A Message from the President & CEO

Dear Friends:

I am pleased to share American Electric Power's 2012 Corporate Accountability Report, my first as president and chief executive officer. We are opening a new, exciting chapter in our 106-year history. Fundamental change is occurring in our company and our industry that will have lasting impacts on our communities, our customers and our environment; on how we produce, consume and move electricity around the grid and within our system; and what it will cost now and in the future. Yet, at the beginning, middle and end of the day, the power that our customers rely on must be there when and where they need it.

We are proud to have delivered quarterly dividends to our shareholders continuously for more than a century. We have a strong balance sheet, investment-grade credit ratings and tight control over spending. We understand the social and economic value of electricity to our service territory and to society at large.

We manage our system as a strategic asset that is fundamental to economic security and growth and to maintaining and improving the quality of people's lives. A robust, efficient electricity grid is also vital to our sustainability.

Times of transition and uncertainty also bring new opportunities. I am confident we have the right strategy, a strong operating model and the talent to execute our plan and achieve our financial goals.

Our Strategy for Success

Times of change and uncertainty also bring new opportunities. We have a clear, four-part strategy to manage our risks so that we are ready to seize new opportunities to deliver shareholder value and meet our customers' needs during these dynamic times. Our focus is on executing that plan. We face formidable challenges, as we have many times in the past, but we are confident that we will emerge a stronger and more successful company.

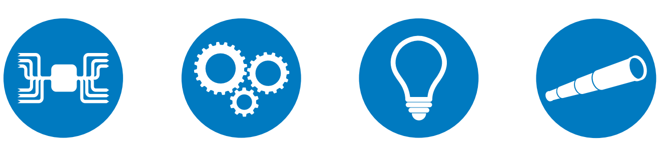
Our strategy is our competitive advantage as we build a more sustainable company, enhanced by strategic investments and good management that create long-term value. We will continue to identify specific, integral connections between our balance sheet, our daily operations and our responsibility to the environment and to society. By treating sustainability as a strategic investment, we expect to demonstrate that the strength and durability of these connections are vital to our growth and our long-term success. We believe this underpins our ability to deliver 4 percent to 6 percent annual earnings growth on average.

The first part of our strategy is to invest in our regulated utilities and optimize returns on those investments. Our 11 states have different regulatory frameworks, customer bases and weather patterns that make our operating and investment flexibility a strength that we will leverage. We will look closely at each operating company to determine where we can earn the best return, and our decisions will be tied to making those investments and companies as successful as possible.

We have changed our business model to provide our operating companies with more influence at the corporate level and more autonomy at the local level to enable better, more locally attuned business decisions.

The second part of our strategy is to reposition our generation assets for a more sustainable fuel mix. Several factors are driving us in this direction, including new environmental regulations; the economics of coal versus natural gas; the operating cost, age and efficiency of some coal units; increased competition; and grid reliability. We will retire more than 5,100 megawatts (MW) of coal-fired generation and retrofit nearly 11,000 MW with new, advanced pollution controls or upgrade existing control equipment. Additional coal-fired generation may be refueled with natural gas.

Even as we add more natural gas to our portfolio, coal will continue to be a critical resource. The startup in January 2012 of the 580-MW Dresden combined-cycle gas plant in Ohio, and completion of the 600-MW coal-fueled John W. Turk Jr. Plant in Arkansas later this year, reflect this move toward a sustainable balance. We are advocating for the regulatory flexibility to minimize both the cost burden of this transition on our customers and the economic impact on our communities, while achieving the desired environmental outcomes.



The third part of our strategy is to grow our short- and long-term earnings through our transmission business. We are changing our strategy regarding transmission; in the near term, our new AEP transmission companies will invest more than $2 billion during the next four years on projects to enhance our transmission system.

Our long-term transmission strategy includes development of larger interstate projects through our joint ventures across the country. Larger projects can create benefits for customers. As regional grids are upgraded or connected to new lines, access to energy improves. This results in better reliability, greater availability of renewable energy, and downward pressure on prices.

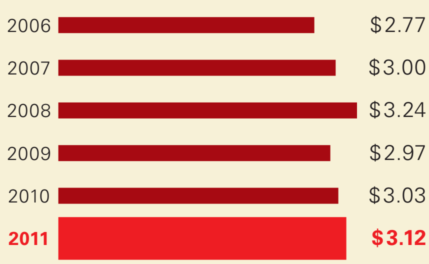
The fourth part of our strategy is to create a robust competitive retail business that can reduce business risk while providing significant growth potential. Customer switching has become a growing concern, financially and operationally, in Ohio. The creation of AEP Retail Energy and the acquisition of BlueStar Energy Holdings Inc. strengthen our ability to compete in Ohio as well as other competitive markets and provide customers with customized products and services from a competitive platform.

This is an ambitious strategy and it will not be an easy road to travel, but I am confident that we have the right game plan, a strong operating model and the talent to execute our plan and achieve our financial goals. As with all of our commitments, we will hold ourselves accountable for results.

Ongoing Earnings Per Share History

Compound Annual Growth Rate = 2.41%

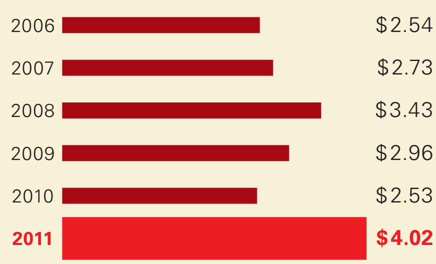
($/share)



Earnings Per Share History (GAAP)

Compound Annual Growth Rate = 9.62%

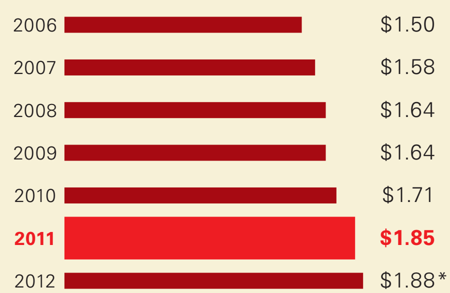
($/share)



AEP Dividend History

Compound Annual Growth Rate = 3.84%

($/share)



* Current annual rate subject to board of directors approval.

New Risks, New Opportunities

We face new realities and a challenging transition, both as an industry and as a company. But I am confident we will navigate this transition successfully. We must manage a combination of economic, business, social, environmental, political and regulatory risks at the federal, state and local levels. These include a slower-than-expected economic recovery; intense competition in the competitive parts of our business; and burdensome government regulations that will necessitate the premature retirement of coal-fired generating units in six states, causing further economic hardship. We must, at the same time, diversify our fuel mix and address aging plants and facilities across our system. This will be costly and require rate increases, which affects our customers.

Our tasks are made all the more difficult, lengthy and expensive by the lack of a comprehensive national energy policy. Our industry must deal with and try to reconcile uncoordinated and often conflicting policy and regulatory decisions emanating from different federal agencies or from the many state and local agencies that have oversight. Some of this conflict is inevitable, but much of it creates unnecessary confusion, delay and costs that are borne by customers and shareholders.

The ambiguity around issues such as proposed environmental regulations and the transition in Ohio to a competitive market are good examples of the challenges we face. We need a clearer path forward in the future to make the decisions and investments we now face.

The lack of coordination among federal and state regulators is a matter of increasing concern for our shareholders, our customers and our communities. We have spent much time and effort to ensure that our state regulators and legislators know about national policies that affect our customers and their constituents.

Our need for clarity about energy policy is made even more urgent because, unlike most private-sector companies, the prices we and other electric utilities can charge our customers, and the returns we can earn on our investments, are determined by state and federal regulators. If we make investments and are not allowed to recover our costs or earn a reasonable rate of return on those investments, the company's earnings suffer and our shareholders may lose value.

We stepped forward as a clear leader in our industry on certain environmental issues, such as climate change and greenhouse gas reductions, because we believe in the importance and potential long-term benefit of developing solutions such as carbon capture and storage. Unfortunately, our efforts were penalized when regulators rejected our request to recover the cost of those investments. We took a $76 million write-off, for example, on our carbon capture and storage projects in West Virginia. We still believe there will be benefits from our work in developing this technology, but we can't afford to move ahead with it at this time.

The connections between environmental and social issues and our financial performance have caused us to rethink how we operate, the decisions we make, our approach to governance, how we conduct business and how we are perceived. We have worked to understand and align these forces with our strategy, risk management and competitiveness, and business results. At the same time, investors, employees, regulators and other key stakeholders have paid close attention to how we are managing these risks and opportunities for both today and the future.

Our core responsibilities are to produce and deliver reliable, cost-effective electricity to our customers, keep our employees safe from harm, and demonstrate environmental responsibility while providing a fair return to our investors. The leadership team develops and executes the strategic plan with the board's approval. Despite significant operational and financial challenges, we are confident that we will continue to grow our earnings and keep pace with the many changes affecting our company and our industry to become stronger, leaner and even more competitive.

We are in business to be profitable, yet we are sensitive to the impacts our product has on the environment, the price our customers are able to pay for electricity, the economic strength of our communities, and the value of informed stakeholder engagement. We seek to simultaneously create financial, social and environmental prosperity.

Our operating environment is causing fundamental changes to our business model. These will increase our enterprise risks but also will create long-term opportunities that benefit the environment, our shareholders, our customers, and our communities. We need to be simultaneously strategic and adaptable so that we can understand all the ways in which our financial success is connected to our ability to succeed in other areas. From the board room to the front line, we are working to manage these connections by setting clear goals, holding ourselves accountable, having the right people in the right places and rewarding high performers.

A New & Different Future

Our industry is undergoing restructuring of a magnitude that we have not seen in decades, and our business will be affected by these changes. We are repositioning our generation business to create a sustainable fuel mix for the future, in part due to environmental and economic reasons. Our coal-fired capacity is projected to be 50 percent of total capacity by 2020. We will rely more on natural gas, renewable energy and energy efficiency, among other resources.

The John W. Turk Jr. Plant in Southwest Arkansas will be one of the most efficient coal-fired plants in the country when it begins commercial operation, scheduled for the fall of 2012.

Our earnings strength lies in our regulated operations. A combination of reasonable returns on our rate base and the diversity of our service territory will continue to allow us to optimize the investments we make in our regulated business and provide fair returns that meet the expectations of our shareholders.

Our transmission business continues to be an area of near-term and long-term growth where we will invest significant capital. Our distribution system is becoming more digitized to improve efficiency and reliability while providing two-way communication between customers and the company. We are building our retail energy business to be more competitive in markets where customers have a choice of generation providers. Our acquisition of BlueStar Energy Holdings Inc., with its approximately 23,000 customers and energy services and demand-response programs, will strengthen our capabilities and give us a stronger platform for growth.

Governance in Times of Change

At the core of corporate governance is the role of the board of directors, the highest governing authority within a company. The board is the protector of shareholders' long-term interests with a responsibility to ensure those who invest in the company earn a fair return on their investment. Effective governance is guided by policies and by directors who are informed and engaged. The independence of directors is a hallmark of strong corporate governance. AEP's Board of Directors is largely composed of independent directors. Mike Morris, who previously was chairman and chief executive officer (CEO), currently serves as chairman, while President and CEO Nick Akins is the board's only member from management. Learn more about the policies, principles and code of conduct that guide and govern AEP's Board of Directors at ***http://www.AEP.com/investors/corporateleadersandgovernance/***.

To deal with the rapid changes occurring in our industry, we rely on the strength of our operating company model, under which the companies have financial and operational responsibility for their performance. This makes us better able to adapt to the needs and limits of each jurisdiction. It also gives us a better understanding of regulator interest and support, impacts to customers, and the ability to successfully secure cost recovery for our capital investments.

Mike Morris helped to create a culture of openness and teamwork at AEP, one that encourages employees to share ideas and concerns and to collaborate on solutions. Real teamwork requires candor to encourage and model this capacity at all levels of our organization.

Leadership for Results

Organizations do not change for the better without strong leadership. Effective leaders at all levels look at the world and at the operating environment as it is, not tainted by personal biases about how they would like it to be, or as it might be in the future.

Just as our business is in transition, our leadership and management team has also changed. Mike Morris retired as chief executive officer in November 2011 after eight years at the helm. Nick Akins is AEP's sixth CEO and has formed a strong management team that reflects the breadth and strength of AEP's leadership capabilities and our abilities as an organization to adapt successfully to change. The executive team consists of: Executive Vice President and Chief Operating Officer Bob Powers, Executive Vice President and Chief Financial Officer Brian Tierney, Executive Vice President and Chief Administrative Officer Dennis Welch, and Senior Vice President, General Counsel and Secretary David Feinberg.

Managing Risk in Times of Change

We are faced with an array of risks, some well established and controlled and others emerging and not as well defined. Still others are related to areas that are shifting so rapidly that they defy static definition, such as cyber security. We must effectively manage our risks and strengthen our risk management capabilities, which include our ability to respond successfully to unforeseen risks.

We continuously evaluate our levels of acceptable risk based on internal and external operating conditions. We have created management systems and a culture that support our abilities to identify, evaluate and manage risk. For example, our culture encourages self-reporting if noncompliance is suspected; and we recently created a "Watch List" for the board of directors that augments our enterprise risk management process by identifying issues that could become material risks. It reflects our commitment to comprehensive and forward-looking risk management by putting a process in place to identify emerging risks or issues that could

We need to be simultaneously strategic and adaptable so that we can understand all the ways in which our financial success is connected to our ability to succeed in other areas. Our performance is a measure of this.

This year, we are incorporating a broader range of performance measures within the financial performance section of this report. In addition to traditional financial indicators about our various business operations, we include key information from our environmental, safety and health, and reliability sections to provide a more comprehensive overview of our performance.

FINANCIAL PERFORMANCE

At AEP, we believe that sustainability is a key business strategy and opportunity. Incorporating sustainability throughout our business enhances our ability to deliver profits to shareholders, meet our obligations to lenders and fulfill our environmental and social commitments. Improving our environmental and social performance, in turn, contributes to our financial well-being. We have governance and management systems in place that embed sustainability in our operations, integrate sustainability with risk management, and promote sustainable practices within our business and to our customers, shareholders and the public. AEP is undergoing major changes in its business operations, but the actions we have taken during the past several years position us for future success.

Our balance sheet is the strongest it has been in many years. We believe investments in our regulated businesses will support annual earnings growth of 4 percent to 6 percent on average. This growth, coupled with our stable and attractive dividend and combined with our business strategy and fiscal discipline, positions an investment in AEP as a 9 percent to 10 percent total return proposition.

Because AEP's credit ratings are investment-grade (BBB from Standard & Poor's and Fitch Ratings, Baa2 from Moody's Investors Service), we expect to continue to access the debt capital markets at a reasonable cost. Maintaining these ratings requires strict attention to spending decisions and a stable outlook in the states that we serve.

We rewarded our shareholders in the fourth quarter of 2011 with a dividend increase of 2.2 percent. This closely followed two dividend increases in 2010 that totaled 12 percent. AEP was among the stable, regulated, dividend-paying electric utilities with strong balance sheets that were rewarded by the market during 2011. AEP shareholders received a return of nearly 21 percent for the year, including dividends, slightly exceeding the total composite return of our peer companies and far outperforming the broader market.

This Competitive Renewable Energy Zone transmission project in Texas is just one of many transmission projects that AEP will invest in through wholly owned subsidiaries or joint ventures with other companies.

AEP has paid dividends for more than a century, a testament to the historic commitment of AEP management and the board of directors to rewarding shareholders for their investment. Very few American corporations can claim such a record.

2011 Consolidated Results

AEP's ongoing earnings for 2011, excluding special items, totaled $1.50 billion, up from $1.45 billion in 2010. On a per-share basis, ongoing earnings rose to $3.12 in 2011 from $3.03 in 2010. The Generally Accepted Accounting Principles (GAAP) result was $1.94 billion or $4.02 per share in 2011, compared with $1.21 billion or $2.53 per share in 2010.

GAAP earnings were $437 million higher than ongoing earnings for 2011 mainly because of a Texas Supreme Court ruling that resulted in a $558 million favorable adjustment, net of tax, relating to recovery of stranded costs in Texas.

We further strengthened our balance sheet in 2011, ending the year with a debt-to-total-capitalization ratio of 55.3 percent. Our available liquidity at the close of 2011 was $2.4 billion, down slightly from the prior year but still substantial. We have access to $3.25 billion in credit supported by 27 banking institutions across the globe. During 2011, we replaced the $1.5 billion credit facility that was due in 2012 with a new $1.75 billion facility that matures in 2016, and we repriced and extended to 2015 the maturity of a $1.5 billion facility due in 2013. We also significantly diversified the geographic dispersion of our banking group in order to dilute significant exposure to any certain region. Our current breakdown is 45 percent domestic, 12 percent Canadian, 25 percent European and 18 percent Asian.

AEP paid roughly $1 billion in federal, state and local taxes in 2011 and employed approximately 18,700 employees, accounting for an annual payroll of $1.7 billion. We took advantage of federally approved tax incentives that resulted in a refund of $118 million. AEP typically is one of the largest employers in the areas where we operate, and tax revenue and wages support the economic well-being of our communities.

Utility Operations

AEP's Utility Operations includes the generation, transmission and distribution of electricity for retail and wholesale customers and represented nearly 99 percent of the company's ongoing earnings for 2011. AEP earned an overall 10.6 percent return on equity (ROE) in 2011 on a pro forma basis. The performance of our utility companies is reflected in Utility Operations.

Ongoing earnings from our Utility Operations increased $56 million, from $1.43 billion in 2010 to $1.49 billion in 2011, largely due to favorable rate changes, especially in our eastern footprint. However, regulatory disallowances, customer switching, and other factors in 2011 materially mitigated the increase.

GAAP net income was $1.91 billion in 2011, up from $1.19 billion in 2010. GAAP earnings were $459 million higher than ongoing earnings for 2011 mainly because of the Texas Supreme Court ruling related to the recovery of stranded costs in Texas.

Weather can help or hurt our results, and in 2011, it had a favorable impact of $113 million. Although the weather impacts to our performance lessened from 2010 to 2011, the hot summer in our western service territory worked to our advantage. In fact, 2011 ranked third out of the last 30 years in terms of total degree days for all of AEP.

In Ohio, a growing number of retail customers

483 million

common shares outstanding as of Dec. 31, 2011

Total Debt / Capitalization (GAAP)

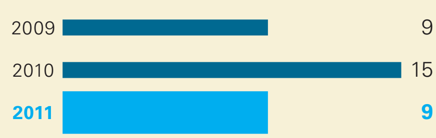
Liquidity Summary ($ in millions)

	Amount*	Maturity
Revolving Credit Facility	$1,500	June 2015
Revolving Credit Facility	$1,750	July 2016
Total Credit Facilities	**$3,250**	
Plus		
Cash & Cash Equivalents	$221	
Less		
Commercial Paper Outstanding	($967)	
Letters of Credit Issued	($134)	
Net Available Liquidity	**$2,370**	

* Actual Dec. 31, 2011

Environmental Performance Index

(number of incidents per year)



This environmental performance index includes incidents for opacity, NPDES, and oil and chemical spills at our power plants.