to steady the State of Alaska's budget have been under extended debate, AP&T hopes stability can be accomplished soon, in a manner which provides greater predictability in years to come, and preserves Alaska's position as an incredibly rewarding place to live, work, and invest. In the meantime, AP&T will continue seeking out new growth opportunities, with a strong emphasis on risk management.

Søren Kierkegaard said,

"Life can only be understood backwards; but it must be lived forwards."

With that in mind, AP&T is ever mindful of the insights gained during challenging times as it focuses upon a future of continued long-term growth and prosperity.

SERVICE AREA MAP

Power Services

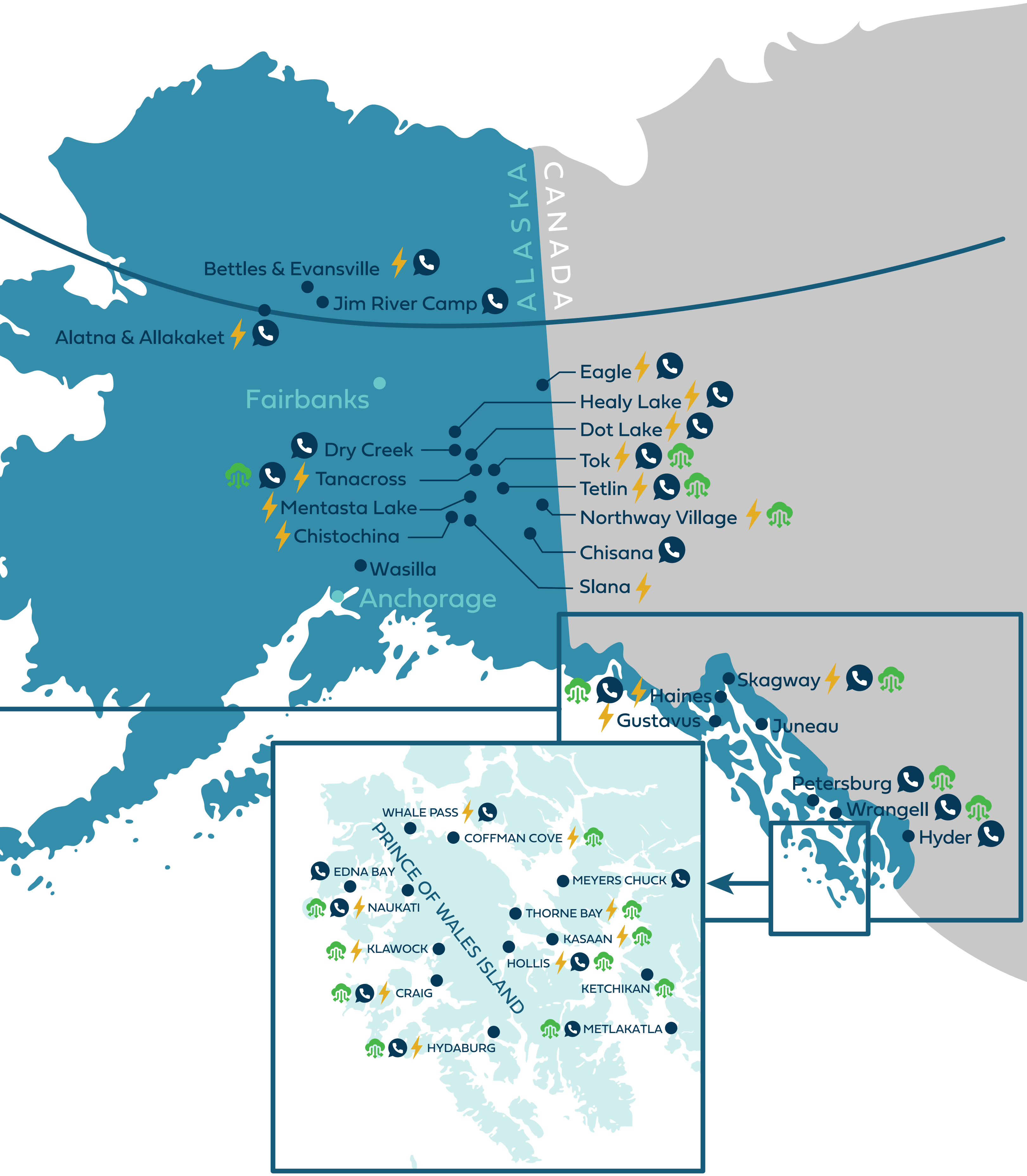
Data Services

Telecom Services

Communications Facility

SAMN Tower

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


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
Chisana
Wasilla
Slana
Anchorage
Skagway
Haines
Gustavus
Juneau
Petersburg
Wrangell
Hyder
WHALE PASS
COFFMAN COVE
PRINCE OF WALES ISLAND
EDNA BAY
MEYERS CHUCK
NAUKATI
THORNE BAY
KASAAN
KLAWOCK
HOLLIS
CRAIG
KETCHIKAN
METLAKATLA
HYDABURG

ALASKA POWER & TELEPHONE

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Company Overview

During 2019 total revenue from all operations decreased by $668,000 to a total of $55.2 million. Net income for the year was $917,000 down from the prior year of $6.4 million. The significant reduction in net income was largely the result of a one-time $10.3 million charge incurred by the Company related to the construction of the Hiílangaay hydroelectric project. This loss included accrued expenses of $5.3 million for construction activities expected to be completed in 2020. The Company generated $12 million of cash from operations, invested $7.7 million into property plant and equipment while reducing outstanding debt by $2 million. Total long-term debt as of December 31, 2019 was $40.8 million and stockholder equity was $49.8 million, giving AP&T a debt to equity ratio of 45.1% / 54.9%. Total dividends to shareholders declared during the year increased by $50,000 to $2.44 million. Based on a weighted-average of 1.27 million shares, the Company generated earnings per share of $0.72.

Operations By Segment

Electric Operations – Total 2019 sales for electric operations were 67 GWh, an increase of 1.1% over the previous year. Hydroelectric resources provided 73.6% of all generation, an increase of 4.1%, while diesel generation decreased by 8.9% from 2018 levels. Gross revenue generated by power operations was $20.6 million, a 4.3% decrease from 2018. The decrease in gross revenue was the result of a decrease in the federal income tax as part of the Tax Cut and Jobs Act that caused the Regulatory Commission of Alaska to require the Company to reduce power rates by 3%. Total operating expenses increased by $255,000, or 1.9%. Operating income for the year was $3.5 million, a decrease of $1 million or 22.6%.

Telecommunications Operations – Gross revenues for regulated telecommunications operations were $17.8 million for the year, a 5% or $844,000 increase over 2018. This increase was the result of AP&T accepting the FCC's offer to increase ACAM support for an increase in performance requirements. Operating expenses for the year increased by $229,000, or 2.1%, to a total of $10.8 million. As a result, regulated telecommunication services' operating income increased by $462,000, or 12%, to a total of $4.2 million.

Non-regulated Operations – Non-regulated operations consists of AP&T Wireless, AP&T Long Distance (both provide telecom services) and Hiílangaay construction. The primary source of revenue from non-regulated operations is derived from AP&T Wireless operations. Revenues for AP&T Wireless increased by $1.2 million, or 9.5%, to $13.7 million. Long Distance services contributed $171,000 in revenue. Operating income from non-regulated telecom operations was $5.98 million, an increase of 7.4% or $410,000 over the prior year. As noted above, engineering and contract services related to the construction of Prince of Wales Island's Hiílangaay hydroelectric project incurred a one-time net charge of $10.3 million. The combination of non-regulated telecom and the effects of the Hiílangaay project created an operating loss for the segment of $4.3 million.

Other Income and Expense

AP&T receives patronage-based dividends from CoBank, our primary lender. CoBank bases its patronage on 1% of AP&T's average outstanding loan balances. As a result, the Company recorded patronage dividends of $462,000 for 2019, and $572,000 for 2018.

Through the acquisition of power-related assets during 1995 through 1997 and telecommunications assets during 1999, AP&T 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 ten 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 2019, AP&T increased its investment in gross plant in service by $7.7 million while removing $5.2 million in obsolete equipment. As a result, gross plant in service increase by $1.8 million or 0.8% to a total of $228.3 million. Net property, plant and equipment increased by 0.5% to $93.5 million. In 2019, AP&T increased its line of credit from $5 million to $20 million in anticipation for future growth and other plant investment. The Company utilized $5 million of its $20 million line of credit to finance Hı́ilangaay costs, plant additions and maintain cash availability.

Long-term interest-bearing liabilities at year-end 2019 were $40.8 million, a decrease of 14.5% or $6.9 million. Common stock transactions with the Company's Employee Stock Ownership Plan led to a decrease of 1.4% or 17,243 shares outstanding. Total stockholders' equity decreased by 4.8% after being reduced by $2.45 million in declared shareholder dividends. The improving market value of the Company's interest rate swap resulted in a $112,000 positive adjustment to "other comprehensive loss." During 2019, the Company's equity to total capitalization ratio improved by 5.1% to 54.9%.

Liquidity and Capital Resources

Operating Activities – Cash flows provided by ongoing operating activities during 2019 decreased by 10.5% or $1.8 million to $15.5 million. The effect of Hiilangaay on operating cash flow during 2019 and 2018 was a decrease of $3.4 million and $1.35 million respectively. The $3.9 million year-over-year decrease in net cash from operating activities was primarily due to the operating losses associated with the Hı́ilangaay.

Investing Activities – Net cash used for investing activities during 2019 were $7.6 million, a decrease of $2.3 million from the previous year. The acquisition of plant decreased by $2 million in 2019 to $7.7 million.

Financing Activities – The Company used $4.9 million of cash during 2019 for financing activities, a decrease of 38.2% or $3 million year-over-year. Net cash used for long-term debt transactions totaled $7 million during the year, an increase of $567,000. The Company used a net of $1.08 million of cash to settle stock transactions with its Employee Stock Ownership Program during the year, an increase of $557,000. Cash used for payments of dividends increased by $58,000 to $1.83 million, a 3.3% increase over 2018. AP&T ended the year with $2.1 million of cash on hand, compared to $2.5 million at the end of 2018.

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 these factors could create adverse effects on AP&T's long-term financial projections.

- Construction to complete the Híilangaay hydroelectric project continues. AP&T believes that the one-time $10.3 million charge related to construction of the Híilangaay project, which includes $5.3 million of expenses for construction activities expected to be completed in 2020, is sufficient to cover the costs to complete the project. However, there are still risks associated with the completion of the Hiílangaay project that may cause AP&T to incur costs in excess of the above-amounts that the Company has already incurred and recognized in 2019.

- Subsequent to year-end, an outbreak of a novel coronavirus (COVID-19) occurred globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequently, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable.

Michael Garrett, CPA
CEO, President

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

5 YEAR SUMMARY

$ Expressed in thousands except per share data

	2015	2016	2017	2018	2019
Operating Results					
Operating Income					
Electric Services	$ 4,944	$ 4,387	$ 5,124	$ 4,574	$ 3,538
Telecommunications	1,919	1,432	4,937	3,783	4,245
Non-Regulated Operations	3,438	3,737	5,394	4,565	(4,302)
Total Operating Income	$ 10,301	$ 9,556	$ 15,455	$ 12,922	$ 3,481
Operating Margin	23.30%	19.91%	27.46%	23.11%	6.30%
Net Income	3,295	(354)	10,205	6,452	917
Cash Flow from Operations	$ 13,772	$ 12,629	$ 17, 308	$ 15,970	$ 12,064
Earnings (loss) per Share - Basic	$ 2.53	$ (0.27)	$ 7.88	$ 5.01	$ 0.72

Financial Position

	2015	2016	2017	2018	2019
Total Capitalization	$ 95,943	$ 99,638	$ 101,594	$ 100,093	$ 90,666
Weighted-Average Shares Outstanding	1,304,030	1,299,128	1,294,569	1,286,718	1,273,448
Book Value per Share - Basic	$ 30.98	$ 30.36	$ 37.19	$ 40.80	$ 39.39
Share Price per Valuation	$ 35.18	$ 49.30	$ 56.73	$ 61.80	TBD

Financial Position

	2015	2016	2017	2018	2019
Cash from Operations/Revenue	31.2%	26.3%	30.7%	28.6%	21.8%
EBITDA	$ 17,218	$ 11,667	$ 24,058	$ 21,399	$ 11,951
EBITDA / Revenue	39.0%	24.3%	42.7%	38.3%	21.6%
Debt / Capitalization	58.0%	60.5%	52.7%	47.7%	45.1%
Equity / Capitalization	42.0%	39.5%	47.3%	52.3%	54.9%
Return on Assets	2.7%	-0.3%	8.2%	5.2%	0.8%
Return on Equity	8.2%	-0.9%	21.2%	12.3%	1.8%
Dividends Declared / Share	$ 0.85	$ 1.01	$ 1.68	$ 1.92	$ 1.92

View at Copper Harbor, near the Híilangaay hydro construction site.

REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

ALASKA POWER & TELEPHONE COMPANY AND SUBSIDIARIES

December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
April 7, 2020

Alaska Power & Telephone Company
Consolidated Balance Sheets

ASSETS

	December 31, 2019	December 31, 2018
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$117,356,085	$114,845,331
Telecommunications	104,925,720	104,649,509
Nonutility	5,990,517	6,935,702
	228,272,322	226,430,542
Less accumulated depreciation and amortization	134,802,305	133,390,162
	93,470,017	93,040,380
Utility plant under construction	2,467,003	3,359,548
Total property, plant, and equipment	95,937,020	96,399,928
OTHER ASSETS		
Investments	5,871,925	5,912,451
Goodwill, net of amortization	242,444	302,988
Rate stabilization asset	4,670,537	4,992,864
Other assets	1,361,665	848,251
Total other assets	12,146,571	12,056,554
CURRENT ASSETS		
Cash and cash equivalents	2,072,160	2,535,518
Receivables, less allowance for doubtful accounts of $31,976 in 2019 and $37,486 in 2018	5,922,201	7,382,886
Inventory and other current assets	3,734,725	3,703,450
Income tax refunds receivable	2,066,203	2,022,225
Total current assets	13,795,289	15,644,079
Total assets	$121,878,880	$124,100,561

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2019	December 31, 2018
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,264,736 and 1,282,159 shares issued and outstanding in 2019 and 2018, respectively	$ 1,264,736	$ 1,282,159
Additional paid-in capital	2,066,155	3,125,479
Retained earnings	47,438,273	48,966,432
Accumulated other comprehensive loss	(951,178)	(1,063,430)
Total stockholders' equity	49,817,986	52,310,640
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	5,704,711	6,553,579
Other long-term debt	28,008,118	34,465,909
Total long-term debt	33,712,829	41,019,488
INTEREST RATE SWAP	1,315,780	1,471,060
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	14,492,780	14,532,945
Other deferred credits	665,214	601,961
Total other liabilities and deferred credits	15,157,994	15,134,906
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	4,396,693	5,200,616
Billings in excess of construction	3,536,677	2,200,687
Provision for loss on contracts	1,805,847	-
Line of credit	5,000,000	-
Current portion of long-term debt	7,135,074	6,763,164
Total current liabilities	21,874,291	14,164,467
Total liabilities and stockholders' equity	$ 121,878,880	$ 124,100,561

See accompanying notes.

Alaska Power & Telephone Company
Consolidated Statements of Income

	Years Ended December 31, 2019	Years Ended December 31, 2018
REVENUE		
Electric	$ 20,589,106	$ 21,520,659
Telecommunications	17,846,776	17,002,367
Other nonregulated	16,809,870	17,390,268
	55,245,752	55,913,294
EXPENSES		
Electric	13,719,208	13,464,414
Telecommunications	10,858,580	10,630,041
Other nonregulated	19,056,307	10,814,429
Operations and maintenance expense	43,634,095	34,908,884
Depreciation and amortization expense	8,130,749	8,082,171
	51,764,844	42,991,055
Income from operations	3,480,908	12,922,239
OTHER INCOME (EXPENSE)		
Dividend income	466,816	574,912
Amortization of goodwill	(60,544)	(1,792,736)
Loss on abandoned project	(59,822)	(130,683)
Miscellaneous	(67,843)	(49,953)
Total other income (expense)	278,607	(1,398,460)
Interest income	45,780	54,288
Interest expense	(2,970,527)	(3,281,601)
Net interest expense	(2,924,747)	(3,227,313)
Income before income taxes	834,768	8,296,466
Provision for income taxes	82,255	(1,844,586)
Net income	$ 917,023	$ 6,451,880
Basic and diluted earnings per share	$ 0.72	$ 5.01
Weighted-average basic and diluted shares outstanding	1,273,448	1,286,718

See accompanying notes.

	Years Ended December 31, 2019	Years Ended December 31, 2018
Net income	$ 917,023	$ 6,451,880
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	155,280	1,036,899
Income tax expense related to fair value adjustment to interest rate swap liability	(43,028)	(287,325)
Comprehensive income	$ 1,029,275	$ 7,201,454

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, 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
Net income	-	-	917,023	-	917,023
Sale of common stock	22,764	1,384,029	-	-	1,406,793
Repurchase of common stock	(40,187)	(2,443,353)	-	-	(2,483,540)
Fair value adjustment to interest rate swap, net of tax	-	-	-	112,252	112,252
Dividends to shareholders	-	-	(2,445,182)	-	(2,445,182)
Balance at December 31, 2019	$ 1,264,736	$ 2,066,155	$ 47,438,273	$ (951,178)	$ 49,817,986

 See accompanying notes.

	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 917,023	$ 6,451,880
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	8,289,034	9,966,390
Loss on abandoned project	59,822	130,683
Loss from disposal of assets	-	55,295
Noncash patronage dividends	(104,589)	(121,616)
Provision for loss on contracts	1,805,847	-
Deferred income taxes	(85,971)	357,263
Accretion of rate stabilization asset	322,327	13,787
Changes in assets and liabilities		
Receivables	1,460,685	67,119
Income taxes	(43,978)	(1,219,187)
Other assets and liabilities	(556,080)	268,688
Net cash from operating activities	12,064,120	15,970,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(7,724,885)	(9,799,704)
Proceeds from investment in nonaffiliate	145,115	105,483
Purchase of investments	-	(251,291)
Net cash from investing activities	(7,579,770)	(9,945,512)

See accompanying notes.

Alaska Power & Telephone Company
Consolidated Statements of Cash Flows

	Years Ended December 31, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	-	754,906
Proceeds from line of credit	5,000,000	-
Payments on long-term debt	(7,032,490)	(6,465,512)
Proceeds from sale of common stock	1,406,793	985,385
Repurchase of common stock	(2,483,540)	(1,505,526)
Dividends paid	(1,838,471)	(1,780,139)
Net cash from financing activities	(4,947,708)	(8,010,886)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(463,358)	(1,986,096)
CASH AND CASH EQUIVALENTS, beginning of the year	2,535,518	4,521,614
CASH AND CASH EQUIVALENTS, end of the year	$ 2,072,160	$ 2,535,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense	$ 2,970,527	$ 3,281,601
Income taxes	$ 820,000	$ 3,460,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 112,252	$ 749,574
Accrued dividends payable	$ 606,711	$ 615,255

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 are in accordance with 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.

Recently adopted accounting standards – Effective January 1, 2019, the Company adopted Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers,* on a modified retrospective basis. ASC 606 requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also establishes a framework for allocating discounts between performance obligations and prescribes, through reference to ASC 340, *Other Assets and Deferred Costs*, the capitalization of incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer. Adoption of ASC 606 did not have a material effect on the Company's recognition of revenue, operating expenses or cash flows. See Note 11 – Operating Revenues, for a summary of other disclosures required under ASC 606.

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, costs to complete construction contracts, 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.

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

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 changes in the fair market value of interest rate swaps, are reported as a separate component of equity. These items, along with net income, are components of comprehensive income, which is reported in a separate consolidated statement of comprehensive income.

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

Fuel, supplies, and other inventory – Fuel, supplies, and other inventory are valued at the lower of average cost or net realizable value. 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 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)

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 2019. Total amortization expense related to goodwill for the years ended December 31, 2019 and 2018, was $60,544 and $1,792,736, respectively.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2019 and 2018, the carrying amount of goodwill was $242,444 and $302,988, which included accumulated amortization of $9,023,956 and $8,963,415, respectively.

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

Income taxes – Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to asset impairment deductions on the books. Deferred tax liabilities relate primarily to the use of accelerated depreciation for income tax purposes.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2019 and 2018, 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 $665,214 and $601,961 at December 31, 2019 and 2018, respectively.

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

Revenue recognition – **electric** – The Company utilizes cycle billing and records revenue billed to its customers when the meters are read each month. In addition, the Company recognizes unbilled revenue, revenues from electric power delivered but not yet billed. Revenue is recognized when obligations under the terms of a contract with customers are satisfied. Generally, this satisfaction of performance obligations and transfer of control occurs and revenues are recognized as electricity is delivered to customers, including any services provided. The prices charged, and amount of consideration the Company receives in exchange for its goods and services provided, are established through a formal rate case process and approved by the State of Alaska and the calculation of the cost of power adjustment through the State of Alaska tariff. The Company recognizes revenue through the following steps: i) identifying the contract with the customer; ii) identifying the performance obligations in the contract; iii) determining the transaction price; iv) allocating the transaction price to the performance obligations; and v) recognizing revenue when or as each performance obligation is satisfied.

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 incurred and are calculated using the percentage of completion method. See Note 5 for additional disclosures related to the Company's construction contracts.

Revenue recognition – telecommunications – The Company provides local telephone, network access and long-distance, and Internet to end user and enterprise customers within its geographic footprint. The majority of the Company's end user customer revenue is based on month-to-month contracts while larger enterprise customers have contracts with defined terms of service that can range from one to five years.

The Company recognizes revenue for services as it provides the applicable service or when control of a product is transferred. Recognition of certain payments received in advance of services provided is deferred until the service is provided i.e. when the Company satisfies its performance obligation.

Customer contracts that include both equipment and services are evaluated to determine whether performance obligations are separable. If the performance obligations are deemed separable and separate earnings process exists, the total transaction price with the customer is allocated to each performance obligation based on the relative standalone selling price of the separate performance obligation.

The standalone selling price is the price charged to similar customers for the individual services or equipment.

Local telephone and internet are recognized over the period a customer is connected to the network. These services are generally billed in advance, but recognized in the month that service is provided. Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls), and long distance are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

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).

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

Telecommunications operating revenues include settlements based on AP&T's participation in the interstate revenue pools administered by the National Exchange Carrier Association (NECA) and regulated by the FCC. These revenues are determined by annually prepared separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool adjustment period and final review and acceptance by the pool administrators. There was an insignificant revenue impact for 2019 and 2018, 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, 2019 and 2018.

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, 2019 or 2018.

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.

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

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

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

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 2019 or 2018. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,273,448 in 2019 and 1,286,718 in 2018.

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, 2019 and 2018, were $34,702 and $93,743, respectively.

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

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

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

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

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

- Goodwill impairment testing
- Interest rate swap

The fair value of the Company's interest rate swap is determined based on Level 1 of the fair value hierarchy at December 31, 2019 and 2018.

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

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.

Other current assets and liabilities – The carrying amounts approximate fair value because of the short maturity of those instruments

Investments – Investments in nonaffiliates are not intended for resale and are not readily marketable, thus a reasonable estimate of fair value is not practical

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, 2019 and 2018, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

Reclassifications – Certain reclassifications have been made to the 2018 financial statements to be in accordance with the 2019 presentation. These reclassifications had no effect on net margins stockholders' equity.

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 7, 2020, which is the date the consolidated financial statements were available to be issued.

Subsequent to year end, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. The duration and intensity of the impact of the coronavirus and resulting impact to the Company is unknown.

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 2028.

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 $238,288 and $232,204 for 2019 and 2018, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2020	$	238,002
2021		214,482
2022		191,905
2023		179,589
2024		106,986

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 $709,362 and $680,246 in the years ending 2019 and 2018, respectively.

Note 4 – Property, Plant, and Equipment

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

	Plant Account	Accumulated Depreciation	2019 Net Balance	2018 Net Balance	Depreciation Rate
Regulated electric					
Hydroelectric	$ 29,350,684	$ 12,162,724	$ 17,187,960	$ 17,548,367	2%
Other generation	25,772,228	14,401,393	11,370,835	11,295,362	4% to 8%
Transmission and distribution	45,939,439	30,527,778	15,411,661	15,786,946	2.5% to 4%
Other	14,819,135	9,629,675	5,189,460	4,969,974	2.5% to 20%
Land	807,040	-	807,040	807,040	---
Utility plant acquisition adjustment	429,317	429,317	-	11,089	6%
	117,117,843	67,150,887	49,966,956	50,418,778	
Regulated telecommunications					
General support assets	9,557,024	6,705,161	2,851,863	2,635,055	2.5% to 20%
Central office assets	31,844,773	25,509,627	6,335,146	6,378,079	8% to 14%
Cable and wire facilities	30,014,059	20,423,920	9,590,139	6,908,749	3% to 6%
Land	460,962	-	460,962	460,962	---
	71,876,818	52,638,708	19,238,110	16,382,845	
Other nonregulated					
Buildings	5,763,755	2,790,428	2,973,327	3,065,737	4%
Nonregulated telecommunications	33,048,901	12,222,282	20,826,619	22,926,047	4% to 20%
Plant held for future use	238,242	-	238,242	20,210	---
Land	226,763	-	226,763	226,763	---
	39,277,661	15,012,710	24,264,951	26,238,757	
Total property, plant, equipment	$ 228,272,322	$ 134,802,305	$ 93,470,017	$ 93,040,380	

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:

	2019	2018
Investment in National Bank of Cooperatives (CoBank)	$ 4,326,732	$ 4,367,258
Investment in Ketchikan Electric Company, LLC (KEC)	600,000	600,000
Investment in Haida Energy, Inc. (HE)	861,076	861,076
Other	84,117	84,117
	$ 5,871,925	$ 5,912,451

Note 5 – Investments (continued)

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 $462,436 and $571,204 for 2019 and 2018, 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 2019 or 2018.

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 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.

The Company is constructing the project on behalf of HE under a cost-plus-fee, maximum price arrangement and recorded the following cumulative activity through the years ended December 31:

	2019	2018
Project billings	$ 22,100,000	$ 17,348,000
Revenue recognized	18,563,323	15,581,723
Project expenditures	26,932,641	15,277,312
Project expenditures and accrued costs	32,267,000	15,305,822

During 2019, the Company encountered unforeseen construction challenges related to design changes and field conditions that resulted in significant cost overruns in the Reynolds Creek hydroelectric project. These challenges resulted in the Company revising its cost estimate to complete the project and as a result, a pre-tax charge of approximately $10,167,000 was recorded that is reflected in other nonregulated expense. This charge increased the total project costs expensed to date to approximately $32,267,000. As part of the transaction to record the total estimated loss on the project, the Company recorded a loss provision of $1,806,000 and deferred billed revenues of $3,537,000 at December 31, 2019. The Company is not aware of material additional project construction costs that would need to be accrued in subsequent periods to complete the project.

Alaska Power Company (APC) entered into a power sales agreement with HE in 2015 that requires APC to purchase power from HE before diesel generation if HE has available energy. APC must also make 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. The Company determined that the Reynolds Creek project would not be operational by January 31, 2020. As a result, the construction line of credit was converted into long-term debt and therefore the Company will be required to begin making loan payments on behalf of HE beginning in April 2020. The quarterly principal-only payments of $108,696 are to be paid by the Company throughout the life of the loan. The Company will receive power credits to be used against future purchases of power from HE in the same amount of the principal-only payments.

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, 2019.

Note 6 – Long-Term Debt

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

	2019	2018
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%.	$ 8,266,500	$ 8,860,500
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	6,553,580	7,420,246
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 10-year amortization with a variable interest rate of 4.56% at December 31, 2019. Interest rate swap agreement reduces exposure to interest rate fluctuations. Net of unamortized issuance costs of $361,810	20,439,463	25,150,965
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%.	3,250,000	3,583,333
Notes payable to state of Alaska, secured by certain electric assets, with fixed interest rates ranging from 0.00% to 5.45%, maturing at various dates from 2020 through 2037.	1,995,121	2,163,683
CoBank revolving line of credit, secured by all assets of AP&T and its subsidiaries, authorized up to $20M with variable bullet interest rates ranging from 3.47% to 4.19%, maturing in 2020.	5,000,000	-
Other term debt	343,239	603,925
	45,847,903	47,782,652
Less current portion	(12,135,074)	(6,763,164)
	$ 33,712,829	$ 41,019,488

Annual maturities for the five years beginning January 1, 2020, are $12,135,074, $7,422,367, $14,340,726, $5,608,902, and $1,228,159, respectively, and $5,112,675 thereafter.

Note 6 – Long-Term Debt (continued)

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

The Company has entered into an interest rate swap agreement on all of its variable rate long-term debt with CoBank. The interest rate swap became effective in August 2013 and amortizes over an additional ten-year term at 7.62% per annum. The fair value of the interest rate swap liability was $1,315,780 and $1,471,060 at December 31, 2019 and 2018, 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 $20 million line of credit established with CoBank. There were outstanding balances on the line of credit of $5,000,000 and $0 at December 31, 2019 and 2018, respectively.

Note 7 – Income Taxes

The components of the consolidated income tax expense (benefit) are as follows for the years ended December 31:

	2019	2018
Current	$ 3,716	$ 1,487,323
Deferred	(85,971)	357,263
	$ (82,255)	$ 1,844,586

Note 7 – Income Taxes (continued)

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

	2019	2018
Income tax provision at federal rate of 21%	$ 175,301	$ 1,742,258
State income taxes, net of federal benefit	4,546	426,771
Permanent items	(227,074)	(217,167)
Other	(35,028)	(107,276)
Provision for income taxes	$ (82,255)	$ 1,844,586

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

	2019	2018
Deferred tax (asset)		
Allowance for bad debt	$ (8,861)	$ (10,393)
Accrued employee benefits	(177,369)	(169,017)
Capital loss carryover	(1,860,634)	(1,860,634)
Book vs. tax basis of investments	(797,013)	(296,613)
Fair value adjustment of interest rate swap liability	(364,603)	(407,631)
Other	(184,030)	(5,659)
	(3,392,510)	(2,749,947)
Less valuation allowance	1,860,634	1,860,634
Total deferred tax assets	(1,531,876)	(889,313)
Deferred tax liability		
Prepaid expenses	396,104	338,283
Tax amortization and depreciation greater than book	14,355,343	13,715,075
Deferred revenues and expenses	1,273,209	1,368,900
Total deferred tax liabilities	16,024,656	15,422,258
Net deferred tax liability	$ 14,492,780	$ 14,532,945

Note 7 – Income Taxes (continued)

The consolidated balance sheet includes a total amount for income taxes receivable of $2,066,203 at December 31, 2019. This consists of a federal receivable of $1,566,331 and a state receivable of $499,872.

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 2019.

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 2019, employer matching contributions and profit sharing contributions were $544,507 and $325,260, respectively. In 2018, employer matching contributions and profit sharing contributions were $499,986 and $365,676, respectively. The plan was not leveraged as of December 31, 2019 and 2018, 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.

Year ended December 31, 2019 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 20,589	$ 17,847	$ 16,810	$ 55,246
Depreciation and amortization	3,332	2,743	2,056	8,131
Operating income	3,538	4,245	(4,302)	3,481
Interest expense	528	-	2,443	2,971
Interest income	-	-	47	47
Total fixed assets	117,118	71,877	39,277	228,272
Total accumulated depreciation	(67,151)	(52,639)	(15,012)	(134,802)
Total fixed assets, net	49,967	19,238	24,265	93,470
Capital expenditure	2,456	5,637	(368)	7,725

Year ended December 31, 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

Note 10 – Other Assets

Other assets consist of the following at December 31:

	2019	2018
Miscellaneous regulatory assets - power	$ 419,950	$ 167,803
Other	941,715	680,448
	$ 1,361,665	$ 848,251

Note 11 – Operating Revenue

The following table provides disaggregation of revenue from contracts with customers:

	For the year ended December 31, 2019		
	Total	Revenue From Contracts With Customers	Other Revenue
Electric	$ 20,589,106	$ 20,432,553	$ 156,553
Telecommunications	17,846,776	11,339,104	6,507,672
Other Nonregulated	16,809,870	13,363,124	3,446,746
	$ 55,245,752	$ 45,134,781	$ 10,110,971

Telecommunications and Other Nonregulated revenues includes revenues received from federal and state universal service programs which are not considered revenue from contracts with customers and are specifically scoped out of ASC 606.

Electric revenues include revenues received from power line pole rentals which are not considered revenue from contracts with customers and are specifically scoped out of ASC 606.

Revenue from services is recognized over time as customers receive the services. Revenue from sales of equipment or other nonrecurring services are recognized at a point in time when control of the equipment is transferred or when service is rendered. Revenues recognized at a point in time were minimal.

Contracts that generate contract liabilities include arrangements for services that are paid by the customer before services are provided such as construction services. Contract liabilities are classified as billings in excess on the consolidated balance sheet.

The Company does not incur material contract fulfillment costs associated with is contracts with customers. The cost of the Company's network and related equipment, and enhancements to the network required under customer contracts, is accounted for in accordance with ASC 360 Property, Plant and Equipment

Contract liabilities associated with contracts with customers were as follows at December 31:

	2019	2018
Contract liabilities		
Billings in excess of construction	$ 3,536,677	$ 2,200,687

The Company did not have contract assets associated with contracts with customers as of December 31, 2019.

AP&T weather-hardens its communication sites against some of the toughest conditions in North America. AP&T's Southeast Alaska Microwave Network (SAMN) remained reliable despite extreme icing at sites such as Lindenberg Peak, shown here.

OUR 2019 RETIREES

We at AP&T congratulate our 2019 retirees. It has been a privilege working with you, and now it is an honor helping you celebrate your retirements.

Sheryl Dennis
Skagway, Alaska

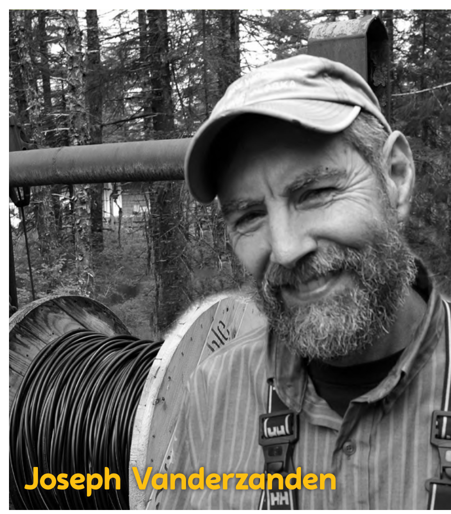
Mark McCready
Port Townsend, Washington

Vernon Neitzer
Skagway, Alaska

Cynthia Reed
Port Townsend, Washington

Joseph Vanderzanden
Gustavus, Alaska

Theresa Vick
Petersburg, Alaska



A NOTICE TO SHAREHOLDERS

Notice to Shareholders:

The annual meeting will be held on Wednesday, June 24th, 2020 at 10:00am, PDT via a live webcast at:
www.virtualshareholdermeeting.com/APTL2020

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Disclaimer:
The narrative descriptions of the Company's activities within this annual report contain certain forward-looking statements that involve risks and uncertainties. When used in this annual report, the words "anticipates," "believes," "estimates," "expects," and similar expressions are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in or implied by these forward-looking statements.

REGARDING AP&T STOCK

For information regarding the acquisition or sale of AP&T stock, please contact:
Darrell A. Patrick
SJ Wolfe Investments
Broker Dealer
Cutter & Company
6540 Poe Ave., Suite 510
Dayton, OH 45414

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


AP&T
USDOT 610082


ALASKA


AP&T

REAL
PEOPLE

Alaska Power & Telephone Company

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

1.800.982.0136

APTalaska.com

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