strength + agility = performance
This discussion includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect assumptions, and involve a number of risks and uncertainties. Among the factors, both foreign and domestic, that could cause actual results to differ materially from forward-looking statements are: electric load and customer growth; abnormal weather conditions; available sources of and prices for coal and gas; availability of generating capacity; risks related to energy trading and construction under contract; the speed and degree to which competition is introduced to our power generation business; the structure and timing of a competitive market for electricity and its impact on prices; the ability to recover net regulatory assets, other stranded costs and implementation costs in connection with deregulation of generation in certain states; the timing of the implementation of AEP’s restructuring plan, new legislation and government regulations; the ability to successfully control costs; the success of new business ventures; international developments affecting our foreign investments; the economic climate and growth in our service and trading territories, both domestic and foreign; the ability of the company to comply with and to successfully challenge new environmental regulations and to successfully litigate claims that the company violated the Clean Air Act; inflationary trends; litigation concerning AEP’s merger with CSW; changes in electricity and gas market prices and interest rates; fluctuations in foreign currency exchange rates, and other risks and unforeseen events.

American Electric Power is a proud sponsor of Cirque du Soleil® 2002 North American Tours


Strength and agility are important qualities today and will be even more important tomorrow. And they are qualities that AEP embraces.

AEP has always been an asset-rich company. Technical excellence and resourcefulness have been hallmarks of the company since its earliest years. These attributes have helped us to become a leading diversified energy company.

But strength alone will not ensure success in today’s competitive environment. AEP is becoming more agile to respond better and faster to changes in market conditions and regulatory climate, and to seize opportunities. We will use our strength and agility to improve performance and increase shareholder value.

AEP is not the company it was 10, or even two, years ago. We invite you to read more about how we see ourselves, and who we aspire to be, on page 13.

strength + agility = performance
Our 2001 ongoing earnings of $3.38 per share represented a 25 percent increase over 2000.

## highlights of 2001

2001 reported earnings of $3.01 per share adjusted for merger costs ($0.05 per share), write-off of Houston Pipe Line-related Enron purchase obligations ($0.08 per share), severance accruals ($0.08 per share), non-recurring adjustment for taxes other than FIT ($0.04 per share), disposition and writedown of assets ($0.01 per share) and an extraordinary loss from discontinuance of regulatory accounting for generation in certain states ($0.16 per share), offset by the cumulative effect of SFAS 133 transition adjustment ($0.05), produces ongoing earnings of $3.38 per share.

2000 reported earnings of $0.83 per share adjusted for the disallowance of a tax deduction for corporate-owned life insurance (COLI) ($0.99 per share), merger costs ($0.55 per share), the non-regulated subsidiary write-offs ($0.19 per share), writedown in value of AEP’s UK investment ($0.09 per share) and an extraordinary loss from discontinuance of regulatory accounting for generation in certain states ($0.11 per share), offset by equity earnings of a UK subsidiary sold ($0.05 per share), produces ongoing earnings of $2.71 per share.

* Costs of the Cook Nuclear Plant outage and restart efforts, excluding amortization, reduced earnings as reported and ongoing by $0.74 per share in 2000.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income (in millions)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ongoing</td>
<td>$1,087</td>
<td>$871</td>
<td>24.8</td>
</tr>
<tr>
<td>as reported</td>
<td>$971</td>
<td>$267</td>
<td>263.7</td>
</tr>
<tr>
<td><strong>Earnings Per Share</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ongoing</td>
<td>$3.38</td>
<td>$2.71</td>
<td>24.7</td>
</tr>
<tr>
<td>as reported</td>
<td>$3.01</td>
<td>$0.83</td>
<td>262.7</td>
</tr>
<tr>
<td><strong>Revenues (in billions)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$61.3</td>
<td>$36.7</td>
<td>67.0</td>
</tr>
<tr>
<td><strong>Cash Dividends</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$2.40</td>
<td>$2.40</td>
<td>—</td>
</tr>
<tr>
<td><strong>Year-End Closing Stock Price</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$43.53</td>
<td>$46.50</td>
<td>(6.4)</td>
</tr>
<tr>
<td><strong>Book Value at Year-End</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$25.54</td>
<td>$25.01</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total Assets (in billions)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$47.3</td>
<td>$53.4</td>
<td>(11.4)</td>
</tr>
<tr>
<td><strong>U.S. Customers (at year-end) (in thousands)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,930</td>
<td>4,893</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Global Employment (at year-end)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>27,726</td>
<td>26,376</td>
<td>5.1</td>
</tr>
</tbody>
</table>
Our robust and agile wholesale business combined with our stable regulated business provides a balanced, asset-backed portfolio that will continue to deliver value as industry restructuring evolves.

Dear fellow shareholders: The speed and magnitude of industry change, complicated by the California energy crisis and the Enron collapse, are truly astounding. Together with the September 11th terrorist attacks, these events have had far-reaching impact on our nation and our industry.

But our industry showed its strength and its ability to weather the disruptions. And I remain excited about our opportunities. I am proud to report that AEP continues to be strong and successful. Our robust and agile wholesale business combined with our solid regulated business provides a balanced, asset-backed portfolio that will continue to deliver value as industry restructuring evolves. AEP’s diversified portfolio can produce earnings growth of 6 percent to 8 percent over the long term, and our dividend yield currently exceeds 5 percent.

Let me alleviate your concerns at the outset. AEP’s wholesale business continues to be viable and profitable. It’s producing real cash and real profits. And our longstanding conservative and risk-averse culture means that we apply
prudent accounting, financial disclosure and risk management practices to the business. We evaluate these practices on an ongoing basis to ensure our financial integrity and minimize adverse effects on our business.

Last October we hosted a meeting for investors and analysts – A Day in the Life of an AEP Energy Merchant – at our Columbus headquarters. For many attendees, it was their first air travel since September 11th. For us, it was the first time our wholesale business leaders met with the financial community to talk about the breadth and depth of our energy marketing operations and the impressive assets that support them.

We wanted our guests to see firsthand how we have linked entrepreneurial talent, our technical and operational prowess and the strength of our assets, which include:

- More than 42,000 megawatts of worldwide electric generating capacity, including the largest generation fleet in America,
- 128 billion cubic feet of gas storage,
- 6,400 miles of natural gas pipeline,
- More than 7,000 rail cars,
- 1,800 barges and 37 tug boats, making us the nation’s fourth-largest inland barge company, and
- The capability of producing 10 million tons of coal annually.

The benefits of this unique integration of resources are reflected in our 2001 results. The company’s wholesale electricity and natural gas marketing activities contributed $968 million in gross margins in 2001, an increase of $290 million over 2000. Cash realized during 2001 accounted for approximately 73 percent of that total, and we expect to receive more than half the balance this year.

In addition, AEP’s nationwide ranking in natural gas volume rose dramatically last year and we remained a leader in electricity volume. Our domestic wholesale natural gas volume last year was 3,874 billion cubic feet, a 178 percent increase from 2000, and our electricity volume rose 48 percent to 576 million megawatt-hours.

2001 performance

Our 2001 ongoing earnings of $3.38 per share represented a 25 percent increase over 2000. Earnings as reported totaled $3.01 per share, reflecting – among other items – costs associated with the completion of AEP’s merger with Central and South West Corp. and write-off of Enron obligations related to our purchase of Houston Pipe Line.

Cook Nuclear Plant added 61 cents per share to earnings over its 2000 contribution. Cook has been a very solid performer since returning to service in 2000, as expected, and has exceeded its capacity factor goals for 2001.

We are seeking a 20-year extension of the two Cook units’ operating licenses, which expire in 2014 and 2017.

Our stock price fell 6.4 percent from year-end 2000 to year-end 2001 and our total shareholder return (stock price plus the value of cash dividends) for 2001 was down 1.2 percent, compared with 54.9 percent growth in total return the prior year. But we performed better than the electric utility sector, which was down 8.2 percent; the Standard & Poor’s 500 Index, down 11.9 percent; and the NASDAQ, down 20.8 percent. AEP last year ranked 10th in total return among the 26 companies in the S&P Electric Utilities Index, up from 15th at the close of 2000.

Last year marked the first full year since completion of the merger with CSW. We met our 2001 net merger savings target and are on track to meet our overall savings goal for post-merger initiatives of $2 billion plus another $1 billion saved through process improvements.
**Priorities: credit quality, risk management**

Credit quality has always been a cornerstone of AEP’s financial strength. We will strive to maintain our overall credit rating of A-/Baa1 by reducing debt, ensuring strong cash flows, closely monitoring risks and potential liabilities and maintaining liquidity.

Our tightly controlled risk management processes have contributed to our track record of consistent, steady returns. In our wholesale marketing business, trading desk managers have prescribed risk limits and several independent risk oversight committees monitor overall activity.

Last spring we created the position of chief risk officer and appointed Scott Smith to take on that role. Scott brings years of senior-level risk management experience with various corporate and government entities to AEP. He and his team are working to ensure that AEP makes informed and prudent risk management decisions around financial, strategic and operational matters.

**Benefits of corporate separation**

A year ago, we predicted that the legal and functional separation of our regulated and unregulated businesses would be facilitated by industry deregulation. While progress on deregulation has slowed, due in part to concerns triggered by California’s energy crisis, I am confident that we will complete our corporate separation soon.

Among the 11 states where AEP operates, only Ohio, Texas, Virginia and Michigan have implemented deregulation legislation. Our unregulated generation capacity represents nearly half our domestic generation portfolio of more than 38,000 megawatts. We continue to support deregulation plans that offer benefits to all utility customers, shareholders and the industry overall.

Corporate separation will lead to the creation of two wholly owned subsidiaries, one containing AEP’s unregulated businesses and the other housing our regulated businesses. The separation makes strategic sense for the company and its constituents. It will allow AEP to comply with restructuring legislation in Ohio and Texas and better meet the wide-ranging needs of our various customer segments. It will also unlock shareholder value by helping investors more clearly assess each business, permit more efficient financing, and pave the way for future reorganization options.

We are working closely with the rating agencies to design appropriate capital structures to help us meet our goals, and we pledge to maintain our credit quality and our commitments to existing debtholders throughout the corporate separation process.

**Extracting value along the energy chain**

AEP’s wholesale business – which includes our generation and related assets and associated marketing activities – contributed $2.40 per share to ongoing earnings in 2001 before capital costs, up from $1.93 in 2000. This reflects Cook’s return to service and the fast growth of our wholesale gas business.

Our wholesale strategy is simple. We are committed to extracting value all along the “energy chain,” which starts with procuring, storing and transporting fuel and progresses to generating power, marketing energy and managing risk for our customers. Our wholesale acquisitions over the past year show the robust activity along this chain.

Our acquisition of Houston Pipe Line from Enron last June immediately gave us new information about the natural gas industry and expanded our gas business, which we launched in 1998 with the acquisition of Louisiana Intrastate Gas. Our gas assets and the market understanding they give us have helped catapult AEP nearly to the top rung in wholesale natural gas volume. HPL’s Bammel Gas Storage Facility, one of North
America’s largest storage fields, gives us a competitive edge by allowing our marketers to buy large volumes at low prices and store until selling when prices are high.

In November we acquired MEMCO Barge Line, greatly expanding our transportation resources and, again, providing information to help maximize our merchant operations’ effectiveness. In addition to transporting coal for our own plants, AEP barges move a wide variety of commodities for many other customers. We expect our fleet will move some 50 million tons of dry bulk commodities annually along the Ohio and lower Mississippi rivers and their tributaries, and along the Gulf Coast.

AEP sold its affiliate mining operations in Ohio and West Virginia last summer because they had become too costly to maintain. However, several months later we purchased the coal mining operations and associated facilities and reserves of Quaker Coal Co. We were able to obtain these assets at a very attractive price through Quaker’s bankruptcy reorganization proceedings, and we are confident we’ll be able to operate them at lower cost. As you know, AEP has many decades of experience in the coal business. Coal remains a critical asset for us, representing roughly 68 percent of our generation.

At the end of 2001 we completed the purchase of 4,000 megawatts of coal-fired generation in the United Kingdom. Waiting to acquire the right properties at the right price has paid off. We paid approximately $200 per kilowatt for the Fiddler’s Ferry and Ferrybridge generating stations, compared with more than $500 per kilowatt paid by the prior owner in 1999. These new AEP assets will link to our London-based wholesale trading and marketing organization, paralleling the relationship between our U.S. merchant organization and domestic generating and gas pipeline assets.

Another important transaction in December 2001 was the acquisition of Enron’s international coal marketing operation, also based in London. The transaction included marketing offices and a 22-member staff with proven track records in the UK, Germany, Australia and China, and contracts in Europe, Australia, Africa and South America.

This January we hired 35 former employees of Enron Nordic Energy and assumed operation of existing energy marketing offices in Oslo and Stockholm. This gives AEP ready-made capability for electricity and weather derivative trading, origination and portfolio management in five European nations where we didn’t have a presence previously.

Our European operations now include power marketing in eight nations, natural gas marketing in the UK and gas and coal marketing throughout northwestern Europe.

Strong, agile, asset-backed and far-reaching – that’s AEP’s wholesale business.

The wholesale generation advantage

We are recruiting the best and brightest for our wholesale marketing team and our plant operators continue to be rewarded for thinking like business people. Our goal is to make sure information about plant availability and expected demand flows freely between the generating plant floor and the trading floor to permit decisive actions that ensure system reliability and optimize plant economics.

For example, at AEP’s Mitchell Plant in West Virginia last November, plant operators applied keen technical knowledge and ingenuity to returning a generating unit to service several days earlier than projected. This prompt action added about $900,000 to AEP’s bottom line.
In recent years, we have taken a contrarian approach to building new generating capacity. We don’t believe investing in new plants is the best use of investor capital. Instead, we look for ways to participate in merchant plant development in specific markets or circumstances where we can earn adequate returns.

Some projects give us access to the excess megawatts not required by our business partners without having to invest our capital. We can sell this generation in the wholesale market just as we would if we owned the physical assets. The cogeneration projects that AEP Pro Serv, Inc., is developing for such customers as Dow Chemical (900 megawatts) and Buckeye Power (510 megawatts) offer these benefits. AEP Pro Serv provides engineering, environmental, maintenance and construction management services to external customers.

AEP also is growing megawatts at reduced cost by repowering older generating units, such as our 40-year-old, gas-fired Northeastern Station in Oologah, Oklahoma. By adding two gas combustion turbines and two heat-recovery steam generators, we were able to increase Northeastern’s capacity from 160 megawatts to 475 megawatts. The project was completed last fall at a cost of $135 million, or $428 per kilowatt. The cost of building new gas-fired combined-cycle capacity is $500 to $600 per kilowatt. Natural gas fuels approximately 22 percent of AEP’s generating fleet.

**Growth in renewable energy**

We don’t expect our fuel mix to change appreciably, but one area that saw significant growth this year is our renewables generation. In fact, AEP has become one of the largest wind generators in the nation.

Commercial operation of AEP’s Trent Mesa Wind Project near Abilene, Texas, began last summer. Output of the 150-megawatt project is committed to TXU Corp. We also purchased the 160-megawatt Indian Mesa Wind Power Project from Enron Wind. City Public Service, the municipal electric utility for San Antonio, Texas, will buy all the power generated from the Indian Mesa turbines under long-term agreements. Wind power now accounts for nearly 1 percent of AEP’s generation.

We are evaluating other renewable technologies, such as solar energy and biomass, as well.

**Emissions reduction**

Our ability to meet federal standards to control nitrogen oxide emissions continues to focus on use of selective catalytic reduction (SCR) technology. We have installed the technology on two 1,300-megawatt units and SCR installation is scheduled for two more 1,300-megawatt units this year. Another five generating units have been approved for SCR installation.

All told, compliance with nitrogen oxide emission standards could cost the company an estimated $1.6 billion in capital expenditures.

**Value creation in the wires business**

With its reasonably predictable earnings and cash flow, AEP’s wires business provides a balance to our wholesale business that makes us even stronger.

Our wires business is focused on value creation, or identifying opportunities to do things better and smarter and then working with regulators to share the benefits with both customers and shareholders. This business
contributed $2.30 per share to 2001 ongoing earnings before capital costs, up a dime from 2000. Greater revenue and flat operating and maintenance expenses led to the improvement.

Employees in our wires operations are ferreting out ways to reduce capital expenditures by $800 million and annual operation and maintenance expenses by $100 million over the next four years.

Our regulated businesses are coming up with innovative ways to trim costs, raise revenue and – at the same time – improve service. For instance, wires employees are combining extensive training, the latest technology and years of experience to perform maintenance on energized power lines. The more maintenance that can be done safely on lines without removing them from service, the more transmission capacity that’s available to serve retail and wholesale customers.

Use of AEP lines for wholesale transactions with unaffiliated parties has also become a significant source of revenue for us, growing to $154 million in 2001 from $60 million five years ago. And our employees are generating revenue by teaching live-line maintenance procedures to contractors and line personnel from other utilities.

Maximizing return
Maximizing the regulated return we can earn on our substantial transmission and distribution assets is an ongoing goal. Our 38,000-mile transmission network has a net book value of more than $3.4 billion and our regulated distribution assets have a net book value exceeding $5.8 billion.

As I mentioned in last year’s letter, AEP believes for-profit management of the transmission portion of our wires business will enhance its value to investors while meeting customers’ and regulators’ requirements. In our view, this business model will bolster competitive generation markets by providing seamless, nondiscriminatory transmission access while encouraging capital investment for transmission improvements and expansion.

AEP has been very involved over the past few years in forming the Alliance RTO (regional transmission organization), which is based on this model. We and our Alliance partners, at the Federal Energy Regulatory Commission’s (FERC) direction, are exploring whether the for-profit entity can fit under another RTO’s umbrella. FERC has approved a wholly owned subsidiary of National Grid as the Alliance’s independent managing member. National Grid has extensive background in successfully operating transmission systems in North America and the UK.

Adding to our track record
I’m excited about our prospects for 2002. AEP has demonstrated it has the resources, expertise and leadership to deliver value to shareholders in all economic conditions. We expect our balanced portfolio of businesses to provide ongoing earnings per share of $3.60 to $3.75 in 2002. That estimate is based on some confidence the economy will recover and on our potential issuance of equity to support corporate separation, fund new growth and strengthen our balance sheet.

We anticipate our acquisitions of HPL, MEMCO Barge Line, Quaker Coal and the UK generating stations to add approximately 22 cents per share to 2002 earnings.

We are exploring options for our electric distribution and electric and gas supply subsidiary in southeast England (SEEBOARD) and our electricity distribution and retail sales subsidiary in Melbourne, Australia (CitiPower). We will evaluate possible divestiture of these investments, but any divestiture is not likely before the third quarter.

We expect AEP’s unregulated wholesale business to contribute approximately 38 percent of total earnings before interest and taxes in 2002, with our regulated energy distribution business
contributing 26 percent; regulated energy transmission business, 19 percent; and regulated generation business, 17 percent.

Continued strategic acquisitions and development of wholesale products and geographic regions will fuel much of our 6 percent to 8 percent projected growth. A full year of operation of assets we acquired in 2001 also will contribute heavily.

Improving our capital structure and reducing our short-term debt remain goals for 2002. At the close of 2001, short-term debt accounted for 13 percent of our capitalization, down from 18 percent a year earlier. We are targeting a consolidated equity ratio of at least 40 percent.

We’re confident the challenge raised to Securities and Exchange Commission approval of the AEP-CSW merger in a federal appeals court will result in confirmation of the approval — sometime this year, we hope.

Giving credit where credit is due
In closing, I want to thank AEP employees for the dedication, energy and resilience they demonstrated in 2001. Without their efforts and successes, day in and day out, AEP would not be the strong, balanced and agile enterprise it has become. Our nearly 28,000 people worldwide are the face and spirit of AEP.

How very fitting that our employees’ hard work was recognized last year with the Edison Electric Institute’s Emergency Response Award. Two ice storms ravaged the western part of our service territory in the last few weeks of 2000, cutting power to several hundred thousand customers. The EEI award honors the nearly 5,000 AEP employees, contractors, support personnel and visiting crews who worked around the clock to repair damage and restore electric service.

I appreciate the efforts of my senior management team in adjusting to the new duties many of them assumed last fall as part of AEP’s management realignment. Tom Shockley, vice chairman, has the new additional title of chief operating officer and has overall responsibility for AEP’s regulated and unregulated businesses. Susan Tomasky is now chief financial officer in addition to her responsibilities in the policy and strategy arena. Henry Fayne, formerly chief financial officer, heads our regulated business, filling the very big shoes left by Bill Lhota’s retirement late last year. Eric van der Walde oversees our wholesale line of business.

Bob Powers continues to have executive oversight for our nuclear operations while assuming new responsibilities in non-nuclear engineering and research and development, and Chris Bakken is chief nuclear officer based at the Cook plant site. Joe Vipperman continues to oversee our shared services organization.

No expression of thanks would be complete without noting my appreciation for the contributions of our Board of Directors. In particular, I want to recognize James Powell, who retires from the board this year. Jimmie joined our board when the AEP-CSW merger was completed and has served on the audit, policy, and directors and corporate governance committees. He had served on CSW’s board since 1987. We will miss Jimmie’s wise counsel and informed guidance and wish him all the best in retirement.

Last but surely not least, thank you to AEP’s customers and investors. Your role in our success cannot be overstated. We will continue to work diligently to earn your business and your loyalty.

E. Linn Draper, Jr.
Chairman, President & Chief Executive Officer
February 27, 2002
wholesale capabilities + wires stability = balance
AEP’s balanced portfolio of businesses and assets features a wide spectrum of wholesale energy operations and a low-cost, diversified regulated business. The company is America’s largest generator of electricity and has substantial gas assets, including pipelines and storage. These resources support AEP’s position as a top marketer in power and gas. AEP also is a major coal producer and transports that fuel, as well as products for others, using a massive fleet of barges and rail cars. The company is one of the nation’s largest electricity distribution companies and its transmission network represents a large section of America’s transmission backbone.

AEP’s strong presence at virtually every link of the energy value chain reduces volatility and diversifies overall risk. It provides market information that makes us more competitive. It creates business opportunities. And it helps enhance earnings.
Muskingum River Plant

Energy Marketing

Cook Nuclear Plant

Houston Ship Channel, served by Houston Pipe Line

Bammel Gas Storage regulator station

Jefferson Island storage and hub

Muskingum River Plant
strength + agility + balance = AEP

American Electric Power is a proud sponsor of Cirque du Soleil® 2002 North American Tours
AEP launched a repositioning program in early March to reinforce what the company stands for, what distinguishes us from our peers and who we aspire to be.

Our goal is to ensure that potential investors and customers correctly perceive AEP as the company we are today: resource-rich, technically expert, smart, integrated, analytical and responsively aggressive.

An advertising campaign is part of our repositioning initiative, but we intend to communicate with our external audiences in other ways, too.

AEP has forged a partnership with Cirque du Soleil through sponsorship of Cirque du Soleil’s 2002 North American Tours. Cirque du Soleil is an internationally renowned live entertainment group who blends acrobatics, athleticism, dance and music, combined with risk and humor, against a backdrop of ingenious sets and dazzling costumes. Cirque transcends language and cultural barriers. Its mission is to invoke the imagination, provoke the senses and evoke the emotions of people around the world.

AEP and Cirque du Soleil share performance-driving qualities: strength, balance, agility, experience and teamwork.
Introduction:

This condensed financial presentation should not be considered a substitute for the full financial statements, inclusive of footnotes and Management’s Discussion and Analysis of Results of Operations and Financial Condition, provided to all shareholders as Appendix A to the Proxy Statement and included in the annual Form 10-K filing with the Securities and Exchange Commission (SEC). A copy of the Form 10-K and/or the Appendix A to the Proxy Statement that includes the full financial statements can be obtained by calling 1-800-551-1AEP or through the Internet at www.aep.com.
The following discussion is a summary analysis of AEP’s results of operations for the year 2001 compared with 2000 and an overview of the company’s business strategy, outlook, financial condition, revenue recognition policies and market risk. A complete analysis of the results of operations and discussion of the financial condition of the company can be found in the Management’s Discussion and Analysis of Results of Operations and Financial Condition portion of the Appendix A to the Proxy Statement. Appendix A and Form 10-K also contain detailed discussions of major uncertainties, contingencies, significant accounting policies, risks and other issues that the company faces.

Business Strategy
Our strategy is to deliver a balanced business model of regulated and unregulated businesses backed by assets, supported by enterprise-wide risk management and a strong balance sheet which delivers earnings growth of 6 to 8%. We have been focused on the wholesale side of the business since it provides the greater growth opportunities. But, this is complemented by a robust regulated business that has a predictable earnings stream and cash flows. Strong risk management and a disciplined analysis of markets protected us from the California energy crisis and Enron’s bankruptcy filing.

Our balanced business model is one where AEP integrates its assets, marketing, trading and analytical resources to create a superior knowledge about the commodity markets which keeps us a step ahead of our competition. Our power, gas, coal and barging assets and operations provide us with market knowledge and customer connectivity, giving us the ability to make informed marketing and trading decisions and to customize our products and services.

AEP provides investors with a balanced portfolio composed of:
• a growing unregulated wholesale energy marketing and trading business
• a predictable cash flow and earnings stream from the regulated electricity business, and
• a high dividend yield relative to today’s low interest-rate environment.

We are currently in the process of restructuring our assets and operations to separate the regulated operations from the non-regulated operations.

We filed with the SEC for approval to form two separate legal holding company subsidiaries of AEP Co. Inc., the parent company. Approval is needed from the SEC under the Public Utility Holding Company Act and the FERC to make these organizational changes. Certain state regulatory commissions have intervened in the FERC proceedings. We have reached a settlement with those state commissions and are awaiting the FERC’s approval before the SEC will make a final ruling on our filing.

We are implementing a corporate separation restructuring plan to support our objective of unlocking shareholder value for our domestic businesses. Our plan provides for:
• transparency and clarity to investors,
• a simpler structure to conduct business, and to anticipate and monitor performance,
• compliance with states’ restructuring laws promoting customer choice, and
• more efficient financing.

Consolidated Condensed Balance Sheets
At December 31
(In Millions)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>333</td>
<td>342</td>
</tr>
<tr>
<td>Energy Trading and Derivative Contracts – Current</td>
<td>8,572</td>
<td>15,497</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>3,658</td>
<td>5,062</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>40,709</td>
<td>38,088</td>
</tr>
<tr>
<td>Accumulated Depreciation and Amortization</td>
<td>(16,166)</td>
<td>(15,695)</td>
</tr>
<tr>
<td>Net Property, Plant and Equipment</td>
<td>24,543</td>
<td>22,393</td>
</tr>
<tr>
<td>Regulatory Assets</td>
<td>3,162</td>
<td>3,698</td>
</tr>
<tr>
<td>Other Assets</td>
<td>7,013</td>
<td>6,358</td>
</tr>
<tr>
<td>Total</td>
<td>47,281</td>
<td>53,350</td>
</tr>
</tbody>
</table>

| Capitalization and Liabilities |        |        |
| Energy Trading and Derivative Contracts – Current | 8,311  | 15,671 |
| Other Current Liabilities | 9,788  | 10,266 |
| Long-Term Debt | 9,753  | 9,602  |
| Deferred Income Taxes and Investment Tax Credits | 5,314  | 5,403  |
| Minority Interest in Financing Subsidiary | 750    | —      |
| Other Liabilities | 4,980  | 4,193  |
| Total Liabilities | 38,896 | 45,135 |
| Cumulative Preferred Stocks of Subsidiaries | 156    | 161    |
| Common Shareholders’ Equity | 8,229  | 8,054  |
| Total    | 47,281 | 53,350 |
The new corporate structure will consist of a regulated holding company and an unregulated holding company. The regulated holding company’s investments will be in integrated utilities and Ohio and Texas generation, independent power producers, gas pipeline and storage, UK generation, barging, coal mining and marketing and trading.

The risks in our business are:
- Margin erosion on electric trading as markets mature,
- Diminished opportunities for significant gains as volatility declines,
- Retail price reductions mandated with the implementation of customer choice in Texas and Ohio,
- Movement toward re-regulation in California through market caps and other challenges to the continuation of deregulation of the retail electricity supply business in the U.S., and
- The continued negative impact of a slowly recovering economy.

Our business plan considers these risks and we believe that we can deliver earnings growth of 6-8% annually across the energy value chain through the disciplined integration of strategic assets and intellectual capital to generate these returns for our shareholders.

Our strategies to achieve our business plan are:

Unregulated
- Disciplined approach to asset acquisition and disposition
- Value-driven asset optimization through the linkage of superior commercial, analytical and technical skills
- Broad participation across all energy markets with a disciplined and opportunistic allocation of risk capital
- Continued investment in both technology and process improvement to enhance AEP’s competitive advantages
- Continued expansion of intellectual capital through ongoing recruiting, performance-linked compensation and the development of a structure and culture that promotes sound decision-making and innovation at all levels

Regulated
- Maintain moderate but steady earnings growth
- Maximize value of transmission assets and protect revenue stream through RTO/Alliance membership
- Continue process improvement to maintain distribution service quality while enhancing financial performance
- Optimize generation assets through enhanced availability of off-system sales
- Manage the regulatory process to maximize retention of earnings improvement

Our significant accomplishments in 2001 were:
- Adding the following assets to integrate with and support our trading and marketing competitive advantage:
  ◦ 4,200 miles of gas pipeline, 118 Bcf gas storage and related gas marketing contracts
  ◦ 1,200 hopper barges and 30 tugboats
  ◦ 4,000 megawatts of coal-fired generation in England
- 160 megawatts of wind generation in Texas
- Coal mining properties, coal reserves, mining operations and royalty interests in Colorado, Kentucky, Ohio, Pennsylvania and West Virginia
- Entering into new markets through the acquisition of existing contracts and hiring key staff, including 57 employees from Enron’s London-based international coal trading group in December 2001 and Enron’s Nordic energy trading group in January 2002. We now trade power and gas in the UK, France, Germany, and the Netherlands and coal throughout the world
- Adding other energy-related commodities to our power and gas portfolio i.e. coal, SO2 allowances, natural gas liquids (NGLs) and oil
- Disposing of the following assets that did not fit our strategy:
  ◦ 120 MWs of generation in Mexico,
  ◦ Above-market coal mines in Ohio and West Virginia,
  ◦ A 50 % investment in Yorkshire, a UK electric supply and distribution company,
  ◦ An investment in a Chilean electric company, and
  ◦ Datapult™, an energy information data and analysis tool.

In addition we sold 500 MWs of generating capacity in Texas under a FERC order that approved our merger with CSW.

Our divestiture of non-strategic assets is somewhat limited by the pooling of interest accounting requirements applied to the merger of CSW and AEP in June 2000. We are presently evaluating certain foreign investments for possible disposal and have not yet decided whether to dispose of such investments. Disposal of investments determined to be non-strategic will be considered in accordance with the pooling of interests restrictions which end in June 2002. We are committed to continually evaluate the need to reallocate resources to areas with greater potential, to match investments with our strategy and to pare investments that do not produce sufficient return and shareholder value. Any investment dispositions could affect results of operations.

Outlook for 2002
Growth in 2002 will be driven in part by our continued strategic development of wholesale products and geographies, as demonstrated in recent months by our move into global coal markets and Nordic energy. A full year of operation of assets acquired in 2001 – Houston Pipe Line, Quaker Coal, the MEMCO barge line and two power plants in the United Kingdom – will also contribute to growth in 2002 earnings.

Although we expect that the future outlook for results of operations is excellent, there are contingencies and challenges. We fully discuss these matters in the Notes to Consolidated Financial Statements and in the Management Discussion and Analysis in the Appendix A to the Proxy. We intend to work diligently to resolve these matters by finding workable solutions that balance the interests of our customers, our employees and our shareholders.
Results of Operations
In 2001 AEP’s principal operating business segments and their major activities were:

- Wholesale:
  - Generation of electricity for sale to retail and wholesale customers
  - Gas pipeline and storage services
  - Marketing and trading of electricity, gas and coal
  - Coal mining, bulk commodity bargeing operations and other energy supply-related business
- Energy Delivery
  - Domestic electricity transmission
  - Domestic electricity distribution
- Other Investments
  - Foreign electric distribution and supply investments
  - Telecommunication services

Revenue Recognition Policies
Traditional Regulated Electricity Supply and Delivery Activities
As the owner of cost-based rate-regulated electric public utility companies, AEP Co., Inc.’s consolidated financial statements recognize revenues on an accrual basis for traditional electricity supply sales and for electricity transmission and distribution delivery services. These revenues are recognized in our income statement when the energy is delivered to the customer and thus include unbilled as well as billed amounts. In general, expenses are recorded when incurred. As a result of our cost-based rate-regulated operations, our financial statements reflect the actions of regulators that can result in the recognition of revenues and expenses in different time periods than enterprises that are not rate regulated. In accordance with SFAS 71, “Accounting for the Effects of Certain Types of Regulation,” regulatory assets (deferred expenses) and regulatory liabilities (future revenue reductions or refunds) are recorded to reflect the economic effects of regulation by matching in the same accounting period regulated expenses with their recovery through regulated revenues.

Application of SFAS 71 for the generation portion of the business was discontinued in Ohio in September 2000, in Virginia and West Virginia in June 2000, and in Texas and Arkansas in September 1999 in recognition of the passage of legislation to transition to customer choice and market pricing for the supply of electricity. These discontinuances of the application of SFAS 71 resulted in extraordinary losses from the stranding of certain net regulatory assets that are not recoverable under the restructuring legislation and competitive market pricing.

Wholesale Energy Marketing and Trading Activities
We engage in non-regulated wholesale electricity and natural gas marketing and trading transactions (trading activities). Trading activities involve the purchase and sale of energy under forward contracts at fixed and variable prices and buying and selling financial energy contracts which include exchange futures and options and over-the-counter options and swaps. Although trading contracts are generally short-term, there are also long-term trading contracts. We recognize revenues from trading activities generally based on changes in the fair value of energy trading contracts.

Recording the net change in the fair value of trading contracts as revenues prior to settlement is commonly referred to as mark-to-market accounting. It represents the change in the unrealized gain or loss throughout the contract’s term. When the contract actually settles, that is, the energy is actually delivered in a sale or received in a purchase or the parties agree to forego delivery and receipt and net settle in cash, the unrealized gain or loss is reversed out of revenues and the actual realized cash gain or loss is recognized in revenues for a sale or in purchased energy expense for a purchase. Therefore, over the term of the trading contracts an unrealized gain or loss is recognized as the contract’s market value changes. When the contract settles the total gain or loss is realized in cash but only the difference between the accumulated unrealized net gains or losses recorded in prior months and the cash proceeds is recognized. Unrealized mark-to-market gains and losses are included in the Balance Sheet as energy trading and derivative contract assets or liabilities as appropriate.

The majority of our trading activities represent physical electricity and gas contracts that are typically settled by entering into offsetting contracts. An example of our trading activities is when in January we enter into a forward sales contract to deliver electricity or gas in July. At the end of each month until the contract settles in July, we would record any difference between the contract price and the market price as an unrealized gain or loss in revenues. In July when the contract settles, we would realize the gain or loss in cash and reverse to revenues the previously recorded unrealized gain or loss. Prior to settlement, the change in the fair value of physical sale and purchase contracts is included in revenues on a net basis. Upon settlement of a forward trading contract, the amount realized is included in revenues for a sales contract and realized costs are included in purchased energy expense for a purchase contract with the prior change in unrealized fair value reversed in revenues.

Continuing with the above example, assume that later in January or sometime in February through July we enter into an offsetting forward contract to buy electricity or gas in July. If we do nothing else with these contracts until settlement in July and if the commodity type, volumes, delivery point, schedule and other key terms match, then the difference between the sale price and the purchase price represents a fixed value to be realized when the contracts settle in July. If the purchase contract is perfectly matched with the sales contract, we have effectively fixed a profit or loss; specifically it is the difference between the contracted settlement price of the two contracts. Mark-to-market accounting for these contracts will have no further impact on operating results but has an offsetting and equal effect on trading contract assets and liabilities. Of course we could also do similar transactions but enter into a purchase contract prior to entering into a sales contract. If the sale and purchase contracts do not match exactly as to commodity type, volumes, delivery point, schedule and other key terms, then there could be continuing mark-to-market effects on revenues from recording changes in fair values.

Trading of electricity and gas options, futures and swaps represents financial transactions with unrealized gains and losses from changes in fair values reported net in revenues until the contracts settle. When these contracts settle, we record the net proceeds in
revenues and reverse to revenues the prior unrealized gain or loss. The fair value of open short-term trading contracts is based on exchange prices and broker quotes. We mark-to-market open long-term trading contracts based mainly on company developed valuation models. These models estimate future energy prices based on existing market and broker quotes and supply and demand market data and assumptions. The fair values determined are reduced by reserves to adjust for credit risk and liquidity risk. Credit risk is the risk that the counterparty to the contract will fail to perform or fail to pay amounts due AEP. Liquidity risk represents the risk that imperfections in the market will cause the price to be less than or more than what the price should be based purely on supply and demand. There are inherent risks related to the underlying assumptions in models used to fair value open long-term trading contracts. We have independent controls to evaluate the reasonableness of our valuation models. However, energy markets, especially electricity markets, are imperfect and volatile and unforeseen events can and will cause reasonable price curves to differ from actual prices throughout a contract’s term and when contracts settle. Therefore, there could be significant adverse effects on future results of operations and cash flows if market prices do not correlate with the company-developed price curves.

We also mark to market derivatives that are not trading contracts in accordance with generally accepted accounting principles. Derivatives are contracts whose value is derived from the market value of an underlying commodity.

Our revenues of $61 billion for 2001 included $257 million of unrealized net gains from marking to market open trading and derivative contracts. AEP’s net revenues (revenues less fuel and energy purchases) excluding mark-to-market revenues totaled $8.3 billion and were realized in cash during 2001. Unrealized net mark-to-market revenues are only 3% of total net revenues. Most of the

---

**Consolidated Condensed Statements of Income**

Year Ended December 31  
(In Millions – Except Per Share Amounts)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 61,257</td>
<td>$ 36,706</td>
<td>66.9</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel and Purchased Energy</td>
<td>52,753</td>
<td>28,718</td>
<td>83.7</td>
</tr>
<tr>
<td>Maintenance and Other Operation</td>
<td>4,037</td>
<td>3,841</td>
<td>5.1</td>
</tr>
<tr>
<td>Non-Recoverable Merger Costs</td>
<td>21</td>
<td>203</td>
<td>(89.7)</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>1,383</td>
<td>1,250</td>
<td>10.6</td>
</tr>
<tr>
<td>Taxes Other Than Income Taxes</td>
<td>668</td>
<td>690</td>
<td>(3.2)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>58,862</td>
<td>34,702</td>
<td>69.6</td>
</tr>
<tr>
<td>Other Income (net)</td>
<td>172</td>
<td>55</td>
<td>212.7</td>
</tr>
<tr>
<td>Income Before Interest, Preferred Dividends, Minority Interest and Income Taxes</td>
<td>2,567</td>
<td>2,059</td>
<td>24.7</td>
</tr>
<tr>
<td>Interest, Preferred Dividends and Minority Interest</td>
<td>995</td>
<td>1,160</td>
<td>(14.2)</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>569</td>
<td>597</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Income Before Extraordinary Items and Cumulative Effect</td>
<td>1,003</td>
<td>302</td>
<td>232.1</td>
</tr>
<tr>
<td>Extraordinary Losses (net of tax):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinuance of Regulatory Accounting for Generation</td>
<td>(48)</td>
<td>(35)</td>
<td>37.1</td>
</tr>
<tr>
<td>Loss on Reacquired Debt</td>
<td>(2)</td>
<td>—</td>
<td>N.M.</td>
</tr>
<tr>
<td>Cumulative Effect of Accounting Change</td>
<td>18</td>
<td>—</td>
<td>N.M.</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 971</td>
<td>$ 267</td>
<td>263.7</td>
</tr>
<tr>
<td>Average Number of Shares Outstanding</td>
<td>322</td>
<td>322</td>
<td>—</td>
</tr>
<tr>
<td>Earnings Per Share:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Before Extraordinary Items and Cumulative Effect</td>
<td>$ 3.11</td>
<td>$ 0.94</td>
<td>230.9</td>
</tr>
<tr>
<td>Extraordinary Losses</td>
<td>(0.16)</td>
<td>(0.11)</td>
<td>45.5</td>
</tr>
<tr>
<td>Cumulative Effect</td>
<td>0.06</td>
<td>—</td>
<td>N.M.</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 3.01</td>
<td>$ 0.83</td>
<td>262.7</td>
</tr>
<tr>
<td>Cash Dividends Paid Per Share</td>
<td>$ 2.40</td>
<td>$ 2.40</td>
<td>—</td>
</tr>
</tbody>
</table>

N.M. = Not Meaningful
net unrealized revenues from marking to market trading contracts and derivatives included in our balance sheet at December 31, 2001, as energy trading and derivative contract assets and liabilities, which net to $448 million before any regulatory deferrals, will be realized in 2002.

We defer as regulatory assets or liabilities the effect on net income of marking to market open electricity trading contracts in our regulated jurisdictions since these transactions are included in cost of service on a settlement basis for ratemaking purposes. Changes in mark-to-market valuations impact net income in our non-regulated business.

Volatility in energy commodities markets affects the fair values of all of our open trading and derivative contracts, exposing us to market risk and causing our results of operations to be more volatile. See “Market Risks” section below for a discussion of the policies and procedures we use to manage our exposure to market and other risks from trading activities.

Net Income
Net income increased to $971 million or $3.01 per share from $267 million or $0.83 per share. The increase of $704 million or $2.18 per share was due to the growth of AEP’s wholesale marketing and trading business, increased revenues and the controlling of our operating and maintenance costs in the energy delivery business, and declining capital costs. Also contributing to the earnings improvement in 2001 was the effect of 2000 charges for a disallowance of COLI-related tax deductions, expenses of the merger with CSW, write-offs related to certain non-regulated investments and restart costs of the Cook Nuclear Plant. The favorable effect on comparative net income of these 2000 charges was offset in part by current year charges for severance accruals, losses from Enron’s bankruptcy and extraordinary losses from the loss on reacquired debt. A strong performance in the first nine months of 2001 was partially offset by unfavorable operating conditions in the fourth quarter. Extremely mild November and December weather combined with weak economic conditions in the fourth quarter reduced retail energy sales and wholesale margins. Heating degree days in the fourth quarter were down 33% from the same period in 2000. Although the fourth quarter was disappointing, 2001 net income before extraordinary items and cumulative effect of accounting changes reached the $1 billion mark.

Our wholesale business continues to perform well despite a slowing economy that reduced both wholesale energy margins and energy use by industrial customers. Our wholesale business, which includes power generation, retail and wholesale sales of power and natural gas and trading of power and natural gas and natural gas pipeline and storage services, contributed to the earnings increase by successfully returning the Cook Plant to service in 2000 and by growing AEP’s wholesale business.

Our energy delivery business, which consists of domestic electricity transmission and distribution services, contributed to the increase in earnings by controlling operating and maintenance expenses and by increasing revenues. Capital costs decreased due primarily to interest paid to the IRS in 2000 on a COLI deduction disallowance and declining short-term market interest rate conditions.

Net Income

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>$ 3,553</td>
<td>$ 3,511</td>
</tr>
<tr>
<td>Commercial</td>
<td>2,328</td>
<td>2,249</td>
</tr>
<tr>
<td>Industrial</td>
<td>2,388</td>
<td>2,444</td>
</tr>
<tr>
<td>Other retail customers</td>
<td>419</td>
<td>414</td>
</tr>
<tr>
<td>Marketing and Trading-Electricity</td>
<td>35,339</td>
<td>18,858</td>
</tr>
<tr>
<td>Marketing and Trading-Gas</td>
<td>14,369</td>
<td>6,127</td>
</tr>
<tr>
<td>Unrealized MTM Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>210</td>
<td>38</td>
</tr>
<tr>
<td>Gas</td>
<td>47</td>
<td>132</td>
</tr>
<tr>
<td>Other</td>
<td>632</td>
<td>838</td>
</tr>
<tr>
<td>Less transmission and distribution revenues assigned to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Delivery*</td>
<td>(3,356)</td>
<td>(3,174)</td>
</tr>
<tr>
<td>Total Wholesale Business</td>
<td>55,929</td>
<td>31,437</td>
</tr>
<tr>
<td>Energy Delivery Business:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td>1,029</td>
<td>1,009</td>
</tr>
<tr>
<td>Distribution</td>
<td>2,327</td>
<td>2,165</td>
</tr>
<tr>
<td>Total Energy Delivery</td>
<td>3,356</td>
<td>3,174</td>
</tr>
<tr>
<td>Other Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEEBOARD</td>
<td>1,451</td>
<td>1,596</td>
</tr>
<tr>
<td>CitiPower</td>
<td>350</td>
<td>338</td>
</tr>
<tr>
<td>Other</td>
<td>171</td>
<td>161</td>
</tr>
<tr>
<td>Total Other Investments</td>
<td>1,972</td>
<td>2,095</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$61,257</td>
<td>$36,706</td>
</tr>
</tbody>
</table>

*Certain revenues in the wholesale business include energy delivery revenues due primarily to bundled tariffs that are assignable to the Energy Delivery business.

Our revenues have increased significantly from the marketing and trading of electricity and natural gas. The level of electricity trading transactions tends to fluctuate due to the highly competitive nature of the short-term (spot) energy market and other factors, such as affiliated and unaffiliated generating plant availability, weather conditions and the economy. The FERC’s introduction of a greater degree of competition into the wholesale energy market has had a major favorable effect on the volume of wholesale power marketing and trading, especially in the short-term market. Our total revenues increased 66.9% in 2001 due mainly to the growth of our wholesale marketing and trading operations.

The $25 billion increase in 2001 revenues was due to substantial increases in electric and gas trading volumes. Wholesale natural gas trading volume for 2001 was 3,874 Bcf, a 178% increase from 2000 volume of 1,391 Bcf. Electric trading volume increased 48% to 576 million MWH. The increase in gas trading volume is due to:

- Continued expansion of our trading team,
- The HPL acquisition on June 1, 2001, and
- Expansion into new markets.
While marketing and trading volumes rose, sales to industrial customers decreased. This decrease was due to the economic recession in 2001. In the fourth quarter sales to residential, commercial and wholesale customers declined. The recession reduced demand and wholesale prices, especially in the fourth quarter.

Operating Expenses Increase
Changes in the components of operating expenses were as follows:

<table>
<thead>
<tr>
<th>For the Year Ended December 31</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In Millions)</td>
<td></td>
</tr>
<tr>
<td>Increase (Decrease)</td>
<td>%</td>
</tr>
<tr>
<td>Fuel and Purchased Energy</td>
<td>$24,035</td>
</tr>
<tr>
<td>Maintenance &amp; Other Operations</td>
<td>196</td>
</tr>
<tr>
<td>Non-recoverable Merger Costs</td>
<td>(182)</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>133</td>
</tr>
<tr>
<td>Taxes Other Than Income Taxes</td>
<td>(22)</td>
</tr>
<tr>
<td>Total</td>
<td>$24,160</td>
</tr>
</tbody>
</table>

Our fuel and purchased energy expense in 2001 increased 84% due to increased trading volume and an increase in nuclear generation cost. The return to service of the Cook Plant’s two nuclear generating units in June 2000 and December 2000 accounted for the increase in nuclear generation costs.

Maintenance and other operation expense rose in 2001 mainly as a result of additional traders’ incentive compensation and accruals for severance costs related to corporate restructuring.

With the consummation of the merger with CSW, certain deferred merger costs were expensed in 2000. The merger costs charged to expense included transaction and transition costs not allocable to and recoverable from ratepayers under regulatory commission-approved settlement agreements to share net merger savings. As expected, merger costs declined in 2001 after the merger was consummated.

Depreciation and amortization expense increased in 2001 primarily as a result of the commencement of the amortization of transition generation-related regulatory assets in the Ohio, Virginia and West Virginia jurisdictions due to passage of restructuring legislation, the new businesses acquired in 2001 and additional investments in property, plant and equipment.

Interest, Preferred Stock Dividends, Minority Interest
Interest expense decreased 15% in 2001 due to the effect of interest paid to the IRS on a COLI deduction disallowance in 2000 and lower average outstanding short-term debt balances and a decrease in average short-term interest rates.

In 2001 we issued a preferred member interest to finance the acquisition of HPL and paid a preferred return of $13 million to the preferred member interest.

Other Income
The sale in March 2001 of Frontera, a generating plant required to be divested under a FERC-approved merger settlement agreement, produced a pretax $73 million gain which accounted for the increase in other income in 2001.

Income Taxes
Although pre-tax book income increased considerably, income taxes decreased due to the effect of recording prior year federal income taxes as a result of the disallowance of COLI interest deductions by the IRS in 2000 and nondeductible merger-related costs in 2000.

Extraordinary Losses and Cumulative Effect
In 2001 we recorded an extraordinary loss of $48 million net of tax to write off prepaid Ohio excise taxes stranded by Ohio deregulation. In 2000 we recorded an extraordinary loss from the discontinuance of the application of regulatory accounting for Ohio, Virginia and West Virginia jurisdictions of $35 million due to the passage of restructuring legislation. New accounting rules that became effective in 2001 regarding accounting for derivatives required us to mark to market certain fuel supply contracts that qualify as financial derivatives. The effect of initially adopting the new rules on July 1, 2001, was a favorable $18 million, net of tax, which is reported as a cumulative effect of an accounting change.

Financial Condition
We measure the financial condition of the company by the strength of its balance sheet and the liquidity provided by cash flows and earnings.

Balance sheet capitalization ratios and cash flow ratios are principal determinants of the company’s credit quality. The ratings are presently stable. Our year end ratings of subsidiaries’ first mortgage bonds were: Moody’s A1 to Baa1, S&P A to A+, Fitch A+ to BBB+. Our subsidiaries’ year end ratings for senior unsecured debt were: Moody’s A2 to Baa1, S&P BBB+, Fitch A to BBB. The parent company’s commercial paper program has short-term ratings of A2 and P2 by Moody’s and Standard and Poor’s, respectively.

AEP’s common equity to total capitalization declined to 33% in 2001 from 34% in 2000. Total capitalization includes long-term debt due within one year, minority interests and short-term debt. Preferred stock at 1% remained unchanged. Long-term debt increased from 47% to 50% while short-term debt decreased from 18% to 13% and minority interest for financing increased to 3%. In 2001 and 2000, the company did not issue any shares of common stock to meet the requirements of the Dividend Reinvestment and Direct Stock Purchase Plan and the Employee Savings Plan.

We plan to strengthen the company’s balance sheet in 2002 by issuing common stock and mandatory convertible preferred stock and using the proceeds from asset sales to reduce debt. The issuance of common stock has the potential to dilute future earnings per share but will enhance the equity to capitalization ratio.

Rating agencies have become more focused in their evaluation of credit quality as a result of the Enron bankruptcy. They are focusing especially on the composition of the balance sheet with particular interest in off-balance sheet leases and debt and special purpose financing structures, the cash liquidity profile and the impact of credit quality downgrades on financing transactions. We have worked closely with the agencies to provide them with all the information they need, but we are unable to predict
### Consolidated Condensed Statements of Cash Flows

**Year Ended December 31**  
(In Millions)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 971</td>
<td>$ 267</td>
</tr>
<tr>
<td>Adjustments for Noncash Items</td>
<td>1,982</td>
<td>1,166</td>
</tr>
<tr>
<td><strong>Net Cash Flows from Operating Activities</strong></td>
<td>2,953</td>
<td>1,433</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction Expenditures–Worldwide</td>
<td>(1,832)</td>
<td>(1,773)</td>
</tr>
<tr>
<td>Purchase of Houston Pipe Line</td>
<td>(727)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of UK Generation</td>
<td>(943)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of Quaker Coal Co.</td>
<td>(101)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of MEMCO</td>
<td>(266)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of Indian Mesa</td>
<td>(175)</td>
<td>—</td>
</tr>
<tr>
<td>Sale of Yorkshire</td>
<td>383</td>
<td>—</td>
</tr>
<tr>
<td>Sale of Frontera</td>
<td>265</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>(36)</td>
<td>19</td>
</tr>
<tr>
<td><strong>Net Cash Flows Used for Investing Activities</strong></td>
<td>(3,432)</td>
<td>(1,754)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of Common Stock</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>Issuance of Minority Interest</td>
<td>747</td>
<td>—</td>
</tr>
<tr>
<td>Change in Long-term Debt (net)</td>
<td>1,096</td>
<td>(441)</td>
</tr>
<tr>
<td>Change in Short-term Debt (net)</td>
<td>(597)</td>
<td>1,308</td>
</tr>
<tr>
<td>Dividends Paid on Common Stock</td>
<td>(773)</td>
<td>(805)</td>
</tr>
<tr>
<td>Other</td>
<td>(10)</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Net Cash Flows from Financing Activities</strong></td>
<td>473</td>
<td>56</td>
</tr>
<tr>
<td>Effect of Exchange Rate Change on Cash</td>
<td>(3)</td>
<td>23</td>
</tr>
<tr>
<td><strong>Net Decrease in Cash and Cash Equivalents</strong></td>
<td>(9)</td>
<td>(242)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents January 1</td>
<td>342</td>
<td>584</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents December 31</strong></td>
<td>$ 333</td>
<td>$ 342</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings for 2001 resulted in a dividend payout ratio of 80%, a considerable improvement over the 289% payout ratio in 2000. The abnormally high ratio in 2000 was the result of the adverse impact on 2000 earnings of the Cook Plant extended outage and related restart expenditures, merger costs, the COLI tax disallowance and the write-off of non-regulated subsidiaries. We expect continued improvement of the payout ratio as a result of earnings growth in 2002.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Cash from operations and short-term borrowings provide working capital and meet other short-term cash needs. We generally use short-term borrowings to fund property acquisitions and construction until long-term funding mechanisms are arranged. Some acquisitions of existing business entities include the assumption of their outstanding debt and certain liabilities. Sources of long-term funding include issuance of AEP common stock, minority interest or long-term debt and sale-leaseback or leasing arrangements. We operate a money pool and sell accounts receivables to provide liquidity for the domestic electric subsidiaries. Short-term borrowings in the U.S. are supported by two revolving credit agreements. At December 31, 2001, approximately $554 million remained available for short-term borrowings in the U.S.

Subsidiaries that trade energy commodities in Europe have a separate multicurrency revolving loan and letter of credit agreement allowing them to borrow up to €150 million of which €42 million was available on December 31, 2001. In February 2002 they also originated a temporary second line of €50 million for three months, which is expected to be replaced with a €150 million line. SEEBOARD, Nanyang and CitiPower, which operate in the UK, China and Australia, respectively, each have independent financing arrangements which provide for borrowing in the local currency. SEEBOARD has a €320 million revolving credit agreement it uses for short-term funding purposes. At December 31, 2001, €203 million was available.

AEP issued $1.25 billion of global notes in May 2001 (with intermediate maturities). The proceeds were used to pay down outstanding commercial paper. In 2001 CSPCo and OPCo, AEP’s Ohio subsidiaries, redeemed $295.5 million and $175.6 million, respectively, of first mortgage bonds in preparation for corporate separation.

AEP Credit purchases, without recourse, the accounts receivable of most of the domestic utility operating companies and certain non-affiliated electric utility companies. AEP Credit’s financing for the purchase of receivables changed during 2001. Starting December 31, 2001, AEP Credit entered into a sale of receivables agreement with certain banks. The agreement allows AEP Credit to sell certain receivables and receive cash, meeting the requirements for the receivables to be removed from the balance sheet.

The agreement with the banks expires in May 2002 and is expected to be renewed. At December 31, 2001, AEP Credit had $1.1 billion sold under this agreement of which $590 million was a result of non-affiliate factoring. A factoring of receivable agreement for a non-affiliated company was ended in January 2002.

In February 2002 CPL issued $797 million of securitization notes that were approved by the PUCT as part of Texas restructuring to help decrease rates and recover regulatory assets. The proceeds were used to reduce debt and equity through a dividend to CPL’s parent company.

In 2002 the company plans to continue restructuring its debt for corporate separation, assuming receipt of all necessary regulatory approvals. Corporate separation will require the transfer of assets between legal entities. With corporate separation, a newly created holding company for the unregulated business is expected to issue all debt needed to fund the wholesale business and unregulated generating companies. The size and maturity lengths of the original offering is presently being determined.

The regulated holding company is expected to issue the debt needed by the wires companies in Ohio and Texas. The regulated integrated utility companies will continue their current debt structure until the state regulatory commissions approve changes. At that time, the regulated holding company may also issue the debt for the regulated companies’ funding needs.

We have requested credit ratings for the holding companies consistent with our existing credit quality, but we cannot predict what the outcome will be.

AEP uses a money pool to meet the short-term borrowings for certain of its subsidiaries, primarily the domestic electric utility operations. Following corporate separation, we will evaluate the advantages of establishing a money pool for the unregulated business subsidiaries. The current money pool which was approved by the appropriate regulatory authorities will continue to service the regulated business subsidiaries. Presently, AEP also funds the short-term debt requirements of other subsidiaries that are not included in the money pool. As of December 31, 2001, AEP had credit facilities totaling $3.5 billion to support its commercial paper program. At December 31, 2001, AEP had $2.9 billion outstanding in commercial paper borrowings subject to these credit facilities.

Market Risks
As a major power producer and trader of wholesale electricity and natural gas, we have certain market risks inherent in our business activities. These risks include commodity price risk, interest rate risk, foreign exchange risk and credit risk. They represent the risk of loss that may impact us due to changes in the underlying market prices or rates.

Policies and procedures are established to identify, assess and manage market risk exposures in our day-to-day operations. Our risk policies have been reviewed with the Board of Directors, approved by a Risk Management Committee and administered by a Chief Risk Officer. The Risk Management Committee establishes risk limits, approves risk policies, assigns responsibilities regarding the oversight and management of risk and monitors risk levels. This committee receives daily, weekly and monthly reports regarding compliance with policies, limits and procedures. The committee meets monthly and consists of the Chief Risk Officer, Chief

<table>
<thead>
<tr>
<th>Capitalization Ratio</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Debt</td>
<td>12.6%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>33.4%</td>
<td>48.9%</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>3.0%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Common Equity</td>
<td>50.2%</td>
<td>34.1%</td>
</tr>
<tr>
<td>Short-Term Debt</td>
<td>0.6%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12.8%</th>
<th>50.2%</th>
<th>34.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity</td>
<td>Preferred Stock</td>
<td>Minority Interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>46.9%</th>
<th>50.2%</th>
<th>33.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Debt</td>
<td>Preferred Stock</td>
<td>Minority Interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12.8%</th>
<th>50.2%</th>
<th>34.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity</td>
<td>Preferred Stock</td>
<td>Minority Interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>46.9%</th>
<th>50.2%</th>
<th>33.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Debt</td>
<td>Preferred Stock</td>
<td>Minority Interest</td>
</tr>
</tbody>
</table>
Credit Officer, V. P. - Market Risk Oversight, and senior financial and operating managers.

We use a risk measurement model that calculates Value at Risk (VaR) to measure our commodity price risk. The VaR is based on the variance - covariance method using historical prices to estimate volatilities and correlations and assuming a 95% confidence level and a one-day holding period. Based on this VaR analysis, at December 31, 2001, a near-term typical change in commodity prices is not expected to have a material effect on our results of operations, cash flows or financial condition. The following table shows the high, average, and low market risk as measured by VaR at:

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>$28</td>
<td>$10</td>
</tr>
<tr>
<td>Average</td>
<td>$14</td>
<td>$10</td>
</tr>
<tr>
<td>Low</td>
<td>$5</td>
<td>$1</td>
</tr>
</tbody>
</table>

We also utilize a VaR model to measure interest rate market risk exposure. The interest rate VaR model is based on a Monte Carlo simulation with a 95% confidence level and a one-year holding period. The volatilities and correlations were based on three years of weekly prices. The risk of potential loss in fair value attributable to AEP's exposure to interest rates, primarily related to long-term debt with fixed interest rates, was $673 million at December 31, 2001, and $998 million at December 31, 2000. However, since we would not expect to liquidate our entire debt portfolio in a one-year holding period, a near-term change in interest rates should not materially affect results of operations or consolidated financial position.

AEP is exposed to risk from changes in the market prices of coal and natural gas used to generate electricity where generation is no longer regulated or where existing fuel clauses are suspended or frozen. The protection afforded by fuel clause recovery mechanisms has either been eliminated by the implementation of customer choice in Ohio (effective January 1, 2001) and in the ERCOT area of Texas (effective January 1, 2002) or frozen by settlement agreements in Indiana, Michigan and West Virginia. To the extent all of the fuel supply of the generating units in these states is not under fixed price long-term contracts, AEP is subject to market price risk. AEP continues to be protected against market price changes by active fuel clauses in Oklahoma, Arkansas, Louisiana, Kentucky, Virginia and the SPP area of Texas.

We enter into transactions for electricity and natural gas as part of wholesale trading operations. Electric transactions are executed over-the-counter with counterparties. Gas transactions are executed through brokerage accounts with brokers, who are registered with the Commodity Futures Trading Commission. Brokers and counterparties require cash or cash-related instruments to be deposited on these transactions as margin against open positions. The combined margin deposits at December 31, 2001 and 2000 was $11 million and $95 million. We can be subject to further margins should the related commodity prices change.

We employ physical forward purchase and sale contracts, exchange futures and options, over-the-counter options, swaps and other derivative contracts to offset price risk where appropriate. However, we engage in trading of electricity, gas and to a lesser degree, coal, and as a result the company is subject to price risk. The amount of risk taken by the traders is controlled by the management of the trading operations and the company's Chief Risk Officer and his staff. When the risk from trading activities exceeds certain pre-determined limits, the positions are modified or hedged to reduce the risk to the limits unless specifically approved by the Risk Management Committee.

We employ fair value hedges, cash flow hedges and swaps to mitigate changes in interest rates on short- and long-term debt when management deems it necessary. We do not hedge all interest rate risk.

We employ cash flow forward hedge contracts to lock in prices on purchased assets denominated in foreign currencies where deemed necessary. International subsidiaries use currency swaps to hedge exchange rate fluctuations in debt denominated in foreign currency. We do not hedge all foreign currency exposure. AEP limits credit risk by extending unsecured credit to entities based on internal ratings. In addition, AEP uses Moody's Investor Service, Standard and Poor's and qualitative and quantitative data to independently assess the financial health of counterparties on an ongoing basis. This data, in conjunction with the ratings information, is used to determine appropriate risk parameters. AEP also requires cash deposits, letters of credit and parental/affiliate guarantees as security from certain below-investment grade counterparties in our normal course of business.

We also utilize a VaR model to measure interest rate market risk exposure. The interest rate VaR model is based on a Monte Carlo simulation with a 95% confidence level and a one-year holding period. The volatilities and correlations were based on three years of weekly prices. The risk of potential loss in fair value attributable to AEP's exposure to interest rates, primarily related to long-term debt with fixed interest rates, was $673 million at December 31, 2001, and $998 million at December 31, 2000. However, since we would not expect to liquidate our entire debt portfolio in a one-year holding period, a near-term change in interest rates should not materially affect results of operations or consolidated financial position.

AEP is exposed to risk from changes in the market prices of coal and natural gas used to generate electricity where generation is no longer regulated or where existing fuel clauses are suspended or frozen. The protection afforded by fuel clause recovery mechanisms has either been eliminated by the implementation of customer choice in Ohio (effective January 1, 2001) and in the ERCOT area of Texas (effective January 1, 2002) or frozen by settlement agreements in Indiana, Michigan and West Virginia. To the extent all of the fuel supply of the generating units in these states is not under fixed price long-term contracts, AEP is subject to market price risk. AEP continues to be protected against market price changes by active fuel clauses in Oklahoma, Arkansas, Louisiana, Kentucky, Virginia and the SPP area of Texas.

We enter into transactions for electricity and natural gas as part of wholesale trading operations. Electric transactions are executed over-the-counter with counterparties. Gas transactions are executed through brokerage accounts with brokers, who are registered with the Commodity Futures Trading Commission. Brokers and counterparties require cash or cash-related instruments to be deposited on these transactions as margin against open positions. The combined margin deposits at December 31, 2001 and 2000 was $11 million and $95 million. We can be subject to further margins should the related commodity prices change.

We recognize the net change in the fair value of all open trading contracts, a practice commonly called mark-to-market accounting, in accordance with generally accepted accounting principles and include the net change in mark-to-market amounts on a net discounted basis in revenues. Unrealized mark-to-market revenues totalled $257 million in 2001. The fair values of open short-term
trading contracts are based on exchange prices and broker quotes. The fair value of open long-term trading contracts is based mainly on company-developed valuation models. The valuation models produce an estimated fair value of open long-term trading contracts. This fair value is present valued and reduced by appropriate reserves by counterparty credit risks and liquidity risk. The models are derived from internally assessed market prices with the exception of the NYMEX gas curve, where we use daily settled prices. Forward price curves are developed for inclusion in the model based on broker quotes and other available market data. The curves are within the range between the bid and ask prices. The end of the month liquidity reserve is based on the difference in price between the price curve and the bid price of the bid ask prices if we have a long position and the ask price if we have a short position. This provides for a conservative valuation net of the reserves.

The use of these models to fair value open long-term trading contracts has inherent risks relating to the underlying assumptions employed by such models. Independent controls are in place to evaluate the reasonableness of the price curve models. Significant adverse effects on future results of operations and cash flows could occur if market prices, at the time of settlement, do not correlate with the company-developed price curves.

The net fair value of open energy trading contracts was a net asset of $448 million and $63 million at December 31, 2001 and 2000, respectively. The change in the net fair value of open energy trading contracts recognized in revenues resulting from mark-to-market accounting and unrealized at December 31, 2001, was $257 million.

We have investments in debt and equity securities which are held in nuclear trust funds. The trust investments and their fair value in these trust funds have not been included in the market risk calculation for interest rates as these instruments are marked to market and changes in market value of these instruments are reflected in a corresponding decommissioning liability. Any differences between the trust fund assets and the ultimate liability are expected to be recovered through regulated rates from our regulated customers and should not impact future earnings.

Inflation affects our cost of replacing utility plant and the cost of operating and maintaining plant. The rate-making process limits recovery to the historical cost of assets, resulting in economic losses when the effects of inflation are not recovered from customers on a timely basis. However, economic gains that result from the repayment of long-term debt with inflated dollars partly offset such losses.

Contingencies
As previously indicated, we have exposure to a number of significant contingencies including, but not limited to, the following matters, which are fully discussed in Management’s Discussion and Analysis of Results of Operations and Financial Condition and the Notes to Consolidated Financial Statements contained in Appendix A to the Proxy Statement and Form 10-K:

• realization of expected merger cost savings, some of which are shared with customers under merger-related, state-approved settlement agreements;
• the resolution of proposed new environmental standards;
• litigation and other actions related to air quality and coal-fired generating plant emissions and the cost to achieve ultimately required emission reductions;
• the recovery of regulatory assets and other stranded cost in Texas;
• merger litigation concerning the requirements of the Public Utility Holding Company Act;
• completion of a transmission line in Virginia and West Virginia;
• resolution of complaints by certain wholesale customers in Texas;
• any further losses that could be incurred from Enron’s bankruptcy; and
• market risks for changes in energy commodity prices, interest rates, fuel prices, financial derivative instruments and foreign currency rates.

Investors should read our full financial statements and related disclosures included in Appendix A to the Proxy Statement and our Form 10-K filing with the SEC prior to making any investment decisions.
Independent Auditors’ Report

To the Shareholders and Board of Directors of American Electric Power Company, Inc.:

We have audited the consolidated balance sheets of American Electric Power Company, Inc., and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, common shareholders’ equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2001. Such consolidated financial statements and our report thereon dated February 22, 2002, expressing an unqualified opinion (which are not included herein) are included in Appendix A to the proxy statement for the 2001 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2001 and 2000 and the related condensed consolidated statements of income and of cash flows for the years then ended is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

Columbus, Ohio

February 22, 2002
Corporate Officers

**American Electric Power Company, Inc.**

**E. Linn Draper, Jr.**
Chairman, President and Chief Executive Officer

**Thomas V. Shockley, III**
Vice Chairman

**Henry W. Fanye**
Vice President

**Armando A. Peña**
Treasurer

**Susan Tomasky**
Vice President, Secretary and Chief Financial Officer

**Joseph M. Buonaiuto**
Controller and Chief Accounting Officer

**American Electric Power Service Corporation**

**E. Linn Draper, Jr.**
Chairman, President and Chief Executive Officer

**Thomas V. Shockley, III**
Vice Chairman and Chief Operating Officer

**Henry W. Fanye**
Executive Vice President

**Robert P. Powers**
Executive Vice President — Nuclear Generation and Technical Services

**Susan Tomasky**
Executive Vice President — Policy, Finance and Strategic Planning, and Assistant Secretary

**Joseph H. Vipperman**
Executive Vice President — Shared Services

**Melinda S. Ackerman**
Senior Vice President — Human Resources

**Nicholas J. Ashooh**
Senior Vice President — Corporate Communications

**J. Craig Baker**
Senior Vice President — Regulation and Public Policy

**A. Christopher Bakken, III**
Senior Vice President — Nuclear Operations

**Joseph M. Buonaiuto**
Senior Vice President, Controller and Chief Accounting Officer

**Jeffrey D. Cross**
Senior Vice President, General Counsel and Assistant Secretary

**Thomas M. Hagan**
Senior Vice President — Governmental Affairs

**Dale E. Heydlauff**
Senior Vice President — Environmental Affairs

**Michael F. Moore**
Senior Vice President — Information Technology and Chief Information Officer

**Richard E. Munczinski**
Senior Vice President — Corporate Planning and Budgeting

**John F. Norris, Jr.**
Senior Vice President — Operations and Technical Services

**Armando A. Peña**
Senior Vice President — Finance and Treasurer

**Scott N. Smith**
Senior Vice President and Chief Risk Officer

**AEP Energy Services, Inc.**

**Steven A. Appelt**
Executive Vice President — Administration

**Eric J. van der Walde**
Executive Vice President — Marketing and Trading

---

**Office of the Chairman**

Seated: Henry Fanye, Bob Powers
Standing: Tom Shockley, Linn Draper, Joe Vipperman, Susan Tomasky, Eric van der Walde
Directors


Dr. E. Linn Draper, Jr., 60
Chairman, President & Chief Executive Officer
(1992) E

E. R. Brooks, 64
Retired Chairman & Chief Executive Officer, Central & South West Corporation
Granbury, Texas

Dr. Donald M. Carlton, 64
Retired President & Chief Executive Officer, Radian International, LLC
Austin, Texas

John P. DesBarres, 62
Investor/Consultant
Park City, Utah

Robert W. Fri, 66
Director, National Museum of Natural History
Smithsonian Institution
Washington, D.C.

William R. Howell, 66
Chairman Emeritus, J. C. Penney Company, Inc.
Dallas, Texas

Dr. Lester A. Hudson, Jr., 62
Professor of Business Strategy
Clemson University
Greenville, South Carolina
(1987) A, D, P

Leonard J. Kujawa, 69
International Energy Consultant
Atlanta, Georgia
(1997) D, F, P

James L. Powell, 72
Ranching and Investments
Fort McKavett, Texas
(2000) A, D, P

Dr. Richard L. Sandor, 60
Chairman & Chief Executive Officer, Environmental Financial Products, LLC
Chicago, Illinois

Thomas V. Shockley, III, 56
Vice Chairman
(2000)

Donald G. Smith, 66
Chairman, President & Chief Executive Officer
Roanoke Electric Steel Corporation
Roanoke, Virginia
(1994) H, N, P

Linda Gillespie Stuntz, 47
Partner, Stuntz, Davis & Staffier, P.C.
Washington, D.C.
(1993) D, E, F, P

Dr. Kathryn D. Sullivan, 50
President & Chief Executive Officer
Center of Science & Industry
Columbus, Ohio

Committees of the Board:
The chairman is listed in ( ).
A Audit (Carlton),
D Directors and Corporate Governance (Hudson),
E Executive (Draper),
F Finance (Stuntz),
H Human Resources (DesBarres),
N Nuclear Oversight (DesBarres),
P Policy (Fri)

Dates in parentheses indicate year elected to Board
Shareholder Information

Annual Meeting – The 95th annual meeting of shareholders of American Electric Power Company will be held at 9:30 a.m. Tuesday, April 23, 2002, at The Ohio State University's Fawcett Center, 2400 Olentangy River Road, Columbus, Ohio. Admission is by ticket only. To obtain a ticket, please note the instructions in the Notice of Annual Meeting mailed to shareholders or call the Company. If you hold your shares through a broker, please bring proof of share ownership as of the record date.

Shareholder Inquiries – If you have questions about your account, contact the Company’s transfer agent, listed below. You should have your Social Security number or account number ready; the transfer agent will not speak to third parties about an account without the shareholder’s approval or appropriate documents.

Transfer Agent & Registrar
EquiServe
(formerly First Chicago Trust Company of New York)
P.O. Box 2500
Jersey City, NJ 07303-2500
Telephone Response Group: 1-800-328-6955;
Internet address: www.equiserve.com
Hearing Impaired #: TDD: 201-222-4955

Internet Access to Your Account – If you are a registered shareholder, you can access your account information through the Internet at www.equiserve.com. Information about obtaining a password is available toll-free at 1-877-843-9327.

Replacement of Dividend Checks – If you do not receive your dividend check within five business days after the dividend payment date, or if your check is lost, destroyed or stolen, you should notify the transfer agent for a replacement.

Lost or Stolen Stock Certificates – If your stock certificate is lost, destroyed or stolen, you should notify the transfer agent immediately so a “stop transfer” order can be placed on the missing certificate. The transfer agent then will send you the required documents to obtain a replacement certificate.

Address Changes – It is important that we have your current address on file so that you do not become a lost shareholder. Please contact the transfer agent for address changes for both record and dividend mailing addresses. We also can provide automatic seasonal address changes.

Stock Transfer – Please contact the transfer agent if you have questions regarding the transfer of stock and related legal requirements.

Dividend Reinvestment and Direct Stock Purchase Plan – A Dividend Reinvestment and Direct Stock Purchase Plan is available to all investors. It is an economical and convenient method of purchasing shares of AEP common stock. You may obtain the Plan prospectus and enrollment authorization form by contacting the transfer agent.

Direct Deposit of Dividends – The Company does offer electronic deposit of your dividends. Contact the transfer agent for details.

Stock Held in Brokerage Account (“Street Name”) – When you purchase stock and it is held for you by your broker, it is listed with the Company in the broker’s name or “street name.” AEP does not know the identity of individual shareholders who hold their shares in this manner; we simply know that a broker holds a certain number of shares which may be for any number of customers. If you hold your stock in street name, you receive all dividend payments, annual reports and proxy materials through your broker. Therefore, if your shares are held in this manner, any questions you may have about your account should be directed to your broker.

How to Consolidate Accounts – If you want to consolidate your separate accounts into one account, you should contact the transfer agent to obtain the necessary instructions. When accounts are consolidated, it may be necessary to reissue the stock certificates.

How to Eliminate Duplicate Mailings – If you want to maintain more than one account but eliminate additional mailings of annual reports, you may do so by contacting the transfer agent, indicating the names you wish to keep on the mailing list for annual reports and the names you wish to delete. This will affect only these mailings; dividend checks and proxy materials will continue to be sent to each account.

Stock Trading – The Company’s common stock is traded principally on the New York Stock Exchange under the ticker symbol AEP. In 1999, AEP stock had been traded on the NYSE 90 years.

Taxes on Dividends – The Company paid $2.40 in cash dividends in 2001, all of which are taxable for federal income tax purposes. AEP has paid consecutive quarterly dividends since 1910.

Shareholder Direct – An array of timely recorded messages about AEP, including dividend and earnings information and recent news releases, is available from AEP Shareholder Direct at 1-800-551-1AEP (1237) anytime day or night. Hard copies of information can be obtained via fax or mail. Requests for annual reports, 10-K’s, 10-Q’s, Proxy Statements and Summary Annual Reports should be made through Shareholder Direct.

Financial Community Inquiries – Institutional investors or securities analysts who have questions about the Company should direct inquiries to Bette Jo Rozsa, 614-223-2840, bjrozsa@aep.com, or Julie Sloat, 614-223-2885, jsloat@aep.com; individual shareholders should contact Kathleen Kozero, 614-223-2819, kkozero@aep.com, or April Dawson, 614-223-2591, addawson@aep.com.

Internet Home Page – Information about AEP, including financial documents, SEC filings, news releases and customer service information, is available on the Company’s home page on the Internet at www.aep.com.

Annual Report and Proxy Materials – You can receive future annual reports, proxy statements and proxies electronically rather than by mail; if you are a registered holder, log on to www.econsent.com/aep. If you hold your shares in street name, contact your broker.
AEP is a diversified energy company with a balanced portfolio of businesses and assets. The company owns and operates more than 42,000 megawatts of worldwide generating capacity and is America’s largest generator of electricity. AEP’s assets also include 128 billion cubic feet of gas storage and more than 6,400 miles of natural gas pipeline, 7,000 rail cars and 1,800 barges.

AEP ranks among the leaders in North America in wholesale energy marketing and trading volume of both power and natural gas.

The company provides retail electricity to more than 7 million customers worldwide, including more than 4.9 million retail customers in 11 states — Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

AEP operates one of the largest transmission and distribution systems in the world, encompassing 38,000 circuit miles of transmission lines and 186,000 miles of overhead and underground distribution lines in its U.S. service territory. AEP’s domestic distribution service area covers 197,500 square miles.

Outside the United States, AEP holds interests in the United Kingdom, Australia, Brazil, China, Mexico and the Pacific Region.

This summary annual report contains condensed financial statements and a summary analysis of results of operations and financial condition. Full disclosure of all financial information is included in the Appendix A to the Proxy Statement. Additional information about AEP is available on the Internet at www.aep.com.

AEP’s 2001 Community Connections report is the first such document devoted to the company’s community involvement efforts. The report highlights science and safety education, corporate donations, employee volunteerism and activities that support AEP’s corporate goal to play an active, positive role in the communities where employees live and work. A copy is available on the Internet at www.aep.com or by writing to AEP Community Relations, 1 Riverside Plaza, Columbus, OH 43215-2373.