LOOKING AHEAD

*"In my view, our biggest challenges lie in meeting the growing demand for energy; maintaining a competent, professional, experienced work force as many of our people reach retirement age; minimizing our environmental impact, including finding the right solutions to the issue of climate change; and growing our company to add value for our shareholders."*

*- David Ratcliffe*

At our core, we are a company that makes and sells electricity. Our assets are devoted to, and our people primarily work at, the job of making electricity and getting it to our customers. If you aren't familiar with the process, here is a quick primer.

## Generating Electricity

By the laws of physics, energy cannot be created, only changed in form. In a generating plant, the energy in the fuel changes to electricity. Electricity is a more useful form of energy because it can be transmitted over distances and easily converted to heat, light, or mechanical motion.

Because electricity is expected to be available all the time and in whatever quantity required at that moment, fuel must be on hand in sufficient quantity to supply it. This requirement has led to the use of coal, natural gas, and nuclear fuels, which have been affordable and largely available in the United States in mass quantity to meet demand.

## Generators and Turbines

The force of electricity used in homes and businesses comes from the collective movement of billions of electrons from atom to atom. This movement is created at power plants in a generator, a spinning device made up of copper wires and magnets. To get enough electrical force to power cities, generators are the size of locomotives and the plants that house them can be eight stories tall and wider than a football field.

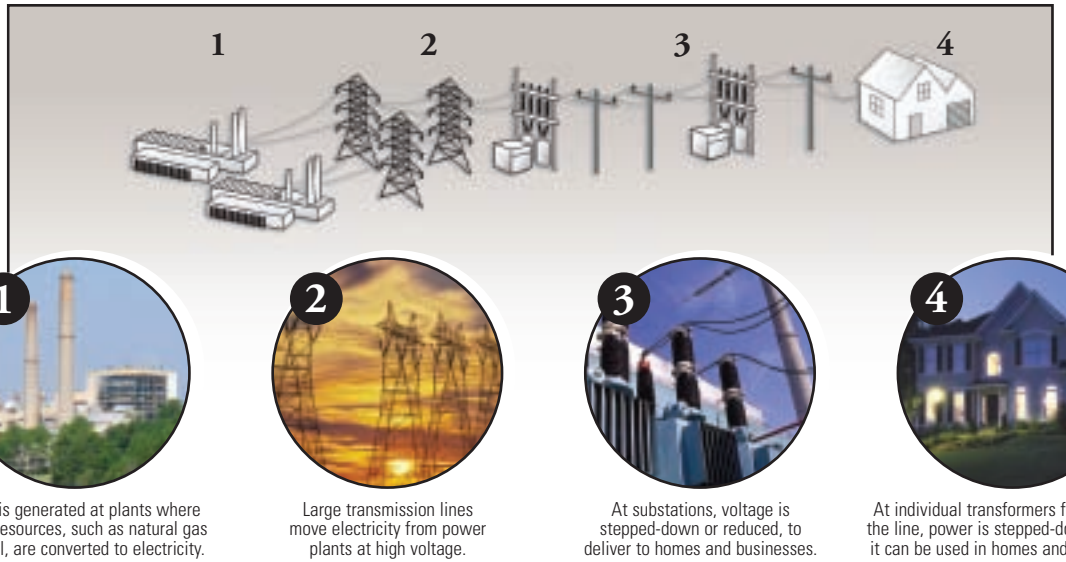
In most power plants, a turbine turns the generator. The turbine has fan blades usually driven by high pressure steam. To make heat to turn water into steam, many plants burn fossil fuels, like coal or natural gas. Nuclear plants use the process of fission to make heat. Hydroelectric plants use the force of falling water to turn turbines. Wind turbines use moving air to make generators spin. For illustrations of fossil, hydro, and nuclear power plants in action, visit **www.southerncompany.com/learningpower/howplants.asp.**

## The Grid

Electric plants are connected to a network of transmission wires that carry electricity long distances to distribution wires that connect to buildings, offices, and homes. Substations and transformers change the force in the wires at points in the journey between plant and plug, converting the electricity from high voltage, which travels best, to the lower-level voltage used by the electrical device.

*Energy demand in the Southeast is expected to grow by 30 percent through 2018.*

Southern Company ranked highest in the electric utility industry for providing a quality commuter program for its employees, according to the Environmental Protection Agency's recent "Best Workplace for Commuters" list of FORTUNE 500 companies. The companies on the list have met EPA's 2005 National Standard of Excellence.




Power is generated at plants where energy resources, such as natural gas and coal, are converted to electricity.

Large transmission lines move electricity from power plants at high voltage.

At substations, voltage is stepped-down or reduced, to deliver to homes and businesses.

At individual transformers farther down the line, power is stepped-down again so it can be used in homes and businesses.

Generators and the grid cannot store electric power. For the system to work reliably, electricity must be "pumped" into the wires by plants at the same rate it is removed by end-use devices or lost in transmission. Plants must convert fuel to electricity on the grid every moment in the exact amount devices need to use. Many plants work together to make enough electricity for any one moment and enough generators must be on standby to meet peak demand, like on a hot summer day. Also, intermittent sources of electricity, like wind, solar, and hydro, must be backed up by steady sources, like coal or gas, to meet demand when they aren't available, like on calm or cloudy days.

## *Megawatts and Markets*

Based in Atlanta, Southern Company is one of the largest generators of electricity in the nation, serving both regulated and competitive markets across the southeastern United States. We participate in all phases of the electric utility business with more than 41,000 megawatts of electric generating capacity and a grid of transmission and distribution lines that would more than circle the earth. Southern Company and its subsidiaries have been serving the Southeast for more than 100 years.

Southern Company provides retail electric service as regulated by the public service commissions in the states we serve and by federal energy agencies. Public service commissions determine fair electric rates, oversee what project costs can be recovered (for environmental controls or plant construction), and define the profit margin utilities can make in retail markets. Our four electric utilities – Alabama Power, Georgia Power, Gulf Power, and Mississippi Power – serve more than 4.3 million retail customers (through October 2006).

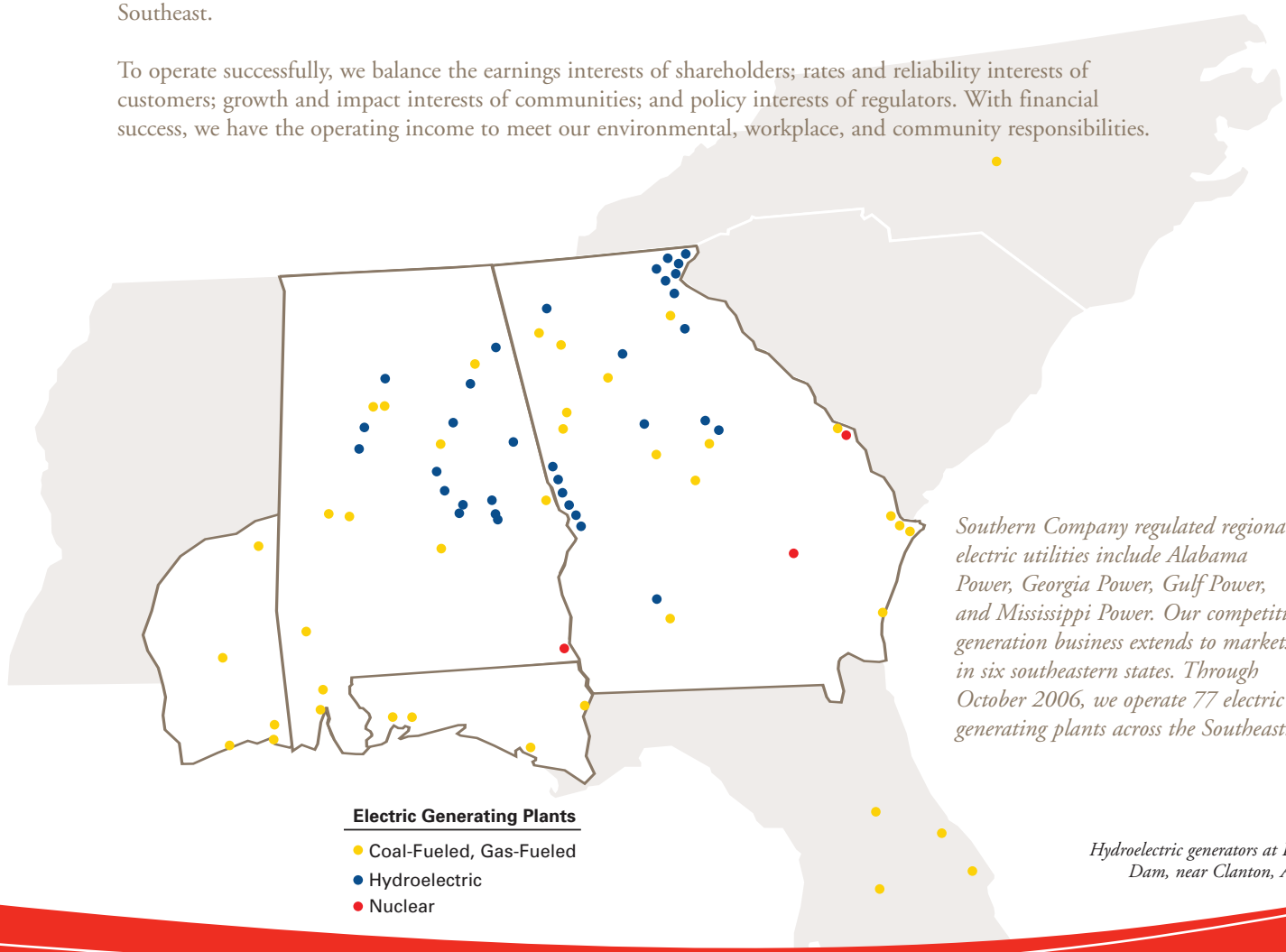
*Monitoring operations at Plant Branch, near Milledgeville, Ga.*

We also sell power in the wholesale market and transmit wholesale power for other providers. Our higher-growth competitive wholesale generation business comprises more than 7,400 megawatts and serves about 75 investor-owned utilities, electric cooperatives, and municipalities in Alabama, Florida, Georgia, Mississippi, and the Carolinas.

Southern Company has responsibility for approximately $5.4 billion in transmission assets including more than 27,000 miles of transmission lines, 3,400 substations, and more than 300,000 acres of right of way. The transmission system meets North American Electric Reliability Council standards and provides a safe and reliable grid. We plan, design, build, operate, and maintain our system to meet growing demand, budgeting $2.3 billion in transmission expenditures through 2008.

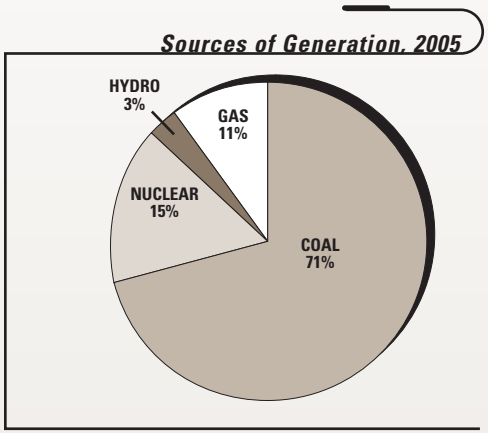
Other major subsidiaries and business units include Southern Nuclear, the licensed operator of Southern Company's three nuclear generating plants in Alabama and Georgia; SouthernLINC Wireless, a communications network with about 300,000 subscribers in the Southeast; and Southern Telecom, a fiber optic wholesaler in the Southeast.

To operate successfully, we balance the earnings interests of shareholders; rates and reliability interests of customers; growth and impact interests of communities; and policy interests of regulators. With financial success, we have the operating income to meet our environmental, workplace, and community responsibilities.




*Southern Company regulated regional electric utilities include Alabama Power, Georgia Power, Gulf Power, and Mississippi Power. Our competitive generation business extends to markets in six southeastern states. Through October 2006, we operate 77 electric generating plants across the Southeast.*


*Hydroelectric generators at Lay Dam, near Clanton, Ala.*




*The Power Systems Development Facility in Wilsonville, Ala.*



## *Fuel*

Fuel constitutes our single largest expense. The mix of fuel sources used to generate electricity at any given time is determined by demand, the cost of replacement fuel, available capacity of individual generating units, and other factors. Coal currently produces more than half the nation's electricity and about 70 percent of Southern Company's.

## *Emerging Generation Technologies*

Southern Company is pursuing promising coal, natural gas, nuclear, and renewable generation technologies. We have spent nearly $400 million on environmental research and development over the past decade. The most practical technology options offer cost-effective operation, large-scale availability, and on-demand reliability while preserving fuel options. New technologies for coal, natural gas, and nuclear power have the potential to meet these criteria. Renewable generation technologies may provide additional options.

### Natural Gas Improvements

Since 2000, Southern Company has added 8,500 MW of natural-gas fired generation. Natural gas-fired combined cycle power plants continue to grow in efficiency through advances in turbine technology. Although natural gas prices have increased in the past few years and may continue to fluctuate, natural gas-fueled power plants will remain a viable option because they are clean and relatively fast and less costly to build.

### Advances in Coal-Fueled Generation

Coal is our nation's most abundant and affordable fossil fuel. We are developing and installing new coal-based generation technologies to enable us to continue to use coal in a cost-effective, environmentally sensitive manner.

- ***Gasification***

  Over the past decade, Southern Company, with the Department of Energy, has been developing cleaner, less expensive, more reliable methods for power production from coal. The Power Systems Development Facility near Wilsonville, Alabama, has developed promising gasification technologies with near-term practical applications.

  Rather than burning coal directly to make electricity, gasification first breaks coal down into chemical components. Gases that result from this chemical breakdown can be used to fuel power plants using integrated gasification combined cycle technology.

  Southern Company, in conjunction with our partner KBR, has further developed the gasification process to work even more efficiently for sub-bituminous and other low-rank coals. Low-rank coals have less energy per pound but account for half of worldwide reserves. This gasification process, developed at the Power Systems Development Facility, is called Transport Integrated Gasification (TRIG™).

TRIG is adapted from a proven technology used to refine oil and turns low-rank coal into a viable fuel for modern gas turbine power generators. The process uses air-blown gasification rather than the more commonly used oxygen-blown approach, which reduces the cost of power production.

Southern Company, along with the Orlando Utilities Commission, was selected by the Department of Energy to realize the potential of this new technology by building a working commercial TRIG unit at a 285-megawatt power generation facility near Orlando, Florida. It promises to be the cleanest coal-fueled plant in the world.

Because of its increased efficiency – the plant will operate at nearly 40 percent efficiency compared with 35 percent for conventional coal plants operating today – this facility will produce the same amount of electricity as existing pulverized coal plants with significantly lower emissions of sulfur dioxide, nitrogen oxides, and mercury. Subsequent units would likely increase efficiencies further. Because of its more efficient conversion of the fuel to energy, the plant should also emit 20-25 percent less carbon dioxide per kilowatt than current pulverized coal plants. Commercial operation is planned for the summer of 2010.

- ***Improvements to Conventional Technology***
  We are looking to implement better conventional power plant technology. Improved pulverized coal plants have extremely low sulfur dioxide, nitrogen oxide, and mercury emissions and are 5-10 percent more efficient in converting coal to electricity, which leads to lower emissions. We are also adding baghouses, scrubbers, and SCRs to many of our existing plants (see page 27).

- ***Future Low Carbon Coal-Based Generation Technologies***
  Southern Company is working to develop and demonstrate carbon dioxide capture and storage (or sequestration) from coal-based generation into deep underground formations. We are a founding member and a key participant with the U.S. Department of Energy and others in FutureGen. This project entails design, construction and operation of a gasification-based plant that will capture and sequester carbon dioxide at full-scale. We have joined the Department of Energy-sponsored Southeast Regional Carbon Sequestration Partnership which plans to test the injection of carbon dioxide into a deep saline reservoir and an unmineable coal seam. The Department of Energy and Southern Company are also funding tests using carbon dioxide to enhance the production from oil wells in the Southeast. Plus, with the Electric Power Research Institute and others, we are working to evaluate ways to capture carbon dioxide from conventional pulverized coal plants. Carbon dioxide capture and sequestration costs are projected to be much higher than the costs to control nitrogen oxides or sulfur dioxide emissions. One of our goals is to reduce these costs.

**Environmental Assessment – Report to Shareholders**

***Find more information on climate policy, technology options, assessment results, and our testimony on renewables in our* Environmental Assessment – Report to Shareholders.**

***The report, published in May 2005, shows how we address air emissions requirements, including an analysis of potential price signals for carbon dioxide emissions that might result from policies to address climate change. The report finds technology development to be more productive than mandatory carbon-reduction policies.***

***Southern Company will continue to develop large-scale, cost-effective, low-emitting technologies and explore, evaluate, and undertake additional voluntary actions to reduce, prevent, or sequester greenhouse gas emissions. Find the full report at www.southernco.com/planetpower/report.asp.***

*Hyperbolic cooling towers frame Plant Vogtle, near Waynesboro, Ga.*

**The Nuclear Energy Institute awarded Southern Nuclear its Top Industry Practice Award for Plant Farley's cooling tower replacement project in 2004, for Plant Vogtle's safer and more accurate alignment tools in 2005, and Plant Farley's vessel head testing program in 2006. Plants Hatch, Vogtle, and Farley are all certified by the Wildlife Habitat Council for conservation efforts.**

## Nuclear Power Development

Nuclear power is re-emerging as a viable way to meet new demand for electricity with the added benefit of no air emissions, including $CO_2$.

Southern Company is a member of NuStart, a nuclear technology energy consortium comprised of power generation companies and reactor vendors. The group is pursuing a new combined construction and operating license process and advancing new nuclear technologies. Southern Company is moving to make nuclear power an option to meet growing demand for electricity by 2015-2016.

In August 2006, Southern Company filed an application with the U.S. Nuclear Regulatory Commission for an Early Site Permit for new units at Plant Vogtle, located near Waynesboro, Georgia. The permit will allow the Nuclear Regulatory Commission to review and pre-approve the plant site for future construction of new nuclear units and allow Southern Company to conduct design, construction, and other site-specific evaluations before we make the decision to build. We also would need approval from the Georgia Public Service Commission before making a final decision to build the new units.

We have proposed the light-water Westinghouse AP1000 reactors for new units at Plant Vogtle. More than 28 new nuclear plants are under construction in 10 countries around the world – almost all using U.S. light-water reactor technology. The new reactors are safe, efficient, and simpler than current models.

In March 2006, Southern Company reached an agreement with Duke Energy to jointly evaluate building a nuclear plant in Cherokee County, South Carolina. Southern Company will work with Duke Energy to apply to the Nuclear Regulatory Commission for a combined Construction and Operating License for the Cherokee County site. Duke Energy would develop and operate the plant. Southern Company would be co-owner of the facility. Application to the Nuclear Regulatory Commission is planned for late 2007 or early 2008; the companies will decide whether to proceed with construction at a later date.

Southern Company is also exploring a partnership with the Tennessee Valley Authority to add new nuclear generation at TVA's Bellefonte site in north Alabama.

## Renewable Energy Investments

For renewable energy to make a larger contribution toward meeting overall demand and achieve its associated environmental benefits, Southern Company will:

- Pursue equity investments in renewable energy projects, such as wind, solar, biomass, and geothermal, throughout the country where they are economically feasible.
- Research renewable energy technologies, such as biomass, solar, and wind.
- Identify and implement economically feasible renewable technologies that take advantage of native resources and work well in the Southeast.

- ***Pursuing Wind, Solar, Biomass, and Geothermal throughout the Country***

  Renewables like solar power and wind turbines often catch the public eye, but challenges with their consistent and widespread use in the Southeast persist. Solar energy is expensive to capture, and solar generation equipment often requires large tracts of open land to install. Cloud cover and night skies limit its reliability. Wind turbines also require acres of land. Calm conditions prevail frequently in the Southeast, making viable wind power sites scarce and operation intermittent. However, these limitations don't apply everywhere. So we are evaluating investments in renewable generation projects throughout the country.

  Working with Ormat, one of the largest geothermal corporations in the world, Southern Company is gaining experience with geothermal generation in Hawaii. We own a 30-megawatt geothermal generation project providing about 15 percent of the power for the Island of Hawaii.

- ***Researching Renewable Energy Technologies***

  Southern Company has invested $6 million over the past five years in research and development of renewable energy. Nearly 20 research and development projects are in progress, including one that uses switchgrass as a biomass fuel. The switchgrass tests have shown lower emissions of carbon dioxide, sulfur dioxide, and mercury. We've also expanded research into biomass gasification, a technology based on coal gasification, which could be more economical than biomass combustion.

  Southern Company joined the Georgia Institute of Technology to study the viability of offshore wind turbines in the Southeast. The study found technology limitations and regulatory restrictions that will make development of offshore wind projects difficult in the Southeast.

  We are also a member of the American Wind Energy Association, the American Council for Renewable Energy, the Utility Wind Integration Group, the Solar Electric Power Association, and the Electric Power Research Institute Biomass Interest Group.

Mississippi Power received the Keep Mississippi Beautiful Award in recognition of its significant contributions to protecting the environment and promoting environmental awareness, 2002-2005.

*Southern Company owns a geothermal plant in Hilo, Hawaii.*

- ***Identifying and Implementing Renewables for the Southeast***
  Alabama Power, Georgia Power, and Mississippi Power currently offer customers a renewable energy choice. The energy is produced from biomass sources such as sawdust, switchgrass, and landfill gas. To cover the additional cost of the renewable energy, customers elect to pay a $4.50 to $6 surcharge per 100 kilowatt-hours. Energy from this renewable source is then added to the electric grid.

  Gulf Power's photovoltaic program offers customers the opportunity to purchase blocks of solar kilowatt-hours. Gulf Power hopes to expand the program, using landfill gas as an energy source.

  Additionally, Southern Company hydroelectric plants produce three percent of our generation. This output accounts for roughly all the practical sources for hydroelectric power within our service territory and balances recreational use and habitat conservation around streams and rivers.

### Energy Efficiency

For information on energy efficiency programs, see page 45.

## *Reliability and Customer Satisfaction Key Performance Indicators*

Among electric utilities, Southern Company maintains one of the highest reliability records – 99.95 percent – in the nation.

### American Customer Satisfaction Index

We have been the highest-scoring utility in customer satisfaction in the American Customer Satisfaction Index for the past five years.

***American Customer Satisfaction Index****

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Southern Company | 80 | 81 | 82 | 81 | 79 |
| Utility Average | 69 | 73 | 73 | 72 | 73 |

**ACSI scores customers' expectations and perceptions of quality for products and services using telephone and Internet surveys.*

*Customer service representatives handle calls around the clock.*

### J.D. Power and Associates Electric Utility Residential and Business Customer Satisfaction Study – Southern Region

J.D. Power quality and satisfaction measurements are based on actual customer responses. Customer satisfaction is measured by factors including company image; price and value; billing and payment; field service; and customer service.

***J.D. Power Rankings***

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Business* | 1 | 1 | 1 | 1 | 1 |
| Residential | 1 | 3(tie) | 2(tie) | 1 | 2(tie) |

**Defined as midsize business prior to 2004*

### Peak Season Equivalent Forced Outage Rate

Equivalent Forced Outage Rate indicates generation unit unavailability during times when demand is highest and is calculated from May 1 through September 30. Lower rates are better. For comparison (as compiled by the North American Electric Reliability Council, excluding nuclear generation and adjusted for catastrophic damage caused by hurricanes), the Equivalent Forced Outage Rate for companies larger than 5,000 MW, like ours, run at about six to eight percent.

***Equivalent Forced Outage Rate****

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Target | 2.80% | 2.80% | 3.00% | 3.00% | 2.25% |
| Actual | 1.97% | 1.96% | 1.68% | 1.32% | 2.83%** |

** Figures exclude impact of hurricanes and outages caused by manufacturer defects.*
***Higher than targeted EFOR due to an outage event at three units.*

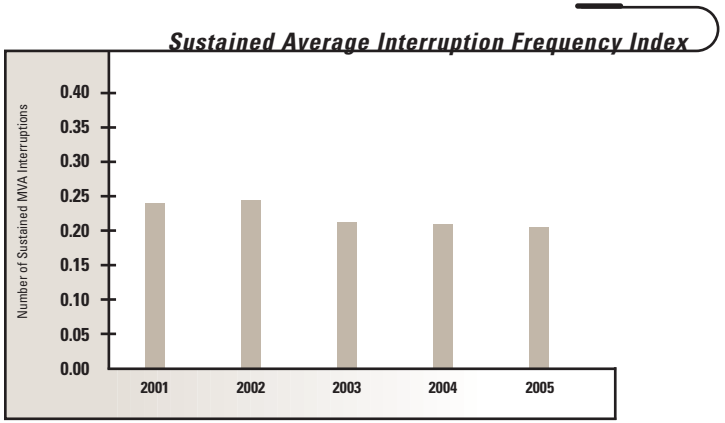
American Customer Satisfaction Index has ranked Southern Company the Highest Scoring Utility in Customer Satisfaction since 2000.

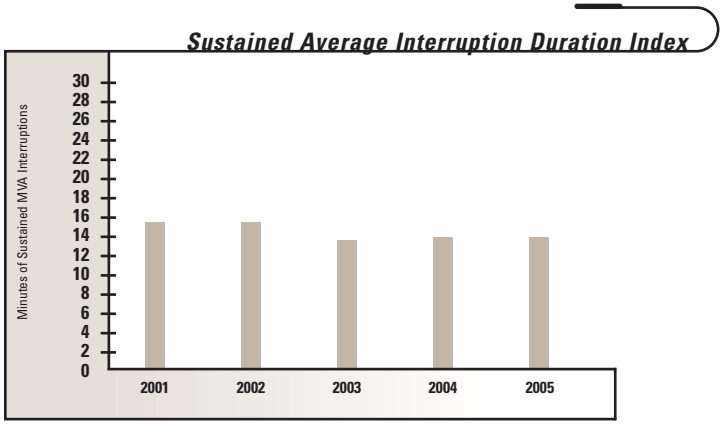
J.D. Power and Associates has ranked Southern Company highest in Overall Satisfaction for Electric Service to Business Customers in the Southern United States since 2000.

According to 2006 North American Electric Reliability Council data, Southern Company EFOR of 1.11 percent ranked first among other electric generating companies with more than 5,000 megawatts of capacity.

## Transmission Reliability

Southern Company calculates transmission reliability by measuring the duration and frequency of interruptions. Indices are calculated on interruptions greater than five minutes. Scheduled or planned outages, named storms, customer-caused outages, and trouble attributable to other utilities are excluded from the indices.




*MVA: Megavolt ampere is a unit of apparent power.*

*Transmission towers carry high-voltage lines.*

## Financial Performance

Southern Company is publicly traded (NYSE: SO) with $39.9 billion in assets and more than 500,000 shareholders. We have paid a dividend to shareholders for 236 consecutive quarters, dating from 1948 through October 2006.

***Total Return (percent)****

| | 1-Year | 5-Year | 10-Year | 30+ |
|---|---|---|---|---|
| Southern Company | 7.6 | 16.7 | 14.3 | 15.6 |
| S & P 500 Electric Utility Index | 17.7 | 5.5 | 9.4 | NA |
| S & P 500 Index | 4.9 | 0.5 | 9.1 | 12.7 |

**Compound annual growth rates for periods ending December 31, 2005. Assumes dividends were reinvested and returns compounded daily.*

***2005 Operations (as of December 31)***

| | | | |
|---|---|---|---|
| **Total KWh sales** | **196.9 million** | **Customers** | **4.2 million** |
| Industrial | 55.1 million | Residential: | 3.6 million |
| Commercial | 51.9 million | Commercial: | 586,000 |
| Residential | 51.1 million | Industrial: | 15,000 |
| Wholesale | 37.8 million | Other (includes wholesale): | 5,000 |
| Other | 1 million | **Employees** | **25,554** |
| **Operating revenues** | **$13.55 billion** | **Generating plants** | **75** |
| **Earnings** | **$1.59 billion** | **Miles of transmission lines** | **27,000** |
| **Earnings Per Share** | **$2.14** | | |
| **Assets** | **$39.9 billion** | | |

## Honors from the Southeastern Electric Exchange 2005 Industry Excellence Awards included:

- Southern Company for environmental excellence for the fine particulate agglomerator at Plant Watson.
- Alabama Power for transmission excellence for a program designed to improve the reliability of an aged line.
- Georgia Power for customer service and billing excellence for its enhanced service initiative program.
- Gulf Power for production excellence for its Plant Crist Unit 6 storm damage recovery project.
- Mississippi Power for rates and regulations excellence for the development of Rate Manager software.