

KENTUCKY POWER COMPANY

KENTUCKY POWER COMPANY
 Selected Financial Data

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands)				
INCOME STATEMENTS DATA:					
Operating Revenues	\$ 378,683	\$ 379,025	\$ 389,875	\$ 358,757	\$ 362,999
Operating Expenses	336,486	331,347	340,137	304,082	311,106
Operating Income	42,197	47,678	49,738	54,675	51,893
Nonoperating Items, Net	5,206	1,248	2,070	(327)	(1,726)
Interest Charges	26,836	27,361	31,045	28,918	28,491
Net Income	\$ 20,567	\$ 21,565	\$ 20,763	\$ 25,430	\$ 21,676

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands)				
BALANCE SHEETS DATA:					
Electric Utility Plant	\$1,295,619	\$1,128,415	\$1,103,064	\$1,079,048	\$1,043,711
Accumulated Depreciation and Amortization	397,304	384,104	360,648	340,008	315,546
Net Electric Utility Plant	\$ 898,315	\$744,311	\$742,416	\$739,040	\$728,165
Total Assets	\$1,164,676	\$ 999,048	\$1,494,543	\$ 986,123	\$ 921,847
Common Stock and Paid-in Capital	\$ 259,200	\$ 209,200	\$209,200	\$209,200	\$199,200
Accumulated Other Comprehensive Income (Loss)	(9,451)	(1,903)	-	-	-
Retained Earnings	48,269	48,833	57,513	67,110	71,452
Total Common Shareholder's Equity	\$ 298,018	\$ 256,130	\$266,713	\$276,310	\$270,652
Long-term Debt (a)	\$ 466,632	\$ 346,093	\$330,880	\$365,782	\$368,838
Obligations Under Capital Leases(a)	\$ 7,248	\$ 9,583	\$ 14,184	\$ 15,141	\$ 18,977
Total Capitalization and Liabilities	\$1,164,676	\$ 999,048	\$1,494,543	\$ 986,123	\$ 921,847

(a) Including portion due within one year.

KENTUCKY POWER COMPANY
 Management's Narrative Analysis of Results of Operations

KPCo is a public utility engaged in the generation, purchase, sale, transmission and distribution of electric power serving 174,000 retail customers in eastern Kentucky. KPCo as a member of the AEP Power Pool shares in the revenues and costs of the AEP Power Pool's wholesale sales to neighboring utility systems and power marketers including power trading transactions. KPCo also sells wholesale power to municipalities.

The cost of the AEP Power Pool's generating capacity is allocated among the Pool members based on their relative peak demands and generating reserves through the payment of capacity charges and the receipt of capacity credits. AEP Power Pool members are also compensated for their out-of-pocket costs of energy delivered to the AEP Power Pool and charged for energy received from the AEP Power Pool. The AEP Power Pool calculates each company's prior twelve month peak demand relative to the total peak demand of all member companies as a basis for sharing revenues and costs. The result of this calculation is the member load ratio (MLR) which determines each company's percentage share of AEP Power Pool revenues and costs.

KPCo has a unit power agreement with AEGCo, an affiliated company, which expires in 2004. The unit power agreement extends until December 31, 2009 for Rockport Plant Unit 1 and until December 7, 2002 for Rockport Plant Unit 2 if AEP's settlement restructuring agreement filed with the FERC becomes operative. The agreement provides for KPCo to purchase 15% of the total output of the two unit 2,600-mw capacity Rockport Plant. Under the unit power agreement, there is a demand charge for the right to receive the power, which is payable even if the power is not taken. The amount of the demand charge is such that when added to other amounts received by AEGCo, it will enable AEGCo to recover all its fixed expenses including a FERC-approved rate of return on common equity.

Results of Operations

Net Income for 2002 decreased \$1 million or 5%. Total Revenues were flat while increases in Operating Expenses, driven by expenses related to planned outages at the Big Sandy plant, were offset by comparable gains in net nonoperating income which benefited from decreases in trading incentive compensation.

Changes in Revenues

	Increase (Decrease) Year-to-Date	

	(dollars in millions)	
	Amount	%
	-----	-
Wholesale Electricity*	\$13	6
Energy Delivery*	1	1
Sales to AEP Affiliates	(14)	(34)

Total	\$ -	-
	===	

*Reflects the allocation of certain transmission and distribution revenues included in bundled retail rates to energy delivery.

Revenues in 2002 were comparable to those of last year. Increased sales to retail electricity customers reflecting warmer summer weather, colder days in late 2002, and increased fuel recovery revenues were offset by lower Sales to AEP Affiliates resulting from planned outages in 2002. KPCo's decreased generation was due to scheduled maintenance resulting in lower availability in the fourth quarter.

Changes in Operating Expenses

	Increase (Decrease) Year-to-Date	

	(dollars in millions)	
	Amount	%
	-----	-

Fuel	\$ (5.6)	(8)
Wholesale Electricity	-	N.M.
Purchases from AEP Affiliates		
	2.8	2
Other Operation	(5.4)	(9)
Maintenance	12.6	56
Depreciation	.7	2
Taxes Other Than		
Income Taxes	.4	5
Income Taxes	(.4)	(4)

Total Operating Expenses	\$ 5.1	2
	=====	

N.M. = Not Meaningful

Fuel expense decreased in 2002 as a result of planned fourth quarter outages at the Big Sandy plant for scheduled boiler maintenance. The 800 megawatt Unit 2, representing approximately 75% of the plant's generation capacity, was off-line from mid-September through the end of the year, thereby reducing the demand for fuel in the fourth quarter. Purchases from AEP Affiliates for 2002 increased to meet demand during the planned outages at the Big Sandy plant.

Other Operation expense decreased in 2002 due to reduced consumption of emission allowances due to the planned outage; reduced accruals for trading incentive compensation due to reduced trading activity; and improvements in transmission expense resulting from less wholesale activity and related transmission, and an increase in AEP transmission equalization credits. Under the AEP Transmission Equalization Agreement, KPCo and certain eastern region affiliates share the costs associated with the ownership of their transmission system based upon each company's peak demand and investment. A decrease in KPCo's peak demand relative to its affiliates' peak demand was the main reason for the increase in transmission equalization credits. These developments were offset in part by severance expenses related to a sustained earnings initiative (see Note 11).

Maintenance expense increased in 2002 primarily as a result of planned power plant outages. Big Sandy plant Unit 2 was down for the fourth quarter for planned boiler overhaul and electric plant maintenance. The Company experienced marginal increases in overhead line maintenance expense.

Nonoperating Income Taxes for 2002 have increased as a result of increases in pre-tax income for the year offset in part by prior-year tax return adjustments.

Other Changes

Nonoperating Income for 2002 decreased as a result of AEP's previously announced plan to reduce trading activity, and decreased margins on power trading activity outside of the AEP System's traditional marketing area resulting from soft market demand. Nonoperating Expenses decreased in 2002 as a result of decreases in trading incentive compensation.

KENTUCKY POWER COMPANY
 Statements of Income

	Year Ended December 31,		
	2002	2001	2000

	(in thousands)		
OPERATING REVENUES:			
Wholesale Electricity	\$218,665	\$205,476	\$226,708
Energy Delivery	132,054	131,183	121,346
Sales to AEP Affiliates	27,964	42,366	41,821
	-----	-----	-----
TOTAL OPERATING REVENUES	378,683	379,025	389,875
	-----	-----	-----
OPERATING EXPENSES:			
Fuel	65,043	70,635	74,638
Purchased Power:			
Wholesale Electricity	29	86	1,940
AEP Affiliates	133,002	130,204	127,707
Other Operation	52,892	58,275	52,495
Maintenance	35,089	22,444	25,866
Depreciation and Amortization	33,233	32,491	31,028
Taxes Other Than Income Taxes	8,240	7,854	7,251
Income Taxes	8,958	9,358	19,212
	-----	-----	-----
TOTAL OPERATING EXPENSES	336,486	331,347	340,137
	-----	-----	-----
OPERATING INCOME	42,197	47,678	49,738
NONOPERATING INCOME	7,863	10,881	6,139
NONOPERATING EXPENSES	753	8,949	2,940
NONOPERATING INCOME TAXES	1,904	684	1,129
INTEREST CHARGES	26,836	27,361	31,045
	-----	-----	-----
NET INCOME	\$ 20,567	\$ 21,565	\$ 20,763
	=====	=====	=====

Statements of Comprehensive Income

	Year Ended December 31,		
	2002	2001	2000

	(in thousands)		
NET INCOME	\$ 20,567	\$21,565	\$20,763
OTHER COMPREHENSIVE INCOME (LOSS)			
Cash Flow Interest Rate Hedge	2,225	(1,903)	-
Minimum Pension Liability	(9,773)	-	-
	-----	-----	-----
COMPREHENSIVE INCOME	\$ 13,019	\$19,662	\$20,763
	=====	=====	=====

Statements of Retained Earnings

	Year Ended December 31,		
	2002	2001	2000

	(in thousands)		
RETAINED EARNINGS JANUARY 1	\$48,833	\$57,513	\$67,110
NET INCOME	20,567	21,565	20,763
CASH DIVIDENDS DECLARED	21,131	30,245	30,360
	-----	-----	-----
RETAINED EARNINGS DECEMBER 31	\$48,269	\$48,833	\$57,513
	=====	=====	=====

See Notes to Financial Statements beginning on page L-1.

KENTUCKY POWER COMPANY
 Balance Sheets

	December 31,	
	2002	2001

	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	\$ 275,121	\$ 271,070
Transmission	373,639	374,116
Distribution	425,817	402,537
General	55,913	65,059
Construction Work in Progress	165,129	15,633
	-----	-----
Total Electric Utility Plant	1,295,619	1,128,415
Accumulated Depreciation and Amortization	397,304	384,104
	-----	-----
NET ELECTRIC UTILITY PLANT	898,315	744,311
	-----	-----
OTHER PROPERTY AND INVESTMENTS	6,904	6,492
	-----	-----
LONG-TERM ENERGY TRADING AND DERIVATIVE CONTRACTS	29,871	29,477
	-----	-----
CURRENT ASSETS:		
Cash and Cash Equivalents	2,304	1,947
Accounts Receivable:		
Customers	22,044	20,036
Affiliated Companies	23,802	16,012
Miscellaneous	2,889	3,333
Allowance for Uncollectible Accounts	(192)	(264)
Fuel	10,817	12,060
Materials and Supplies	16,127	15,766
Accrued Utility Revenues	5,301	5,395
Accrued Tax Benefit	1,253	-
Energy Trading Contracts	24,320	33,905
Prepayments and other	2,127	1,314
	-----	-----
TOTAL CURRENT ASSETS	110,792	109,504
	-----	-----
REGULATORY ASSETS	101,976	97,692
	-----	-----
DEFERRED CHARGES	16,818	11,572
	-----	-----
TOTAL ASSETS	\$1,164,676	\$ 999,048
	=====	=====

See Notes to Financial Statements beginning on page L-1.

KENTUCKY POWER COMPANY

	December 31,	
	2002	2001

	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock - \$50 Par Value:		
Authorized - 2,000,000 Shares		
Outstanding - 1,009,000 Shares	\$ 50,450	\$ 50,450
Paid-in Capital	208,750	158,750
Accumulated Other Comprehensive Income (Loss)	(9,451)	(1,903)
Retained Earnings	48,269	48,833
	-----	-----
Total Common Shareowner's Equity	298,018	256,130
Long-term Debt	391,632	176,093
Long-term Debt - Affiliated Companies	60,000	75,000
	-----	-----
TOTAL CAPITALIZATION	749,650	507,223
	-----	-----
OTHER NONCURRENT LIABILITIES	27,319	11,929
	-----	-----
CURRENT LIABILITIES:		
Long-term Debt Due Within One Year - General	-	95,000
Long-term Debt Due within One Year -		
Affiliated Companies	15,000	-
Advances from Affiliates	23,386	66,200
Accounts Payable:		
General	46,515	23,464
Affiliated Companies	44,035	22,557
Customer Deposits	8,048	4,461
Taxes Accrued	-	10,305
Interest Accrued	6,471	5,269
Energy Trading and Derivative Contracts	17,803	38,664
Other	14,322	12,882
	-----	-----
TOTAL CURRENT LIABILITIES	175,580	278,802
	-----	-----
DEFERRED INCOME TAXES	178,313	168,304
	-----	-----
DEFERRED INVESTMENT TAX CREDITS	9,165	10,405
	-----	-----
LONG-TERM ENERGY TRADING AND DERIVATIVE CONTRACTS	11,488	14,917
	-----	-----
REGULATORY LIABILITIES AND DEFERRED CREDITS	13,161	7,468
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 9)		
TOTAL CAPITALIZATION AND LIABILITIES	\$1,164,676	\$999,048
	=====	=====

See Notes to Financial Statements beginning on page I-1.

KENTUCKY POWER COMPANY
 Statements of Cash Flows

	Year Ended December 31,		
	2002	2001	2000
	----	----	----
	(in thousands)		
OPERATING ACTIVITIES:			
Net Income	\$ 20,567	\$ 21,565	\$ 20,763
Adjustments for Noncash Items:			
Depreciation and Amortization	33,233	32,491	31,034
Deferred Income Taxes	9,839	6,293	3,765
Deferred Investment Tax Credits	(1,240)	(1,251)	(1,252)
Deferred Fuel Costs (net)	2,998	(4,707)	2,948
Mark-to-Market of Energy Trading Contracts	(12,267)	(1,454)	(4,376)
Change in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	(9,426)	23,694	(20,930)
Fuel, Materials and Supplies	882	(7,658)	6,386
Accrued Utility Revenues	94	1,105	7,237
Accounts Payable	44,529	(22,942)	39,883
Taxes Accrued	(11,558)	(1,580)	2,025
Disputed Tax and Interest Related to COLI	-	-	5,943
Change in Other Assets	(21,491)	(2,762)	62,653
Change in Other Liabilities	16,161	(9,446)	(62,702)
	-----	-----	-----
Net Cash Flows From Operating Activities	72,321	33,348	95,377
	-----	-----	-----
INVESTING ACTIVITIES:			
Construction Expenditures	(178,700)	(37,206)	(36,209)
Proceeds From Sales of Property	217	216	266
	-----	-----	-----
Net Cash Flows Used For Investing Activities	(178,483)	(36,990)	(35,943)
	-----	-----	-----
FINANCING ACTIVITIES:			
Capital Contributions from Parent Company	50,000	-	-
Issuance of Long-term Debt	274,964	75,000	69,685
Retirement of Long-term Debt	(154,500)	(60,000)	(105,000)
Change in Short-term Debt (net)	-	-	(39,665)
Change in Advances From Affiliates (net)	(42,814)	18,564	47,636
Dividends Paid	(21,131)	(30,245)	(30,360)
	-----	-----	-----
Net Cash Flows From (Used For) Financing Activities	106,519	3,319	(57,704)
	-----	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	357	(323)	1,730
Cash and Cash Equivalents January 1	1,947	2,270	540
	-----	-----	-----
Cash and Cash Equivalents December 31	\$ 2,304	\$ 1,947	\$ 2,270
	=====	=====	=====

Supplemental Disclosure:

Cash paid for interest net of capitalized amounts was \$25,176,000, \$27,090,000 and \$28,619,000 and for income taxes was \$13,040,500, \$7,549,000 and \$7,923,000 in 2002, 2001 and 2000, respectively. Noncash acquisitions under capital leases were \$22,021, \$817,000 and \$2,817,000 and in 2002, 2001 and 2000, respectively.

See Notes to Financial Statements beginning on page L-1.

KENTUCKY POWER COMPANY
 Statements of Capitalization

	December 31,	
	2002	2001
	-----	-----
	(in thousands)	
COMMON SHAREHOLDER'S EQUITY	\$298,018	\$256,130
	-----	-----
LONG-TERM DEBT (See Schedule of Long-term Debt):		
First Mortgage Bonds	-	59,383
Senior Unsecured Notes	352,508	147,625
Notes Payable	75,000	100,000
Junior Debentures	39,124	39,085
Less Portion Due Within One Year	(15,000)	(95,000)
	-----	-----
Long-term Debt Excluding Portion Due Within One Year	451,632	251,093
	-----	-----
TOTAL CAPITALIZATION	\$749,650	\$507,223
	=====	=====

See Notes to Financial Statements beginning on page L-1.

KENTUCKY POWER COMPANY
Schedule of Long-term Debt

First mortgage bonds outstanding were as follows:

		December 31,	

		2002	2001

		(in thousands)	
% Rate Due			
6.65	2003 - May 1	\$ -	\$ 15,000
6.70	2003 - June 1	-	15,000
6.70	2003 - July 1	-	15,000
7.90	2023 - June 1	-	14,500
Unamortized Discount		-	(117)
		-----	-----
		\$ -	\$ 59,383
		=====	=====

First mortgage bonds were secured by a first mortgage lien on electric utility plant.

Senior unsecured notes outstanding were as follows:

		December 31,	

		2002	2001

		(in thousands)	
% Rate Due			
(a)	2002 - November 19	\$ -	\$ 70,000
6.91	2007 - October 1	48,000	48,000
6.45	2008 - November 10	30,000	30,000
5.50	2007 - July	125,000	-
4.31	2007 - November 12	80,400	-
4.37	2007 - December 12	69,564	-
Unamortized Discount		(456)	(375)
		-----	-----
		\$352,508	\$147,625

(a) A floating interest rate is determined monthly. The rate December 31, 2001 was 4.3%.

Notes payable to parent company were as follows:

		December 31,	

		2002	2001

		(in thousands)	
% Rate Due			
4.336	2003 - May 15	\$15,000	\$15,000
6.501	2006 - May 15	60,000	60,000
		-----	-----
		\$75,000	\$75,000

Notes payable to banks outstanding were as follows:

		December 31,	

		2002	2001

		(in thousands)	
% Rate Due			
7.45	2002 - September 20	\$ -	\$25,000
		=====	=====

Junior debentures outstanding were as follows:

		December 31,	

		2002	2001

		(in thousands)	
% Rate Due			
8.72	2025 - June 30	\$40,000	\$40,000
Unamortized Discount		(876)	(915)
		-----	-----
Total		\$39,124	\$39,085
		=====	=====

Interest may be deferred and payment of principal and interest on the junior debentures is subordinated and subject in right to the prior payment in full of

all senior indebtedness of the Company.

At December 31, 2002, future annual long-term debt payments are as follows:

	Amount

	(in thousands)
2003	\$ 15,000
2004	-
2005	-
2006	60,000
2007	322,964
Later Years	70,000

Total Principal Amount	467,964
Unamortized Discount	(1,332)

Total	\$466,632
	=====

KENTUCKY POWER COMPANY
Index to Combined Notes to Financial Statements

The notes to KPCo's financial statements are combined with the notes to financial statements for AEP and its other subsidiary registrants. Listed below are the combined notes that apply to KPCo. The combined footnotes begin on page L-1.

	Combined Footnote Reference -----
Significant Accounting Policies	Note 1
Merger	Note 4
Rate Matters	Note 6
Effects of Regulation	Note 7
Commitments and Contingencies	Note 9
Guarantees	Note 10
Sustained Earnings Improvement Initiative	Note 11
Asset Impairments and Investment Value Losses	Note 13
Benefit Plans	Note 14
Business Segments	Note 16
Risk Management, Financial Instruments and Derivatives	Note 17
Income Taxes	Note 18
Leases	Note 22
Lines of Credit and Sale of Receivables	Note 23
Unaudited Quarterly Financial Information	Note 24
Related Party Transactions	Note 29

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of
Directors of Kentucky Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Kentucky Power Company as of December 31, 2002 and 2001, and the related statements of income, comprehensive income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kentucky Power Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Columbus, Ohio
February 21, 2003