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ALASKA POWER & TELEPHONE CO

Form U-3A-2

April 12, 2001

OMB APPROVAL

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM U-3A2

Statement by Holding Company Claiming Exemption under Rule U-3a-2 from the provisions of the Public Utility Holding Company Act of 1935

To be filed Annually Prior to March 1

ALASKA POWER & TELEPHONE COMPANY

(Name of Company)

hereby files with the Securities Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. Name, State of organization, location and nature of business of claimant and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which claimant directly or indirectly holds an interest.
2. A brief description of the properties of claimant and each of its subsidiary public utility companies used for the generation, transmission, and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are outside the State in which claimant and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.
3. The following information for the last calendar year with respect to claimant and each of its subsidiary public utility companies:
 - (a) Number of kWh. Of electric energy sold (at retail or wholesale) and Mcf. Of natural or manufactured gas distributed at retail.
 - (b) Number of kWh. of electric energy and Mfc. Of natural or manufactured gas distributed at retail outside the State in which each company is organized.
 - (c) Number of kWh. Of electric energy and MCF. OF NATURAL OR MANUFACTURED AS SOLD AT WHOLESALE OUTSIDE THE State in which each such company is organized, or at the State line.
 - (d) Number of kWh. Of electric energy and Mcf. Of natural or manufactured

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gas purchased outside the State in which each such company is organized or at the State line.

- 4. The following information for the reporting period with respect to claimant and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

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- (a) Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.
(b) Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.
(c) Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number. SEC 1834 (2-97)

- (d) Capitalization and earnings of the EWG or foreign utility company during the reporting period.
(e) Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

EXHIBIT A

A consolidating statement of income and surplus of the claimant and its subsidiary companies for the last calendar year, together with a consolidating balance sheet of claimant and its subsidiary companies as of the close of such calendar year.

The above-named claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 31st day of March, 2000.

ALASKA POWER & TELEPHONE COMPANY

Name of claimant

By Russell A. Smith
(title) VP/CONTROLLER

CORPORATE SEAL

Attest: HOWARD GARNER , EXECUTIVE VICE PRESIDENT

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Name, title, and address of officer to whom notices and correspondence concerning this statement should be addressed:

ALASKA POWER & TELEPHONE COMPANY

RUSSELL A. SMITH, VP/CONTROLLER

(Name)

(Title)

P.O. BOX 3222, PORT TOWNSEND, WASHINGTON 98368

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EXHIBIT B Financial Data Schedule

If, at the time a report on this form is filed, the registrant is required to submit this report and any amendments thereto electronically via EDGAR, the registrant shall furnish a Financial Data Schedule. The Schedule shall set forth the financial and other data specified below that are applicable to the registrant on a consolidated basis.

| Item No. | Caption Heading |
|----------|--------------------------|
| 1 | Total Assets |
| 2 | Total Operating Revenues |
| 3 | Net Income |

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding-company system.

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ATTACHMENTS TO FORM U-3A-2

1. Name of claimant is Alaska Power & Telephone Company (AP&T). AP&T operates as a regulated public utility providing electric and/or telephone service. AP&T is fully regulated by the Regulatory Commission of Alaska (RCA). AP&T is a Holding Company with the following subsidiaries:

Electric Operations

Alaska Power Company - Serving the following communities in Alaska: Skagway, Haines, Tok, Dot Lake, Chistochina, Mentasta Lake, Tetlin, Tanacross, Healy Lake, Bettles/Evansville, Northway, Northway Village, Allakaket/Alatna, Eagle, Eagle Village, Craig, Hydaburg, Hollis, Coffman Cove, Klawock, and Whale Pass. (Retail and wholesale electric generation and distribution).

BBL Hydro, Inc. - Prince of Wales Island (wholesale hydroelectric generation).

Goat Lake Hydro, Inc. - Skagway (wholesale hydroelectric generation).

Telecommunication Operations

Alaska Telephone Company - Serving the following communities in Alaska: Skagway, Tok, Dot Lake, Dry Creek, Tetlin, Chisana, Healy Lake, Craig, Hydaburg, Hollis, Naukati, Whale Pass, Myers Chuck, Edna Bay, Metlakatla, Petersburg, Wrangell, and Haines.

Bettles Telephone, Inc. - Serving; Bettles, Evansville and Jim River Camp.

North Country Telephone, Inc. - Serving; Eagle and Eagle Village.

AP&T Wireless Inc. - Serving; Ketchikan, Juneau and the surrounding areas.

AP&T Long Distance Inc. - Serving; Alaska communities

2. All public utility operations of AP&T are conducted solely within Alaska. There is no natural gas activity. Diesel-powered generators and or hydroelectric generation systems generate the electric service in each location. There is no intertie to other electric systems or generation sources.

3. (a) Number of kWh sold (by individual subsidiary):
- | | |
|----------------------|-------------------------|
| Alaska Power Company | 60,593,632 kWh retail |
| | 2,549,400 kWh wholesale |
- (b) None sold or distributed out of the state of Alaska.
(c) None sold or distributed out of the state of Alaska.
(d) None sold or distributed out of the state of Alaska.

4. There are no holdings directly or indirectly in an EWG. The following subsidiary of AP&T holds an interest in a foreign hydroelectric generation company.

Nonregulated Operations

Hydro West Group, LLC. (HWG) - Located in Port Townsend, Washington and providing engineering and consulting services, primarily related to small hydroelectric power projects. HWG owns a 25% equity share of Inversiones Pasabien, S.A.

- (a) Inversiones Pasabien, S.A. is a Guatemalan corporation located at 15 Avenida 16-38 Zona 13 in Guatemala City, Guatemala, CA. The company is a 12.5 MW wholesale hydroelectric generation facility with an average

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- annual generation of 60,000 MW hours. The company's main customer is the Guatemalan government owned distribution company INDE.
- (b) Other unrelated companies owning a equity share in Inversiones Pasabien, S.A. are as follows:
- a. Valores Mercantiles, S.A. 50%
 - b. Ghella Sogene, C.A. 25%
- (c) HWG, LLC is a wholly owned subsidiary of AP&T. AP&T's investment in members' equity was \$2,504,872 at December 31, 2000. HWG has a Long-Term note payable of \$1,725,000 payable to Puget Sound Energy related to the purchase.
- (d) The company's operations first began during 2000 and there were no material earnings to be reported.
- (e) No contracts exist between the foreign company and any system company as of 12/31/2000.

Exhibit A, attached is the consolidating financial statements.

ALASKA POWER & TELEPHONE CO.
Consolidated B/S
December 31, 2000
(Page 1 of 2)

| | APT --- | ALD --- | APC --- | ATC --- |
|-----------------------------------|------------|------------|-------------|-------------|
| ASSETS | | | | |
| Utility Plant: Electric Plant | | 2,614,328 | 0 | 41,012,313 |
| Telecommunications | 0 | 0 | 0 | 28,439,600 |
| Non-Utility Plant | 485,751 | 0 | 0 | |
| | 3,100,078 | 0 | 41,012,313 | 28,439,600 |
| Less: Accum. Depreciation | -1,536,356 | 0 | -14,586,328 | -10,982,400 |
| | 1,563,723 | 0 | 26,425,985 | 17,457,200 |
| Utility Plant Under Construction: | | | | |
| Short Term CWIP | 444,775 | 0 | 1,553,650 | 166,500 |
| Total Utility Plant | 2,008,497 | 0 | 27,979,635 | 17,623,700 |
| Other Assets: | | | | |
| Prelim Survey/Investigation Costs | 22,873 | 0 | 610,523 | |
| Other Deferred Debits | 2,776,430 | 4,697 | 231,226 | 76,900 |
| Rate Stabilization Asset | 0 | 0 | 0 | |
| Intercompany | 30,775,190 | -117,369 | -14,792,921 | -16,747,400 |
| Goodwill, Net of Amortization | 749,352 | 0 | 0 | 8,440,500 |
| Special Funds - Restricted | 0 | 0 | 0 | |
| Total Other Assets | 34,323,845 | -112,672 | -13,951,173 | -8,229,900 |
| Current Assets: | | | | |
| Cash | 192,690 | 0 | 43,755 | 25,600 |
| Trade Accounts Receivable | -57 | 100 | 1,415,196 | 1,868,100 |
| Other Receivables | 207,807 | 0 | 75,049 | |
| Contracts Receivable | 4,256 | 0 | 0 | |
| Fuel, Supplies and Other Inv. | 0 | 0 | 748,047 | 291,700 |
| Income Taxes Recoverable | 361,822 | 0 | 0 | |

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| | | | | |
|---|-------------|----------|------------|----------|
| Prepaid Expenses and Other | 351,382 | 0 | 0 | 9,5 |
| Costs in Excess of Billings | 385,793 | 0 | 0 | |
| | ----- | ----- | ----- | ----- |
| Total Current Assets | 1,503,693 | 100 | 2,282,048 | 2,195,0 |
| | ----- | ----- | ----- | ----- |
| Total Assets | 37,836,036 | -112,572 | 16,310,510 | 11,588,8 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Stockholders' Equity: | | | | |
| Common Stock | 1,210,288 | 0 | 0 | |
| Additional Paid in Capital | 6,160,221 | 0 | 0 | |
| Retained Earnings | 12,790,743 | 0 | 0 | |
| Subsidiary Equity | -27,360,635 | -94,394 | 11,969,583 | 9,088,5 |
| Net Income (Loss) | -1,890,969 | -18,178 | 1,667,228 | 938,4 |
| | ----- | ----- | ----- | ----- |
| Total Equity | -9,090,351 | -112,572 | 13,636,811 | 10,026,9 |
| | ----- | ----- | ----- | ----- |
| Liabilities: | | | | |
| Long Term Debt | 44,952,956 | 0 | 0 | |
| Other Liabilities: | | | | |
| L-T Deferred Income Taxes | 237,661 | 0 | 2,074,726 | 1,326,6 |
| Customer Advances for Const. | 0 | 0 | 225,054 | |
| Deferred Credits | 0 | 0 | 0 | -201,1 |
| | ----- | ----- | ----- | ----- |
| Total Other Liabilities | 237,661 | 0 | 2,299,780 | 1,125,4 |
| | ----- | ----- | ----- | ----- |
| Current Liabilities: | | | | |
| Trade Accounts Payable | 916,641 | 0 | 142,387 | 93,1 |
| Accrued Taxes & Expenses | 771,402 | 0 | 53,369 | 166,1 |
| Custom Deposits/Advance Billings | 0 | 0 | 74,193 | 158,7 |
| Current Deferred Income Tax | 47,728 | 0 | 103,970 | 18,2 |
| | ----- | ----- | ----- | ----- |
| Total Current Liabilities | 1,735,771 | 0 | 373,919 | 436,3 |
| | ----- | ----- | ----- | ----- |
| Total Liabilities and Stockholders' Equity | 37,836,036 | -112,572 | 16,310,510 | 11,588,8 |
| | ===== | ===== | ===== | ===== |

ALASKA POWER & TELEPHONE CO.
Consolidated B/S
December 31, 2000
(Page 2 of 2)

BBL BTT GLH HDW
--- --- --- ---

ASSETS

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| | | | | |
|-----------------------------------|------------|----------|------------|---------|
| Utility Plant: | | | | |
| Electric Plant | 10,361,242 | 0 | 16,964,245 | |
| Telecommunications | 0 | 757,242 | 0 | |
| Non-Utility Plant | 0 | 0 | 0 | 60,9 |
| | ----- | ----- | ----- | ----- |
| | 10,361,242 | 757,242 | 16,964,245 | 60,9 |
| Less: Accum. Depreciation | -1,140,410 | -419,836 | -715,788 | -55,2 |
| | ----- | ----- | ----- | ----- |
| | 9,220,832 | 337,407 | 16,248,457 | 5,6 |
| Utility Plant Under Construction: | | | | |
| Short Term CWIP | 0 | 0 | 19,955 | 65,6 |
| | ----- | ----- | ----- | ----- |
| Total Utility Plant | 9,220,832 | 337,407 | 16,268,411 | 71,3 |
| | ----- | ----- | ----- | ----- |
| Other Assets: | | | | |
| Prelim Survey/Investigation Costs | 0 | 0 | 343,651 | |
| Other Deferred Debits | 130,878 | 0 | 491,390 | 2,509,1 |
| Rate Stabilization Asset | 0 | 0 | 760,718 | |
| Intercompany | 565,237 | -39,379 | 518,301 | -90,7 |
| Goodwill, Net of Amortization | 0 | 0 | 0 | |
| Special Funds - Restricted | 0 | 0 | 6,753,104 | |
| | ----- | ----- | ----- | ----- |
| Total Other Assets | 696,115 | -39,379 | 8,867,163 | 2,418,4 |
| | ----- | ----- | ----- | ----- |
| Current Assets: | | | | |
| Cash | 0 | 0 | 0 | |
| Trade Accounts Receivable | 0 | 18,879 | 0 | 24,0 |
| Other Receivables | 0 | 0 | 961,919 | |
| Contracts Receivable | 0 | 0 | 0 | |
| Fuel, Supplies and Other Inv. | 0 | 1,220 | 0 | |
| Income Taxes Recoverable | 0 | 0 | 0 | |
| Prepaid Expenses and Other | 0 | 0 | 0 | |
| Costs in Excess of Billings | 0 | 0 | 0 | |
| | ----- | ----- | ----- | ----- |
| Total Current Assets | 0 | 20,098 | 961,919 | 24,0 |
| | ----- | ----- | ----- | ----- |
| Total Assets | 9,916,947 | 318,126 | 26,097,494 | 2,513,7 |
| | ===== | ===== | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | |
|----------------------------|-----------|---------|------------|---------|
| Stockholders' Equity: | | | | |
| Common Stock | 0 | 0 | 0 | |
| Additional Paid in Capital | 0 | 0 | 0 | |
| Retained Earnings | 0 | 0 | 0 | |
| Subsidiary Equity | 674,725 | 242,174 | 1,891,734 | 2,504,8 |
| Net Income (Loss) | 145,752 | 30,373 | 463,088 | |
| | ----- | ----- | ----- | ----- |
| Total Equity | 820,478 | 272,547 | 2,354,822 | 2,504,8 |
| | ----- | ----- | ----- | ----- |
| Liabilities: | | | | |
| Long Term Debt | 7,632,724 | 0 | 22,235,187 | |
| Other Liabilities: | | | | |
| L-T Deferred Income Taxes | 1,388,603 | 38,399 | 1,499,737 | |

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| | | | | |
|---|-----------|---------|------------|---------|
| Customer Advances for Const. | 0 | 0 | 0 | |
| Deferred Credits | 0 | 0 | 0 | 8,9 |
| | ----- | ----- | ----- | ----- |
| Total Other Liabilities | 1,388,603 | 38,399 | 1,499,737 | 8,9 |
| | ----- | ----- | ----- | ----- |
| Curent Liabilities: | | | | |
| Trade Accounts Payable | 45,228 | 2,486 | 0 | |
| Accrued Taxes & Expenses | 31,165 | 891 | 7,748 | |
| Custom Deposits/Advance Billings | 0 | 3,905 | 0 | |
| Current Deferred Income Tax | -1,251 | -102 | 0 | |
| | ----- | ----- | ----- | ----- |
| Total Current Liabilities | 75,142 | 7,180 | 7,748 | |
| | ----- | ----- | ----- | ----- |
| Total Liabilities and Stockholders' Equity | 9,916,947 | 318,126 | 26,097,494 | 2,513,7 |
| | ===== | ===== | ===== | ===== |

ALASKA POWER & TELEPHONE CO.
Consolidated I/S
For the Twelve Months Ending December 31, 2000
(Page 1 of 2)

| | APT | ALD | APC | ATC |
|--|-------------|----------|------------|--------|
| | --- | --- | --- | --- |
| Revenues: | | | | |
| Electric | - | - | 12,927,744 | |
| Telecommunications | - | 508,249 | - | 8,272, |
| | ----- | ----- | ----- | ----- |
| Total Revenues | - | 508,249 | 12,927,744 | 8,272, |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Electric | 33,690 | - | 10,542,918 | |
| Telecommunications | - | 534,449 | - | 6,919, |
| | ----- | ----- | ----- | ----- |
| Total Expenses | 33,690 | 534,449 | 10,542,918 | 6,919, |
| | ----- | ----- | ----- | ----- |
| Operating Income | (33,690) | (26,200) | 2,384,826 | 1,352, |
| | ----- | ----- | ----- | ----- |
| Other (Income) Expense: | | | | |
| Interest Expense | 2,175,145 | - | 297 | |
| Interest Income | (3,032) | - | - | |
| Gross (Profit)/Loss on Contract Revenues | 349,130 | - | - | |
| Gain on Sale of Non-Utility Plant | (25,490) | - | - | |
| Miscellaneous | 196,018 | - | - | |
| | ----- | ----- | ----- | ----- |
| | 2,691,772 | - | 297 | |
| | ----- | ----- | ----- | ----- |
| Income before Income Taxes | (2,725,462) | (26,200) | 2,384,529 | 1,352, |
| | ----- | ----- | ----- | ----- |
| Provision for Income Taxes | (834,493) | (8,022) | 717,301 | 414, |
| | ----- | ----- | ----- | ----- |
| Net Income | (1,890,969) | (18,178) | 1,667,228 | 938, |
| | ===== | ===== | ===== | ===== |

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AP&T Alaska Power & Telephone Company ALD AP&T Long Distancw APC Alaska Poer
 Company ATC Alaska Telephone Company ATW AP&T Wireless, Inc
 BBL BBL Hydro, Inc.
 BTT Bettles Telephone, Inc.
 GLH Goat Lake Hydro, Inc.
 NCT North Country Telephone, Inc.

ALASKA POWER & TELEPHONE CO.
 Consolidated I/S
 For the Twelve Months Ending December 31, 2000
 (Page 2 of 2)

| | BTT --- | GLH --- | NCT --- | Combine ----- |
|--|------------|------------|------------|------------------|
| Revenues: | | | | |
| Electric | - | 2,124,683 | - | 16,471,8 |
| Telecommunications | 329,084 | - | 248,278 | 9,940,6 |
| | ----- | ----- | ----- | ----- |
| Total Revenues | 329,084 | 2,124,683 | 248,278 | 26,412,4 |
| Expenses: | | | | |
| Electric | - | 623,207 | - | 11,855,4 |
| Telecommunications | 285,307 | - | 171,218 | 8,531,0 |
| | ----- | ----- | ----- | ----- |
| Total Expenses | 285,307 | 623,207 | 171,218 | 20,386,5 |
| Operating Income | 43,777 | 1,501,476 | 77,060 | 6,025,8 |
| Other (Income) Expense: | | | | |
| Interest Expense | - | 1,383,299 | - | 4,131,5 |
| Interest Income | - | (505,270) | - | (508,3 |
| Gross (Profit)/Loss on Contract Revenues | - | - | - | 349,1 |
| Gain on Sale of Non-Utility Plant | - | - | - | (25,4 |
| Miscellaneous | - | (44,004) | - | 132,8 |
| | ----- | ----- | ----- | ----- |
| | - | 834,025 | - | 4,079,7 |
| | ----- | ----- | ----- | ----- |
| Income before Income Taxes | 43,777 | 667,451 | 77,060 | 1,946,1 |
| Provision for Income Taxes | 13,404 | 204,363 | 23,594 | 583,0 |
| | ----- | ----- | ----- | ----- |
| Net Income | 30,373 | 463,088 | 53,466 | 1,363,0 |
| | ===== | ===== | ===== | ===== |

AP&T Alaska Power & Telephone Company ALD AP&T Long Distance APC Alaska Power
 Company ATC Alaska Telephone Company ATW AP&T Wireless, Inc.
 BBL BBL Hydro, Inc.
 BTT Bettles Telephone, Inc.
 GLH Goat Lake Hydro, Inc.
 NCT North Country Telephone, Inc.

Alaska Power & Telephone Company
 and Subsidiaries

Consolidated Financial Statements

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Years Ended December 31, 2000 and 1999
with Report of Independent Auditors

Alaska Power & Telephone Company and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2000 and 1999

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Report of Independent Auditors

The Board of Directors
Alaska Power & Telephone Company

We have audited the accompanying consolidated balance sheets of Alaska Power & Telephone Company and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alaska Power & Telephone Company and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then

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ended, in conformity with accounting principles generally accepted in the United States.

February 26, 2001

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Alaska Power & Telephone Company and Subsidiaries Consolidated Balance Sheets

| | December 31 | |
|---|---------------|-----------|
| | 2000 | 1999 |
| ASSETS | | |
| Utility plant | | |
| Electric and non-utility | \$ 71,498,819 | \$ 67,862 |
| Telecommunications | 30,354,518 | 14,197 |
| | 101,853,337 | 82,059 |
| Less accumulated depreciation | 29,763,655 | 20,217 |
| | 72,089,682 | 61,841 |
| Utility plant under construction | 2,292,427 | 2,606 |
| | 74,382,109 | 64,448 |
| | 74,382,109 | 64,448 |
| Other assets | | |
| Preliminary survey and investigation costs | 977,046 | 735 |
| Investments and other assets (See Note 3) | 6,989,038 | 3,833 |
| Goodwill - net of accumulated amortization of \$218,332 in 2000, and \$113,713 in 1999 (See Note 4) | 9,189,921 | 783 |
| Special Funds - Restricted (See Note 5 on Goat Lake) | 6,753,104 | 6,753 |
| | 23,909,109 | 12,105 |
| | 23,909,109 | 12,105 |
| Current assets | | |
| Cash | 263,618 | 783 |
| Accounts receivable, less allowance for doubtful accounts of \$29,441 in 2000, and \$22,508 in 1999 | 4,735,393 | 3,477 |
| Contracts receivable | 0 | 447 |
| Fuel, supplies, and other inventory | 1,359,177 | 1,199 |
| Income taxes recoverable | 361,822 | 347 |
| Prepaid expenses | 360,886 | 57 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 385,793 | 297 |

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| | | |
|----------------------|---------------|-----------|
| Total current assets | 7,466,689 | 6,610 |
| | \$105,757,907 | \$ 83,164 |

See accompanying notes.

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Alaska Power & Telephone Company and Subsidiaries
Consolidated Balance Sheets

| | December 31 | |
|---|-------------------|-------------------|
| | 2000 | 1999 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Stockholders' equity Common stock, \$1 par value: | | |
| Authorized shares - 2,000,000 | | |
| Issued and outstanding shares - 1,210,288 in 2000, and 1,202,034 in 1999 | \$ 1,210,288 | \$ 1,202,034 |
| Additional paid-in capital | 6,160,221 | 6,027,000 |
| Retained earnings | 14,153,795 | 13,743,000 |
| Total stockholders' equity | 21,524,304 | 20,973,000 |
| Long-term debt | | |
| Goat Lake Hydro, Inc. note payable (See Note 5) | 22,235,187 | 22,453,000 |
| Other notes payable, less current portion | 50,540,775 | 30,450,000 |
| Total long-term debt | 72,775,962 | 52,903,000 |
| Other liabilities | | |
| Deferred income taxes (See Note 8) | 6,696,570 | 5,981,000 |
| Customer advances for construction | 225,054 | 207,000 |
| Total other liabilities | 6,921,624 | 6,188,000 |
| Current liabilities | | |
| Accounts payable | 1,041,309 | 779,000 |
| Accrued taxes and expenses | 1,042,043 | 917,000 |
| Deferred income taxes (See Note 8) | 166,842 | 97,000 |
| Customer deposits and advance billings | 240,918 | 171,000 |
| Current portion of long-term debt | 2,044,905 | 1,133,000 |
| Total current liabilities | 4,536,017 | 3,098,000 |
| | \$105,757,907 | \$ 83,164,000 |

See accompanying notes.

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Alaska Power & Telephone Company and Subsidiaries

Consolidated Statements of Income

| | Year Ended December | |
|---|---------------------|--------------|
| | 2000 | 1999 |
| Revenues | | |
| Electric | \$ 13,672,643 | \$11,667,000 |
| Telecommunications | 9,940,620 | 7,844,000 |
| | ----- | ----- |
| Total revenues | 23,613,263 | 19,511,000 |
| | ----- | ----- |
| Expenses | | |
| Operations and maintenance - Electric | 7,047,560 | 5,387,000 |
| Depreciation and amortization - Electric | 2,273,318 | 2,131,000 |
| Interest expense, net - Electric | 2,448,661 | 2,645,000 |
| | ----- | ----- |
| Electric Expenses | 11,769,539 | 10,163,000 |
| | ----- | ----- |
| Operations and maintenance - Telecommunications | 6,522,889 | 5,410,000 |
| Depreciation - Telecommunications | 1,750,868 | 1,160,000 |
| Interest expense - Telecommunications | 1,174,625 | 300,000 |
| | ----- | ----- |
| Telecommunications Expenses | 9,448,382 | 6,900,000 |
| | ----- | ----- |
| Operating income | 2,395,342 | 2,444,000 |
| | ----- | ----- |
| Other income | | |
| Gross profit (loss) on construction contract revenues | (349,130) | 957,000 |
| Gain on sale of non-utility plant | 25,490 | 65,000 |
| Miscellaneous | (125,583) | (47,000) |
| | ----- | ----- |
| Income before income tax | 1,946,119 | 3,420,000 |
| | ----- | ----- |
| Provision for income taxes | 583,067 | 1,168,000 |
| | ----- | ----- |
| Net income | \$ 1,363,052 | \$ 2,252,000 |
| | ===== | ===== |
| Basic earnings per share | \$ 1.13 | \$ 1.13 |
| | ===== | ===== |
| Diluted earnings per share | \$ 1.11 | \$ 1.11 |
| | ===== | ===== |

See accompanying notes.

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Alaska Power & Telephone Company and Subsidiaries
 Consolidated Statements of Stockholders' Equity

| | Common Stock | Additional Paid-In Capital | Retained Earnings | |
|--------------------------------|-----------------|----------------------------------|----------------------|----|
| Balance at January 1, 1999 | \$1,177,534 | \$5,705,804 | \$12,688,063 | \$ |
| Net income | - | - | 2,251,688 | |
| Cash dividends | - | - | (1,196,176) | |
| Sale of common stock to ESOP | 35,484 | 780,657 | - | |
| Sale of common stock | 3,242 | 71,324 | - | |
| Repurchase of common stock | (31,726) | (698,010) | - | |
| Common stock options exercised | 17,500 | 167,825 | - | |
| Balance at December 31, 1999 | 1,202,034 | 6,027,600 | 13,743,575 | |
| Net income | - | - | 1,363,052 | |
| Cash dividends | - | - | (952,832) | |
| Sale of common stock to ESOP | 46,297 | 1,027,410 | - | |
| Sale of common stock | 3,032 | 66,061 | - | |
| Repurchase of common stock | (46,437) | (1,064,376) | - | |
| Common stock options exercised | 5,362 | 103,526 | - | |
| Balance at December 31, 2000 | \$1,210,288 | \$6,160,221 | \$14,153,795 | \$ |

See accompanying notes.

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Alaska Power & Telephone Company and Subsidiaries

Consolidated Statements of Cash Flows

| | Year Ended December 2000 | 19 |
|---|-----------------------------|--------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,363,052 | \$ 2,2 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,024,186 | 3,3 |
| Gain on sale of non-utility plant | (25,490) | (|
| Deferred income tax provision | 784,662 | 1,1 |
| Changes in operating activities: | | |
| Change in accounts receivable | (904,184) | (2 |
| Change in other; assets, liabilities, and receivables | (407,496) | (8 |
| Change in inventories | (35,650) | (|
| Change in income taxes recoverable | (13,928) | (3 |
| Change in accounts payable and accrued liabilities | 378,940 | (2 |
| Net cash provided by operating activities | 5,164,092 | 4,9 |
| INVESTING ACTIVITIES | | |
| Acquisitions of utility plant | (6,222,146) | (8,1 |
| Acquisition of GTE Alaska exchanges | (15,621,634) | (9 |
| Acquisition of Hydro West Group, LLC | (2,509,186) | (2 |
| Other investments | (1,060,475) | (2 |
| Preliminary survey and investigation costs | (241,568) | (1 |
| Net cash used in investing activities | (25,655,009) | (9,4 |
| FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | 32,788,335 | 17,9 |
| Payments on long-term debt | (12,004,859) | (12,5 |
| Payment of cash dividends | (952,832) | (1,1 |
| Proceeds from sale of common stock | 1,251,688 | 1,0 |
| Repurchase of common stock | (1,110,813) | (7 |
| Net cash provided by financing activities | 19,971,519 | 4,5 |
| Net increase (decrease) in cash | (519,398) | |
| CASH AT BEGINNING OF YEAR | 783,016 | 7 |
| CASH AT END OF YEAR | \$ 263,618 | \$ 7 |
| NON-CASH INVESTING ACTIVITIES | | |
| Transfer of amount in other receivables to investment in KEC | \$ 497,481 | \$ |

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See accompanying notes.

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

1. The Company and Summary of Significant Accounting Policies

Alaska Power & Telephone Company and subsidiaries (AP&T) supplies electric and telephone service to several communities in the state of Alaska and acts as the general contractor on certain construction projects. AP&T is subject to regulation by the Regulatory Commission of Alaska (RCA), the Federal Communications Commission, and the Federal Energy Regulatory Commission (the Commissions) with respect to rates for service and maintenance of its accounting records. AP&T's accounting policies conform to generally accepted accounting principles 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 subsidiaries, after elimination of significant intercompany transactions and balances.

Revenue and Cost Recognition

The Company recognizes revenues from fixed-price and modified fixed-price construction contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. This method is used because management considers total cost to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs and percentage of completion, actual results could differ from those estimates.

Utility Plant and Depreciation

The cost of additions to and replacements of utility plant are capitalized. 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 electric 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.

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

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December 31, 2000

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

The original cost of utility plant 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.

Goodwill

Goodwill is amortized on a straight-line basis over periods ranging from 15 to 40 years.

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. These projects are in various stages of licensing and development and as of December 31, 2000, management believes no pending impairment exists.

Fuel, Supplies, and Other Inventory

Fuel, supplies, and other inventory are valued at the lower of cost or market 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 the Company's delivery systems.

Income Taxes

AP&T uses the liability method in accounting for income taxes. Accordingly, deferred income taxes result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The differences are primarily due to preliminary survey and investigation costs and depreciation expense.

Customer Advances for Construction

Customer advances for construction of additions to the electric distribution systems are deferred and 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.

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

Stock-Based Compensation

The Company has adopted the disclosure only provisions of FASB Statement No. 123, and applies Accounting Principles Board Opinion No. 25 and related interpretation in accounting for its employee stock option plans. Accordingly, the Company's stock-based compensation expense is recognized based on the intrinsic value of the option on the date of grant. Disclosure in accordance with Statement 123 is provided in Note 10.

Earnings per Share

The Company has calculated its basic earnings per share data according to the method prescribed in FASB Statement No. 128 "Earnings per Share." Under this Statement, basic earnings per share are based on the weighted-average number of shares of common stock outstanding, excluding any potential dilution that could occur if any outstanding options were exercised or any other contracts to issue common stock were converted. Diluted earnings per share reflect the impact of the dilution caused by outstanding stock options using the Treasury Stock Method. FASB Statement No. 128 requires the dual presentation of basic and diluted earnings per share. Average stock outstanding for purposes of calculating diluted earnings per share was 1,228,137 in 2000, and 1,207,858 in 1999 (including the dilutive effect of stock options of 21,976, and 18,074 respectively).

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

2. Utility Plant

| | 2000 | 1999 | Annual Depreciation Rate |
|-----------------|-------|-------|--------------------------------|
| | ----- | ----- | ----- |
| Electric plant: | | | |

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| | | | |
|-------------------------------|---------------|--------------|-------------|
| Hydroelectric | \$19,546,158 | \$19,531,805 | 2% |
| Other generation | 15,587,065 | 14,904,219 | 4% to 8% |
| Transmission and distribution | 25,333,335 | 23,405,780 | 2.5% to 4% |
| Other | 10,347,578 | 9,290,997 | 2.5% to 20% |
| Land | 684,683 | 729,346 | - |
| | ----- | ----- | |
| Electric | 71,498,819 | 67,862,147 | |
| | ----- | ----- | |
| Telecommunications plant: | | | |
| General support assets | 6,012,853 | 3,199,389 | 2.5% to 20% |
| Central office assets | 10,679,148 | 5,997,341 | 8% to 13% |
| Cable and wire facilities | 11,678,294 | 3,841,375 | 4% to 6% |
| Nonregulated investment | 1,730,240 | 1,056,151 | 10% to 20% |
| Land | 253,983 | 102,918 | - |
| | ----- | ----- | |
| Telecommunications | 30,354,518 | 14,197,174 | |
| | ----- | ----- | |
| Total utility plant | \$101,853,337 | \$82,059,321 | |
| | ===== | ===== | |

3. Investments and Other Assets

| | 2000 | 1999 |
|--|--------------|--------------|
| | ----- | ----- |
| Investment in CoBank | \$ 951,545 | \$ 794,148 |
| Investment in Ketchikan Electric Company | 1,405,487 | 908,006 |
| Investment in Inversiones Pasabien Hydro Project | 2,304,161 | 0 |
| Investment in Cangrejales Hydro Project | 205,025 | 0 |
| Investment in Alaska Network Systems | 234,998 | 234,998 |
| Rate stabilization asset | 760,718 | 0 |
| Other assets | 1,127,104 | 1,896,441 |
| | ----- | ----- |
| | \$ 6,989,038 | \$ 3,833,593 |
| | ===== | ===== |

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. AP&T reinvests a portion of those earnings in additional stock of CoBank based on a five-year average of the outstanding borrowings.

3. Investments and Other Assets (continued)

The Company owns a 50% share of Ketchikan Electric Company LLC (KEC). The principal purpose and business of KEC is to construct, own, operate and manage a

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hydroelectric power system in the Ketchikan Gateway Borough. The investment represents capital contributions to KEC. As of December 31, 2000, management believes no pending impairment exists. (See Note 7)

The Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). SFAS 71 allows the establishment of regulatory assets for the allowable revenue requirement or the capitalization of costs if those items are expected to be recovered in future rates. As of December 31, 2000, the Company has a regulatory asset of \$760,718. The Company continues to meet the requirements of SFAS 71 since the Company's rates are intended to recover the cost of service plus a rate of return on the Company's investment, as well as providing specific recovery of deferred items in prior periods.

4. Acquisitions

During 1999, AP&T entered into an agreement through ATEAC Inc. to purchase the assets and assume the related liabilities of GTE Alaska, a subsidiary of the GTE Corporation. The agreement is between GTE Corporation and ATEAC Inc., of which AP&T is a 25% shareholder. The total purchase price of \$43.35 million has been allocated to the shareholders according to the book value, and any related liabilities, of the particular exchanges each shareholder has agreed to purchase. Other assets as of December 31, 1999, include \$916,215, which represented a down payment on the purchase. Closing on the sale was completed on August 31, 2000, and AP&T's share of the purchase price was \$16.53 million. The related goodwill created by the purchase was \$8.51 million, and will be amortized on a straight-line basis over 40 years. Financing for the purchase has been arranged through CoBank (See Note 5). The results of operations for the GTE exchanges are included from the date of the purchase.

On September 7, 2000, AP&T entered into an agreement to purchase 100% of the Members Equity in Hydro West Group LLC, (HWG) a subsidiary of Puget Sound Energy, Inc (PSE). The total purchase price of \$2.5 million has been allocated to the assets. The principal assets of HWG are a 25% equity investment in the Inversiones Pasabien Hydroelectric Project and a 30% equity investment in the Cangrejil Hydroelectric Project and are accounted for under the Equity Method. Both projects are in various stages of start up, and there are no material transactions to report. Financing for the purchase has been arranged through PSE. (See Note 5)

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

5. Long-Term Debt

Long-term debt consists of the following:

| | 2000 | 1999 |
|---|-------|-------|
| | ----- | ----- |
| Goat Lake Hydro, Inc., note payable to secure Power Revenue Bonds series 1997. Face amount of \$23,000,000 less the | | |

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original issue discount of \$304,813, and the bond sinking fund amount of \$235,000, secured by the Power Sales Agreement, a Construction Funding Agreement, and all assets of Goat Lake Hydro, Inc. Interest rate average of 6% per year, principal due in annual installments from 2000 through 2032

\$ 22,235,187

\$ 22,453,769

Notes payable to National Bank for Cooperatives (CoBank):

Note payable, secured by BBL Hydro Inc., assets and revenues, due in monthly installments through 2022, at 7.17% fixed interest rate through 2002

7,632,724

7,751,425

Note payable, secured by telephone assets, due in quarterly installments through 2008, at 7.15% fixed interest rate

3,856,112

4,218,048

Note payable, secured by electric assets, due in quarterly installments through 2014, at 7.28% fixed interest rate

3,461,375

3,631,882

Note payable, secured by electric assets, due in quarterly installments through 2010, at 7.33% fixed interest rate

3,239,329

3,426,628

Note payable, secured by electric assets, due in quarterly installments through 2012, variable interest rate, 8.13% at December 31, 2000

5,662,785

5,891,908

Note payable, unsecured line of credit, due February 2002, variable interest rate, 7.99% at December 31, 2000

3,000,000

4,000,000

Note payable, secured by telephone assets, due in quarterly installments through 2015, variable interest rate, 8.13% at December 31, 2000

6,000,000

0

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

5. Long-Term Debt (continued)

| | 2000 | 1999 |
|---|---------------|-----------|
| | ----- | ----- |
| Note payable, secured by telephone assets and revenues, due in monthly installments through 2015, at 8.13% variable interest rate | \$ 15,719,875 | \$ 0 |
| Note payable to commercial bank, unsecured line of credit. | 0 | 1,300,000 |
| Notes payable to State of Alaska, unsecured, with interest rates ranging from 0% to 4.2%, maturing at various dates | 2,053,536 | 1,109,005 |
| Note payable to PSE, secured by all assets of HWG, LLC, due | | |

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in monthly installments beginning 2002, at 8.5% fixed interest through July 2008

| | | |
|--|---------------|---------------|
| | 1,725,000 | 0 |
| Other debt, unsecured, with interest rates ranging from 2% to 11%, maturing at various dates | 234,944 | 254,726 |
| | ----- | ----- |
| | 74,820,867 | 54,037,391 |
| Less current portion | 2,044,905 | 1,133,602 |
| | ----- | ----- |
| Total long-term debt | \$ 72,775,962 | \$ 52,903,789 |
| | ===== | ===== |

Annual maturities for the five years beginning January 1, 2001 are \$2,044,905, \$5,626,628, \$2,982,200, \$3,220,018, and \$3,474,642, respectively, and \$57,352,097, thereafter.

Note payable by GLH to secure the Power Revenue Bonds series 1997 is the result of the issuance on December 31, 1997 of a series of tax-exempt bonds by the Alaska Industrial Development and Export Authority (AIDEA). The proceeds are restricted in use, for the purpose of financing the acquisition, purchase, construction, improvement, and equipment of the project known as the Upper Lynn Canal Regional Power Supply System. Of these restricted funds, \$2 million is required to remain in reserve for the term of the bonds. To secure payment of bond principal and interest, AIDEA has assigned to U.S. Bank Trust National Association all rights and interests in the note. The note is secured by all assets and revenues of GLH and a Power Sales Agreement (PSA) between

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

5. Long-Term Debt (continued)

GLH and Alaska Power Co. (APC), both wholly owned subsidiaries of AP&T. The Regulatory Commission of Alaska has approved the PSA for the life of the GLH note. This approval allows APC to charge its customers the entire annual costs as defined in the PSA, i.e., principal and interest due on the bonds, all operating costs (excluding depreciation), general and administrative costs, and the return on equity permitted by the Commission. A portion of these annual costs is charged to the rate stabilization asset (See Note 3), representing the amounts to be collected from customers in future years. The PSA requires all GLH's production and sales of electricity be sold to and purchased by APC for the life of the agreement.

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As of December 31, 2000, the Company had unsecured lines of credit of \$4,000,000 from CoBank and \$10,000,000 from other commercial banks. This total of \$14,000,000, less the outstanding amount of \$3,000,000, is available for general and other corporate needs.

Interest paid on debt was \$4,075,569 in 2000, and \$3,373,242 in 1999.

6. Operating Lease Agreements

AP&T leases its administrative office and a portion of its utility plant under noncancellable leases expiring through 2011. Rent expense was \$301,560 and \$276,286 for 2000 and 1999, respectively. Certain of the leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases, excluding hydroelectric operations, are \$397,594. Minimum annual rental commitments are \$57,039 in each of the next five years. Additional cancelable 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. Rent expense for hydroelectric operations was \$158,892 in 2000, and \$133,010 in 1999.

7. Construction Contract Commitments

The Company has signed a fixed price construction contract totaling \$17.2 million with KEC (See Note 3) to build the Mahoney Lake Hydroelectric Project. License requirements and permitting were performed during 1999 and 2000. The detailed engineering work is scheduled for 2001 and the primary construction efforts are expected to begin in the year 2002. A construction line of credit from CoBank to KEC will supply the financing requirements for the Project. Obtaining funding of the construction line of credit is subject to the completion of a Power Sales Agreement between KEC and Ketchikan Public Utility, and will be secured by the assets of KEC.

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

8. Income Taxes

The components of the consolidated provision for income taxes are as follows:

| | 2000 | 1999 |
|----------------------------|--------------|---------------|
| | ----- | ----- |
| Current: | | |
| Federal | \$ (185,316) | \$ 10,806 |
| State | (16,279) | (2,290) |
| | ----- | ----- |
| | (201,595) | 8,516 |
| Deferred | 784,662 | 1,159,939 |
| | ----- | ----- |
| Provision for income taxes | \$ 583,067 | \$1,168,455 |
| | ===== | ===== |

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

| | 2000 | 1999 |
|---|------------|-------------|
| | ----- | ----- |
| Income tax provision at federal rate of 34% | \$ 661,680 | \$1,162,849 |
| State income taxes, net of federal benefit | 107,145 | 189,049 |
| Amortization of deferred investment tax credits | (12,804) | (12,807) |
| Benefit of cash dividends paid to ESOP members | (138,079) | (173,408) |
| Other | (34,875) | 2,772 |
| | ----- | ----- |
| Provision for income taxes | \$ 583,067 | \$1,168,455 |
| | ===== | ===== |

The components of the deferred tax assets and liabilities as of December 31, 2000 and 1999 are as follows:

| | 2000 | 1999 |
|------------------------------------|--------------|--------------|
| | ----- | ----- |
| Current: | | |
| Deferred tax assets | \$ (142,982) | \$ (109,761) |
| Deferred tax liabilities | 309,824 | 207,465 |
| | ----- | ----- |
| | 166,842 | 97,704 |
| Long-term deferred tax liabilities | 6,696,570 | 5,981,046 |
| | ----- | ----- |
| Total net deferred tax liability | \$6,863,412 | \$6,078,750 |
| | ===== | ===== |

Federal and state income taxes paid were \$ 40,000 in 2000, and \$650,000 in 1999.

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

9. Employee Stock Ownership Plan

AP&T maintains an employee stock ownership plan. All employees who have completed one year of full-time service (1,000 hours) and have attained the age of 21 are eligible to participate in the plan. Participants may elect to contribute from 1% to 13.5% of their wages to the plan, which can be invested in the common stock of AP&T or into other investment accounts. Employer contributions match the participant's contributions up to the first 3% of the participant's wages. Employer matching contributions were \$157,429 and \$136,719 in 2000 and 1999, respectively. Additional employer contributions are made annually at 8% of the eligible employees' gross wages. These additional employer contributions were \$419,809 and \$233,832 in 2000 and 1999, respectively. Employer contributions are allocated to all plan participants as of December 31, the end of the plan year. The plan provides that participants' interests in employer-funded contributions become fully vested after five years of full-time

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employment. ESOP shares outstanding are included in the earnings per share calculations.

10. Stock Option Plan

In 1991, AP&T established a stock option plan. The plan provides for the grant of incentive stock options. Stockholders have approved a total of 250,000 shares to be reserved for the plan from the authorized and unissued common stock. These options vest and become exercisable five years after the date of grant and expire ten years after the date of grant. The effect on net income and earnings per share of the fair value approach under FASB Statement No.123 is not materially different from those amounts recorded under APB 25. A summary of the activity related to the plan is as follows:

| | Shares Under Option | Weighted Average Exercise Price Per Share |
|---|---------------------------|---|
| | ----- | ----- |
| Balance at December 31, 1998, unexercised | 147,000 | \$ 18.29 |
| Granted | 38,500 | 23.00 |
| Canceled | (11,500) | 17.81 |
| Exercised | (17,500) | 10.59 |
| | ----- | |
| Balance at December 31, 1999, unexercised | 156,500 | 20.34 |
| Granted | 45,500 | 24.00 |
| Canceled | (11,000) | 21.73 |
| Exercised | (3,000) | 17.40 |
| | ----- | |
| Balance at December 31, 2000, unexercised | 188,000 | \$ 21.19 |
| | ===== | |

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Alaska Power & Telephone Company and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

11. Subsequent Events

On March 8, 2001, AP&T entered into an agreement to purchase 40% of the common stock of Summit Alaska Inc (Summit). Summit is an Alaskan Corporation located in Anchorage, Alaska. The principal purpose and business of Summit, is road building and paving which is conducted primarily through fixed-price and modified fixed-price construction contracts. The total purchase price of \$1.1 million will be accounted for as an investment under the equity method. Financing for the purchase has been made with the Company's available lines of credit. (See Note 5)

