I welcome this opportunity to review our 2013 performance, discuss our plans and projections for 2014, and share AEP’s vision for the future.

Dear Friends,

The production, distribution and use of electricity are changing dramatically as our industry undergoes a challenging but exciting transformation. We have reshaped parts of our business, strengthened our financial position and sharpened our plan for sustainable growth to meet these challenges.

Our shareholders have been rewarded for our performance. AEP has paid over a century of consecutive quarterly common stock cash dividends. Our investments in employees and infrastructure, our focus on continuous improvement and our fiscal discipline provide a solid foundation as we build the utility of the future.

We provide a vital service that keeps people safe, supports the economy and sustains quality of life. But the pace of change is accelerating, and what got us through our first century won’t get us through our second. To sustain our targeted earnings growth, we must adapt to the new realities of our operating environment by leveraging our strengths as a regulated electric utility to grow our business for the future. We have more confidence than ever in our strategy to meet the challenges and opportunities before us, and we are taking steps to execute our strategy.
As we move forward on this journey of change and adaptation, our values will be our north star. In 2013, we updated our corporate values to reflect who we are today and who we must become if we are to transform into the utility of the future. We worked with our employees to help us shape this vision and we agreed that zero harm, customer focus, integrity and stewardship, and the ability to adapt and achieve are the values that will determine our success. We also worked with employees to articulate our purpose. It’s simple and precise – We power life’s possibilities™.

Changes to Our Business
In 2013, we separated our Ohio generation assets from our Ohio distribution and transmission operations and transferred them to a new competitive affiliate, AEP Generation Resources. Corporate separation, as it is called, was required to achieve full market-based pricing of generation for retail customers. Ohio customers can shop for the generator of their electricity and AEP Ohio will continue to deliver energy to them over its distribution and transmission assets.

One of the greatest risks to our new competitive generation business is the PJM Interconnection capacity auction, which currently pays the same price for capacity from power plants in the region as it does for demand response programs and imported energy from areas as far away as Louisiana. To keep the grid operating reliably, “steel-in-the-ground” capacity is required to generate electricity during peak demand periods. In addition, the rules provide easy opportunities for financial speculation in the auction, which drives down prices and forces premature retirements of existing plants within the PJM footprint. Together, these inequities create financial risk and fail to properly incentivize long-term investments in generating capacity, which will eventually threaten reliability.
We need to improve the structure of capacity markets and maintain fuel diversity within PJM to meet future energy needs and ensure stable electric prices. We are working with several of our peers and PJM to correct some of the deficiencies in the capacity auction process.

Another significant accomplishment in 2013 was the completion of the largest transmission construction project in AEP’s history. The new transmission lines will carry 18,500 megawatts of west Texas wind energy to major population areas in the Electric Reliability Council of Texas, supporting the Texas Competitive Renewable Energy Zone (CREZ) initiative. Our approximately $1.5 billion investment in CREZ reflects our commitment to modernizing the grid, improving reliability for customers and providing a pathway for access to renewable resources.

Our regulated businesses provide the largest growth platform for AEP. Our 4 percent to 6 percent targeted earnings growth rate is predicated on regulated capital investment and successful regulatory support. We have a strong balance sheet, excellent credit metrics and ample liquidity. We plan to invest approximately $3.8 billion to $4.1 billion annually between 2014 and 2016, primarily in transmission and distribution projects. These investments will replace aging infrastructure, improve reliability, help the grid respond to coal unit retirements, support regional transmission projects and reward investors.

Infrastructure development, combined with positive customer and employee experiences, are the foundation to our future success. Our success will depend on having employees who are entrepreneurial, collaborative, agile, and focused on continuous improvement to meet and exceed customer expectations.

We are working to retain and attract great people and to strengthen our culture to support them. Our culture initiative is focused on leadership, strategic alignment, employee engagement and performance recognition – and in 2013, we advanced in all those areas. We are redesigning our performance management and compensation systems, developing new tools and training for leaders at all levels, and doing a much better job of working together within our organization.

www.AEPsustainability.com
2013 in Review

Financial Performance

We achieved excellent financial results in 2013. Our total shareholder return for the year was 14.2 percent, compared with an average of 7.8 percent for the S&P 500 Electric Utilities Index. Our debt-to-capitalization ratio also improved, ending the year at 54.3 percent – the lowest percentage in more than a decade.

We ended 2013 with Generally Accepted Accounting Principles (GAAP) earnings of $1.48 billion or $3.04 per share, compared with $1.259 billion or $2.60 per share in 2012. For the year, operating earnings were $93 million or $0.19 per share higher than GAAP earnings due to the following items (net of tax): plant impairments of $124 million, or $0.25 per share; a $25 million, or $0.05 per share, regulatory disallowance resulting from a Virginia State Corporation Commission order related to the ownership transfer of Amos Plant Unit 3; a $19 million, or $0.04 per share, reversal of a storm cost deferral in Virginia; and a $5 million, or $0.01 per share, restructuring charge. These negative items were offset partially by the effects of a U.S. Supreme Court decision resulting in a favorable $80 million, or $0.16 per share, United Kingdom (U.K.) windfall profits tax credit.

Several factors contributed to our success: approvals for and completion of $647 million in securitizations in West Virginia and Ohio; inclusion of the John W. Turk, Jr., Plant and other assets in rates in Texas; regulatory support in Michigan and Indiana for the Donald C. Cook Nuclear Plant’s life cycle management plan; and sustainable savings and enhanced revenue sources identified through employee-led continuous improvement efforts.

Analysts and investors took note of our success. Our stock is now trading in line based on the S&P 500 Electric Utilities Index’s forward price-to-earnings ratio. During 2013, our share price was up 9.5 percent, far outpacing the index, which was up 3.3 percent, and closed 2013 at $46.74.
Engaging Our Work Force

Safety is a core value and top priority at AEP and is of utmost importance to me and to all employees. We are pleased to report that in 2013, for the second year in a row, we had no employee fatalities at AEP. Regrettably, two contractors working for AEP were fatally injured on the job. During the past two years, we also achieved the best recordable incident rate in more than a decade, which means fewer employees were injured while performing their jobs. Our contractors also outperformed their recordable incident targets during the past two years.

This is a significant achievement for AEP, and I am enormously grateful to all of our employees who worked conscientiously, every day, to achieve these great results. It makes me very proud that AEP employees look out for each other and work together to prevent harm and to accomplish our business objectives. Teamwork will continue to be the cornerstone of our culture efforts.

Unfortunately, the workplace accidents that did occur kept employees off the job for longer periods of time in 2013 than in 2012. We also had 27 percent more preventable vehicle accidents across the AEP system. These are troubling and unacceptable trends, and we will work to reverse them in 2014. Any injury hurts everyone: our employees, their families and the communities in which we live.

Our safety culture is based on the deeply held belief that all workplace injuries can be prevented, and I have challenged our employees to recommit to our goal of zero harm. Every one of us should go home safe and healthy each day. It’s the most important thing we can accomplish and it must be top of mind, every minute of every day.

Our employees are contributing directly to our financial health. We submitted hundreds of ideas for sustainable cost savings, enhanced revenue sources and process improvements.
launched several employee-led initiatives in 2013 that will be instrumental in meeting our financial targets in the next few years, including an employee-led effort to improve processes, increase efficiency, and reduce waste and costs.

In 2013, to improve our business and increase employee engagement, we conducted a one-year gain-sharing program whereby we split with employees the proceeds of savings in excess of $200 million. Our employees submitted hundreds of ideas for sustainable cost savings, enhanced revenue sources and process improvements. I am pleased to report that every AEP employee (excluding senior management) received the maximum $1,000 benefit due to the success of the initiative.

Investing in our employees goes beyond their active time with AEP. In 2013, AEP’s qualified pension funding increased to 99 percent. We have aggressively funded this plan to benefit our employees, retirees, customers and investors.

As an electric power company, AEP provides an essential service, and our social responsibilities extend beyond our employees to our customers, communities and the general public. We must make the electric grid more secure, resilient and capable of handling modern-day electricity demands. We are redesigning power lines to better withstand stress from ice and wind to make the grid more resilient in general. We have a team in place working to improve our emergency preparedness and strengthen the physical infrastructure of the grid.

Environmental Performance
2013 was a great year for AEP in terms of environmental performance – perhaps our best year ever. We did not receive any significant enforcement actions last year, despite 188 regulatory inspections. We are proud that 48 million gallons of fuel oil were transferred to our boats in our River Operations business without a single spill in the river. And, our voluntary Environmental Performance Index, an internal measure to drive continuous improvement in our generation business, recorded its lowest number of incidents since it was created in 2003.
Company Overview 2013

American Electric Power has been providing electric service for more than 100 years and is one of the nation's largest electric utilities, serving more than 5.3 million customers in portions of 11 states.

<table>
<thead>
<tr>
<th>U.S. Customers</th>
<th>5.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP Revenues (billions)</td>
<td>$15.4</td>
</tr>
<tr>
<td>GAAP Net Income (billions)</td>
<td>$1.5</td>
</tr>
<tr>
<td>GAAP Earnings Per Share</td>
<td>$3.04</td>
</tr>
<tr>
<td>Cash Dividends Per Share</td>
<td>$1.95</td>
</tr>
<tr>
<td>Service Territory (square miles)</td>
<td>200,000</td>
</tr>
<tr>
<td>Transmission (miles)</td>
<td>40,000</td>
</tr>
<tr>
<td>765-kV Lines (miles)</td>
<td>2,110</td>
</tr>
<tr>
<td>Distribution (miles)</td>
<td>222,000</td>
</tr>
</tbody>
</table>
| Generating Capacity     | 37,600 MW | ¹
| Generating Stations     | 65 ²   |
| Renewable Portfolio (hydro) | 285 MW | ³
| Pumped Storage          | 586 MW | ⁴
| Regulated Renewable Portfolio (wind, solar) | 1,993 MW | ⁵
| Total Kilowatt-hour Sales (millions) | 200,855 ⁶ |
| Rail Cars               | 5,700 |
| Barges                  | 3,000 |
| Towboats                | 60 |
| Harbor Boats            | 25 |
| Total Assets (billions) | $56.4 |

1 Does not include Ohio Valley Electric Corporation Indiana-Kentucky Electric Corporation or Power Purchase Agreements
2 Includes facilities jointly owned with other utilities and two AEP-owned wind farms
3 Nameplate capacity, excludes pumped storage
4 Nominal capacity
5 Wind and solar Power Purchase Agreements that are in service (nameplate capacity)
6 Includes Vertically Integrated and Transmission and Distribution Utilities

AEP Economic Impact 2013

<table>
<thead>
<tr>
<th>Employees (year-end)</th>
<th>18,521 ¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages (billions)</td>
<td>$2.2 ²</td>
</tr>
<tr>
<td>Construction Expenses (billions)</td>
<td>$3.6 ³</td>
</tr>
<tr>
<td>Local Taxes (millions)</td>
<td>$587.9</td>
</tr>
<tr>
<td>State Taxes (millions)</td>
<td>$350.2</td>
</tr>
<tr>
<td>Federal Taxes (millions)</td>
<td>$124.2</td>
</tr>
<tr>
<td>Goods &amp; Services (billions, does not include fuel)</td>
<td>$5.2</td>
</tr>
<tr>
<td>Goods &amp; Services from Diverse Suppliers (millions)</td>
<td>$689 ⁴</td>
</tr>
<tr>
<td>Remaining Value of all Contracts (billions)</td>
<td>$1.3 ⁵</td>
</tr>
<tr>
<td>Coal Delivered (thousands of tons)</td>
<td>53,748</td>
</tr>
<tr>
<td>Coal Average Purchase Price (per ton)</td>
<td>$51.38</td>
</tr>
<tr>
<td>Natural Gas Delivered (billion cubic feet)</td>
<td>158.3</td>
</tr>
<tr>
<td>Natural Gas Average Purchase Price (per MMBtu)</td>
<td>$4.01</td>
</tr>
<tr>
<td>Philanthropic Giving (millions)</td>
<td>$21.1 ⁶</td>
</tr>
<tr>
<td>Economic Development Contributions (millions)</td>
<td>$1.5 ⁷</td>
</tr>
</tbody>
</table>

1 Includes subsidiaries of AEP
2 Includes wages, incentives and fringe benefits (expensed and capitalized) and AEP’s portion of certain payroll taxes
3 Construction expenditures, not investments in subsidiary companies. Excludes discontinued operations.
5 Supply chain purchased contracts and inventory system
6 Includes Corporate and AEP Foundation grants
7 Includes all grants and contributions by utility units to support economic development

www.AEPsustainability.com
Since 1990, AEP has invested about $7 billion to install environmental controls to coal-fueled power plants. These investments have reduced sulfur dioxide (SO₂) and nitrogen oxide (NOₓ) emissions by more than 80 percent during that time and mercury emissions by nearly 60 percent since 2001.

### AEP Capital Investments ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2013 Actuals</th>
<th>2014 Estimated Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission</td>
<td>$651</td>
<td>$848</td>
</tr>
<tr>
<td>Distribution</td>
<td>$1,018</td>
<td>$1,086</td>
</tr>
<tr>
<td>Regulated Environmental Generation</td>
<td>$415</td>
<td>$465</td>
</tr>
<tr>
<td>New Generation</td>
<td>$21</td>
<td>$0</td>
</tr>
<tr>
<td>Nuclear</td>
<td>$264</td>
<td>$201</td>
</tr>
<tr>
<td>Regulated Fossil/Hydro Generation</td>
<td>$287</td>
<td>$209</td>
</tr>
<tr>
<td>Corporate and Other</td>
<td>$134</td>
<td>$131</td>
</tr>
<tr>
<td>Generation and Marketing</td>
<td>$0</td>
<td>$182</td>
</tr>
<tr>
<td>AEP River Operations</td>
<td>$7</td>
<td>$9</td>
</tr>
<tr>
<td>AEP Transmission Holding Co.</td>
<td>$890</td>
<td>$919</td>
</tr>
</tbody>
</table>

**Total Capital & Equity Contributions**

|                                | $3,687       | $4,050                |

Excludes AFUDC debt and equity and cash flow adjustments

### Historical & Projected Environmental Investments ($ in millions)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$187</td>
<td>$235</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$415</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$644</td>
</tr>
<tr>
<td>2014</td>
<td>$588</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$644</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$447</td>
</tr>
</tbody>
</table>
2014 AEP Owned Generating Capacity* by Fuel (42,146 MW)

- **23%** Natural Gas
- **8%** Hydro, Wind, Solar & Pumped Storage
  Includes installed capacity, not the actual output
- **5%** Nuclear
- **4%** Energy Efficiency/Demand Response

* Capacity includes AEP’s ownership interest in OVEC/IKEC and purchased power agreements that include capacity attributes. Energy efficiency/demand response capacity does not represent a physical asset but avoided capacity. Winter Net Real Power Capability as of January 2014.

Due to rounding, may not equal 100 percent

---

2026 Projected AEP Owned Generating Capacity* by Fuel (37,565 MW)

- **28%** Natural Gas
- **11%** Hydro, Wind, Solar & Pumped Storage
  Includes installed capacity, not the actual output
- **7%** Energy Efficiency/Demand Response
- **6%** Nuclear

* Capacity includes AEP’s ownership interest in OVEC/IKEC and purchased power agreements that include capacity attributes. Energy efficiency/demand response capacity does not represent a physical asset but avoided capacity. Winter Net Real Power Capability as of January 2014.

Includes retirement of Northeastern Station Unit 3 between 2020 and 2026

Due to rounding, may not equal 100 percent
AEP shareholders received a 14.2 percent total return, including dividends, compared with the 7.8 percent total shareholder return of our peers in the S&P 500 Electric Utilities Index.

AEP's annual dividend increased 6.4 percent and we continue to target a 60 percent to 70 percent dividend payout ratio. AEP has paid over a century of consecutive quarterly common stock cash dividends.
Total AEP System Emissions 1990 – 2013

SO2
Million U.S. Tons

NOx

Total AEP System – Annual CO₂ Emissions (in million metric tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions (in million metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>145.1</td>
</tr>
<tr>
<td>2006</td>
<td>143.9</td>
</tr>
<tr>
<td>2007</td>
<td>147.7</td>
</tr>
<tr>
<td>2008</td>
<td>148.2</td>
</tr>
<tr>
<td>2009</td>
<td>129.7</td>
</tr>
<tr>
<td>2010</td>
<td>134.0</td>
</tr>
<tr>
<td>2011</td>
<td>136.0</td>
</tr>
<tr>
<td>2012</td>
<td>122.0</td>
</tr>
<tr>
<td>2013</td>
<td>115.0</td>
</tr>
</tbody>
</table>
AEP has invested approximately $10 billion in environmental controls and new generation over the past decade. As we complete the next phase of environmental controls and fuel conversions, we will be able to redirect capital to the growth areas of our company. In 2013, we redirected about $150 million from across the company to invest mainly in transmission projects. This is how we are optimizing all of our resources and working as a team – a major thrust of our culture change initiative.

Changes in our fuel mix and the retirement of coal-fueled plants will continue to have a positive effect on our carbon footprint. In 2013, our carbon dioxide (CO$_2$) emissions were approximately 115 million metric tons – a 21 percent decrease from 2005 emissions of approximately 145 million metric tons. We will become less carbon-intensive as our generating capacity shifts from 61 percent coal and 23 percent natural gas in 2014, to 49 percent coal and 28 percent natural gas in 2026. Our use of renewable energy will continue to increase during that timeframe. Additionally, our 14 percent reduction in CO$_2$ emissions since 2010 has already exceeded our 10 percent reduction target we previously set for 2020.

We are concerned about the U.S. Environmental Protection Agency’s (EPA) proposed New Source Performance Standards to regulate greenhouse gas emissions, including CO$_2$, from new electric generation units and its intent to issue rules governing existing plants. We are committed to a balanced fuel portfolio that includes coal, and we will continue to work with regulators as they develop these rules so that coal is considered a vital part of the energy mix. We also believe in a wide variety of CO$_2$ reduction strategies, including advanced coal technologies. AEP’s ultra-supercritical Turk Plant in Arkansas demonstrates the viability of advanced coal technology that the EPA should consider.

I believe that a combination of issues – the emerging EPA regulations, the questions around capacity markets, and the physical and cyber threats that our facilities face – are significant challenges to our business that must be dealt with. We continue to work with regula-
tory and government officials to ensure that any regulations achieve
the right balance between environmental protection, fuel diversity and
cost to our customers. At the same time, we are actively engaged in
securing our facilities from physical and cyber-attack.

Having a national energy strategy would help us to achieve the
balance we need on these issues. Electricity impacts people’s lives
deeply, and so does the lack or unreliability of it. The electric grid is
a safety net, and uncoordinated government policies and actions can
strain that safety net. We are concerned that the government does not
fully consider the social and economic ramifications of the rules and
regulations it imposes. As a country, we must address how we deal
with the social safety net of our electric power grid. AEP will continue
to be actively and positively involved in developing sound public pol-
icy for the benefit of our customers and the country.

As with our social and financial performance, we could not have
accomplished our environmental objectives without our employees’
dedication to high standards and a strong sense of doing what is right.
We are very proud of our safety, financial and environmental accom-
plishments in 2013, which are strong indicators of the preparedness
and well-being of our company and bode well for the future.

2014 and Beyond

Our outstanding performance in 2013, along with the organizational
and culture initiatives we started, have set the stage for the future.
2014 will be an important year for AEP as we continue to execute
our growth strategy. Transmission will play a key role in our growth.
We will focus on growing our regulated businesses, advancing our
competitive segment, improving the customer experience, engaging
with our various stakeholders and working with our employees to help
achieve our goals.

Our disciplined approach to allocating capital, controlling costs
and successfully working through regulatory proceedings will con-
tinue to strengthen our financial position. We project an operating
earnings range of $3.35 to $3.55 per share in 2014, $3.30 to $3.60
per share in 2015 and $3.45 to $3.85 per share in 2016. We will keep operations and maintenance expenses in check as we continue to make significant capital investments in our regulated businesses. Transmission will be an important earnings contributor. In 2013, AEP Transmission Holding Company contributed $0.16 per share to operating earnings; it is expected to contribute $0.29 per share in 2014.

Despite a solid foundation, the path forward will not be easy. We are facing a significant financial challenge in 2016 due to the outcome of forward capacity auctions and the lack of growth in demand for our product. However, we have a plan that will maintain our earnings growth beyond 2016. Our employee-led continuous improvement and cost-control initiatives will play a big role. We are confident, based on what our employees have achieved already, that we will succeed.

We will also focus attention to decrease injury severity and preventable vehicle accidents in 2014. We are launching a new initiative in 2014 called “See Something, Say Something, Do Something” to encourage employees to speak up about unsafe practices without fear of retaliation, even if a more senior worker is involved. We need to be focused and fair when unintended events occur to ensure fairness, consistency and shared accountability in analyzing events. We will continue to work relentlessly toward our goal of being a top performer in safety and health by 2016. More important than statistics, I want our employees to stay safe and healthy.

Board of Directors Transitions
The AEP Board of Directors is losing three long-standing directors this year – Richard Sandor, John Turner and Mike Morris. We will miss
their contributions greatly, and we wish them well in the years ahead.

Richard Sandor, who was elected to the board in 2000, has served longer than any other current board member. He is the founder of the Chicago Climate Exchange, which administered a voluntary, legally binding greenhouse gas reduction and trading system. His experience with environmental financial products has proved extremely beneficial to AEP.

John Turner joined the board in 2008. His background in environmental stewardship has served us well. He formerly headed the Conservation Fund, and was assistant secretary of the U.S. Department of State and the director of the U.S. Fish and Wildlife Service.

Mike Morris began his service as AEP’s chairman, president and chief executive officer (CEO) in 2004. He served as chairman through 2013, as CEO until November 2011, and as president through 2010. Mike left his stamp on our company in so many ways: our commitment to zero harm; an emphasis on open communication; his support for the successful operating company model we have in place today that has enhanced local relationships and regulatory outcomes; and his vision for our transmission business to be a catalyst for earnings...
growth. Mike also built upon AEP’s history of innovation by advancing pioneering technologies, such as ultra-supercritical advanced coal technology at our Turk Plant. As we build our model of the utility of the future, we begin with a strong foundation, due in large part to Mike’s integrity, commitment, influence and perseverance. It is a challenge and a privilege to succeed him as CEO and chairman.

While we will miss these retiring directors, we are confident that our continuing slate of directors has the expertise, talents and perspectives needed to ensure successful oversight of our company.

In February 2014, the board welcomed J. Barnie Beasley, Jr., as a new director. He retired in 2008 as chairman, president and CEO of Southern Nuclear Operating Co., a subsidiary of Southern Co. His nuclear operations expertise and insights into our industry will make our board stronger. His addition to the board, along with two other new members who joined in 2013, completes this evolution of the AEP board. We are grateful for their service to AEP.

**A Sustainable Future – the Utility of the Future**

AEP is fundamentally changing the way it operates and manages its business. This business has become one of optimizing resources and focused capital allocation in the midst of substantial structural and technological shifts within the energy landscape.

The utility of the future has seven key characteristics: a balanced, more diverse and less carbon-intensive resource portfolio; an entrepreneurial and engaged work force committed to continuous improvement; a modern, efficient grid that can handle new technologies; the ability to constructively influence regulatory and public policies; customers whose needs are met or exceeded; investors who seek consistent dividends and earnings growth; and strong, trusting relationships with the communities it serves and other stakeholders with whom it works.

AEP’s inclusion in *Fortune* magazine’s 2014 World’s Most Admired Companies list in the electric and gas utilities sector is a strong indicator that we are working on being a model for the future.
Fortune measures nine attributes related to financial performance and corporate reputation. It is humbling and extremely gratifying to be so honored. This recognition reflects our commitment to our customers, communities, employees and shareholders as we transform our company to meet the energy needs of the future.

Our blueprint for the future is not final; it’s a work in progress. We accomplished a great deal in 2013 to secure our future and we have certainty about who we are and know where we are headed. I am confident we are on the right path, and I believe our investors agree. We have much to accomplish in 2014 and in the years ahead. My strong confidence in our future lies in the knowledge, strength, experience and determination of the men and women of AEP. They continue to carry us forward, into the future.

Nicholas K. Akins
Chairman, President & Chief Executive Officer
April 2014
Utility of the Future

The electric utility industry is undergoing a rapid and significant transformation, and the only thing that seems certain is change. We cannot see into the future, but we must be prepared for it. At AEP, being prepared means thinking about the future of our industry and how electric companies of tomorrow will differ from those of today.

We can make three reasonable predictions about the future: 1) the pace of change will accelerate; 2) it will require vision, planning and adaptability to succeed; and 3) successful electric companies will embrace and lead change.

At AEP, we believe it makes business sense to seriously consider the electric utility company of the future. What will it look like? How will it operate? What challenges and opportunities will it face?

We know the process of changing our business is a journey with no end — much like our quest to be a sustainable company. We are grounded in our conviction that we must balance the needs of customers and investors, and that our employees hold the keys to our success.

Although we cannot see with certainty what is to come, we believe the utility of the future will need to:

1. Develop a diverse and well-balanced fuel resource portfolio that is more secure, reliable and less carbon intensive than it is today.
2. Modernize the grid to enable the management of physical assets with information technology and data to optimize efficiency and value, while providing a pathway for renewable energy and other sources to reach the market.
3. Focus on customers by delivering superior customer service and bringing investments closer in line with what customers need and want.
4. Work constructively to influence public policies and regulations that move away from incentives and subsidies and toward value creation and fairness — especially for low- and fixed-income consumers.
5. Develop a work force that is entrepreneurial, engaged, collaborative, adaptable and flexible, along with a culture that supports
those qualities.

6. Deliver strong, reliable financial performance that meets or exceeds investor expectations.

7. Be a good corporate citizen of our communities by supporting volunteerism, philanthropy, economic development and environmental stewardship and building strong, trusting relationships with stakeholders.

Opportunities and Challenges

Our vision for the future is clear and the path forward is paved with opportunities and challenges. Here is a summary of what is before us at this point in our journey:

Business Opportunities for Success

1. Infrastructure & Regulated Investments — As our financial commitment to generation related investments begins to wind down, our capital investment strategy will shift to infrastructure investments such as transmission and distribution that improve the reliability of service to our customers.

2. Focus on Customer Experience & Improved Quality of Service — We seek to meet or exceed customer expectations as we provide reliable, quality, affordable service. The investments we make in grid reliability, technology and efficiency support brand loyalty and a high degree of customer satisfaction.

3. An Engaged & Entrepreneurial Work Force — A culture that fosters employee engagement is better able to adapt to a changing business environment. Employee-led continuous improvement efforts are the key to AEP’s competitiveness and success.

4. Operational Excellence & Environmental Leadership — We are committed to operational excellence that fosters ingenuity and innovation to enhance the quality of life for our customers, reduce our environmental impacts and develop a highly-skilled work force. We will be a good corporate citizen and help to boost the economic vitality of the communities we serve.

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Challenges to Achieving Business Objectives

1. *Unregulated Market Volatility* — When capacity auctions do not create long-term price signals for all resources and compensate generators for investing in generation capacity, reliability of the system and the financial health of our company are at risk. We are working with our peers and the PJM Interconnection to address some of the flaws in this system.

2. *Aging Infrastructure* — Whether it is power plants, transmission or distribution lines or the locks and dams on the nation’s inland waterways, aging infrastructure threatens the reliability of service that we provide to our customers. Aging infrastructure is also a business opportunity as we invest in new facilities. Given the extent and magnitude of the aging infrastructure, addressing this issue in a timely and effective manner presents a challenge.

3. *Impact of New Environmental Regulations* — The increasing scope and stringency of new and existing environmental regulations pose technical and financial challenges for our industry. We are especially concerned with the proposed New Source Performance Standards to regulate greenhouse gas emissions from new electric generation units and the intent for new rules covering existing plants. We believe there should be an appropriate balance between environmental protection, impact on company operations and the economy and cost to our customers.

4. *Lack of a National Energy Framework* — Without a cohesive, national energy policy or framework that recognizes regional flexibility, there is little incentive to make strategic long-term investment decisions, such as building new generation capacity.