

Southern Company

1st Quarter 2020 Earnings

Contents

<u>Press Release</u>	Page 1
<u>Financial Highlights</u>	Page 4
<u>Significant Factors Impacting EPS</u>	Page 6
<u>EPS Earnings Analysis</u>	Page 8
<u>Consolidated Earnings</u>	Page 10
<u>Kilowatt-Hour Sales and Customers</u>	Page 11
<u>Financial Overview</u>	Page 12

News



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April 30, 2020

Southern Company reports first-quarter 2020 earnings

ATLANTA - Southern Company today reported first-quarter 2020 earnings of \$868 million, or 82 cents per share, compared with \$2.08 billion, or \$2.01 per share, in the first quarter of 2019.

Excluding the items described in the “Net Income - Excluding Items” table below, Southern Company earned \$825 million, or 78 cents per share, during the first quarter of 2020, compared with \$730 million, or 70 cents per share, during the first quarter of 2019.

Non-GAAP Financial Measures	Three Months Ended March	
	2020	2019
Net Income - Excluding Items (in millions)		
Net Income - As Reported	\$868	\$2,084
Less:		
Acquisition and Disposition Impacts	38	2,499
Tax Impact	(16)	(1,189)
Estimated Loss on Plants Under Construction	(3)	(4)
Tax Impact	1	1
Wholesale Gas Services	31	63
Tax Impact	(8)	(16)
Net Income - Excluding Items	\$825	\$730
Average Shares Outstanding - (in millions)	1,057	1,038
Basic Earnings Per Share - Excluding Items	\$0.78	\$0.70

NOTE: For more information regarding these non-GAAP adjustments, see the footnotes accompanying the Financial Highlights page of the earnings package.

Earnings drivers for the first quarter 2020 were positively influenced by constructive regulatory actions completed at the company’s state-regulated utilities in 2019, partially offset by mild weather.

“Southern Company’s strong start to 2020 will be beneficial as we look to overcome sales impacts from the coronavirus,” said Chairman, President and CEO Thomas A. Fanning. “Our top priority remains keeping employees healthy and safe, even as our subsidiaries continue to provide clean, safe, reliable and affordable energy for customers. To date, our operational performance during this challenging time has been exceptional, and we have not experienced - nor do we anticipate - any significant supply chain disruptions for our utilities or construction efforts.”

“Critical infrastructure businesses like ours never take a day off,” added Fanning. “We continue to serve customers safely, employing new work practices that help safeguard both our employees and our communities from COVID-19.”

First quarter 2020 operating revenues were \$5.02 billion, compared with \$5.41 billion for the first quarter of 2019, a decrease of 7.3 percent. This decrease was primarily due to lower fuel costs.

Southern Company’s first quarter earnings slides with supplemental financial information are available at <http://investor.southerncompany.com>.

Southern Company’s financial analyst call will begin at 1 p.m. Eastern Time today, during which Fanning and Chief Financial Officer Andrew W. Evans will discuss earnings and provide a general business update. Investors, media and the public may listen to a live webcast of the call and view associated slides at <http://investor.southerncompany.com/webcasts>. A replay of the webcast will be available on the site for 12 months.

About Southern Company

Southern Company (NYSE: SO) is a leading energy company serving 9 million customers through its subsidiaries. The company provides clean, safe, reliable and affordable energy through electric operating companies in three states, natural gas distribution companies in four states, a competitive generation company serving wholesale customers across America, a leading distributed energy infrastructure company, a fiber optics network and telecommunications services. Southern Company brands are known for excellent customer service, high reliability and affordable prices below the national average. For more than a century, we have been building the future of energy and developing the full portfolio of energy resources, including carbon-free nuclear, advanced carbon capture technologies, natural gas, renewables, energy efficiency and storage technology. Through an industry-leading commitment to innovation and a low-carbon future, Southern Company and its subsidiaries develop the customized energy solutions our customers and communities require to drive growth and prosperity. Our uncompromising values ensure we put the needs of those we serve at the center of everything we do and govern our business to the benefit of our world. Our corporate culture and hiring practices have been recognized nationally by the U.S. Department of Defense, G.I. Jobs magazine, DiversityInc, Black Enterprise, Forbes and the Women’s Choice Award. To learn more, visit www.southerncompany.com.

Cautionary Note Regarding Forward-Looking Statements:

Certain information contained in this release is forward-looking information based on current expectations and plans that involve risks and uncertainties. Forward-looking information includes, among other things, statements concerning the anticipated impacts of the COVID-19 pandemic. Southern Company cautions that there are certain factors that can cause actual results to differ materially from the forward-looking information that has been provided. The reader is cautioned not to put undue reliance on this forward-looking information, which is not a guarantee of future performance and is subject to a number of uncertainties and other factors, many of which are outside the control of Southern Company; accordingly, there can be no assurance that such suggested results will be realized. The following factors, in addition to those discussed in Southern Company's Annual Report on Form 10-K for the year ended December 31, 2019, Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and subsequent securities filings, could cause actual results to differ materially from management expectations as suggested by such forward-looking information: the potential effects of the continued COVID-19 pandemic, including extended disruptions to supply chains and capital markets, further reduced labor availability and productivity, and a prolonged reduction in economic activity, which could have a variety

of adverse impacts, including a prolonged reduction in the demand for energy, the impairment of goodwill or other long-lived assets, or further impairment of the ability to develop, construct, and operate facilities, including, but not limited to, the construction of Plant Vogtle Units 3 and 4; available sources and costs of natural gas and other fuels; the ability to complete necessary or desirable pipeline expansion or infrastructure projects, limits on pipeline capacity, and operational interruptions to natural gas distribution and transmission activities; transmission constraints; the ability to control costs and avoid cost and schedule overruns during the development, construction, and operation of facilities or other projects, including Plant Vogtle Units 3 and 4, which includes components based on new technology that only within the last few years began initial operation in the global nuclear industry at this scale, and including changes in labor costs, availability and productivity, challenges with management of contractors or vendors, subcontractor performance, adverse weather conditions, shortages, delays, increased costs, or inconsistent quality of equipment, materials, and labor, contractor or supplier delay, delays due to judicial or regulatory action, nonperformance under construction, operating, or other agreements, operational readiness, including specialized operator training and required site safety programs, engineering or design problems, design and other licensing-based compliance matters, including, for nuclear units, the timely submittal by Southern Nuclear of the Inspections, Tests, Analyses, and Acceptance Criteria documentation for each unit and the related reviews and approvals by the U.S. Nuclear Regulatory Commission ("NRC") necessary to support NRC authorization to load fuel, challenges with start-up activities, including major equipment failure, system integration or regional transmission upgrades, and/or operational performance; the ability to overcome or mitigate the current challenges at Plant Vogtle Units 3 and 4, including, but not limited to, those related to COVID-19, that could impact the cost and schedule for the project; under certain specified circumstances, a decision by holders of more than 10% of the ownership interests of Plant Vogtle Units 3 and 4 not to proceed with construction and the ability of other Vogtle owners to tender a portion of their ownership interests to Georgia Power following certain construction cost increases; the ability to construct facilities in accordance with the requirements of permits and licenses (including satisfaction of NRC requirements), to satisfy any environmental performance standards and the requirements of tax credits and other incentives, and to integrate facilities into the Southern Company system upon completion of construction; performance of counterparties under ongoing renewable energy partnerships and development agreements; the ability to successfully operate the electric utilities' generating, transmission, and distribution facilities and Southern Company Gas' natural gas distribution and storage facilities and the successful performance of necessary corporate functions; the inherent risks involved in operating and constructing nuclear generating facilities; the inherent risks involved in transporting and storing natural gas; the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required; the direct or indirect effect on the Southern Company system's business resulting from cyber intrusion or physical attack and the threat of physical attacks; interest rate fluctuations and financial market conditions and the results of financing efforts; access to capital markets and other financing sources; changes in Southern Company's and any of its subsidiaries' credit ratings; catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events or other similar occurrences; the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid, natural gas pipeline infrastructure, or operation of generating or storage resources; and impairments of goodwill or long-lived assets. Southern Company and its subsidiaries expressly disclaim any obligation to update any forward-looking information.

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Southern Company
Financial Highlights
(In Millions of Dollars Except Earnings Per Share)

	Three Months Ended March	
	2020	2019
Net Income—As Reported (See Notes)		
Traditional Electric Operating Companies	\$ 642	\$ 565
Southern Power	75	56
Southern Company Gas	275	270
Total	992	891
Parent Company and Other	(124)	1,193
Net Income—As Reported	\$ 868	\$ 2,084
Basic Earnings Per Share ¹	\$ 0.82	\$ 2.01
Average Shares Outstanding <i>(in millions)</i>	1,057	1,038
End of Period Shares Outstanding <i>(in millions)</i>	1,056	1,040
Non-GAAP Financial Measures		
Net Income—Excluding Items (See Notes)		
Net Income—As Reported	\$ 868	\$ 2,084
Less:		
Acquisition and Disposition Impacts ²	38	2,499
Tax Impact	(16)	(1,189)
Estimated Loss on Plants Under Construction ³	(3)	(4)
Tax Impact	1	1
Wholesale Gas Services ⁴	31	63
Tax Impact	(8)	(16)
Net Income—Excluding Items	\$ 825	\$ 730
Basic Earnings Per Share—Excluding Items	\$ 0.78	\$ 0.70

-See Notes on the following page.

Southern Company

Financial Highlights

Notes

- (1) For the three months ended March 31, 2020 and 2019, dilution does not change basic earnings per share by more than \$0.02 and is not material.
- (2) Acquisition and disposition impacts included in earnings for the three months ended March 31, 2020 primarily include a \$39 million pre-tax gain (\$23 million after-tax) on the sale of Plant Mankato and for the three months ended March 31, 2019 primarily include a preliminary \$2.5 billion pre-tax gain (\$1.3 billion after tax) on the sale of Gulf Power Company.
- (3) Earnings for the three months ended March 31, 2020 and 2019 include charges, associated legal expenses, and tax impacts related to Mississippi Power Company's integrated coal gasification combined cycle facility project in Kemper County, Mississippi. Mississippi Power Company expects to substantially complete mine reclamation activities in 2020 and dismantlement of the abandoned gasifier-related assets and site restoration activities in 2024. The additional pre-tax period and closure costs associated with these activities, including related costs for compliance and safety, asset retirement obligation accretion, and property taxes, are estimated to total up to \$27 million for the remainder of 2020, \$15 million to \$17 million annually in 2021 through 2023, and \$5 million in 2024.
- (4) Earnings for the three months ended March 31, 2020 and 2019 include Wholesale Gas Services business results. Presenting earnings and earnings per share excluding Wholesale Gas Services provides an additional measure of operating performance that excludes the volatility resulting from mark-to-market and lower of weighted average cost or current market price accounting adjustments.

Southern Company
Significant Factors Impacting EPS

	Three Months Ended March		
	2020	2019	Change
Earnings Per Share–			
As Reported¹ (See Notes)	\$ 0.82	\$ 2.01	\$ (1.19)
Significant Factors:			
Traditional Electric Operating Companies			\$ 0.07
Southern Power			0.02
Southern Company Gas			—
Parent Company and Other			(1.27)
Increase in Shares			(0.01)
Total–As Reported			<u>\$ (1.19)</u>

Non-GAAP Financial Measures	Three Months Ended March		
	2020	2019	Change
Earnings Per Share–			
Excluding Items (See Notes)	\$ 0.78	\$ 0.70	\$ 0.08
Total–As Reported			\$ (1.19)
Less:			
Acquisition and Disposition Impacts ²			(1.24)
Estimated Loss on Plants Under Construction ³			—
Wholesale Gas Services ⁴			(0.03)
Total–Excluding Items			<u>\$ 0.08</u>

- See Notes on the following page.

Southern Company

Significant Factors Impacting EPS

Notes

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Southern Company
EPS Earnings Analysis

Description	Three Months Ended March 2020 vs. 2019
Retail Sales	\$0.01
Retail Revenue Impacts	0.10
Weather	(0.02)
Other Operating Revenues	(0.01)
Non-Fuel O&M	0.01
Depreciation and Amortization, Interest Expense, Other	(0.07)
Income Taxes	0.05
Total Traditional Electric Operating Companies	\$0.07
Southern Power	—
Southern Company Gas	0.03
Parent and Other	(0.01)
Increase in Shares	(0.01)
Total Change in EPS (Excluding Items)	\$0.08
Acquisition and Disposition Impacts ¹	(1.24)
Estimated Loss on Plants Under Construction ²	—
Wholesale Gas Services ³	(0.03)
Total Change in EPS (As Reported)	\$(1.19)

- See Notes on the following page.

Southern Company
EPS Earnings Analysis
Three Months Ended March 2020 vs. March 2019

Notes

- (1) Acquisition and disposition impacts included in earnings for the three months ended March 31, 2020 primarily include a \$39 million pre-tax gain (\$23 million after-tax) on the sale of Plant Mankato and for the three months ended March 31, 2019 primarily include a preliminary \$2.5 billion pre-tax gain (\$1.3 billion after tax) on the sale of Gulf Power Company.
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Southern Company
Consolidated Earnings
As Reported
(In Millions of Dollars)

	Three Months Ended March		
	2020	2019	Change
Income Account-			
Retail Electric Revenues-			
Fuel	\$ 677	\$ 804	\$ (127)
Non-Fuel	2,401	2,280	121
Wholesale Electric Revenues	418	499	(81)
Other Electric Revenues	151	168	(17)
Natural Gas Revenues	1,249	1,474	(225)
Other Revenues	122	187	(65)
Total Revenues	5,018	5,412	(394)
Fuel and Purchased Power	817	1,020	(203)
Cost of Natural Gas	439	686	(247)
Cost of Other Sales	55	118	(63)
Non-Fuel O & M	1,296	1,314	(18)
Depreciation and Amortization	857	751	106
Taxes Other Than Income Taxes	330	329	1
(Gain) Loss on Dispositions, net	(39)	(2,497)	2,458
Total Operating Expenses	3,755	1,721	2,034
Operating Income	1,263	3,691	(2,428)
Allowance for Equity Funds Used During Construction	34	32	2
Earnings from Equity Method Investments	42	48	(6)
Interest Expense, Net of Amounts Capitalized	456	430	26
Other Income (Expense), net	103	78	25
Income Taxes	145	1,360	(1,215)
Net Income	841	2,059	(1,218)
Less:			
Dividends on Preferred Stock of Subsidiaries	4	4	—
Net Loss Attributable to Noncontrolling Interests	(31)	(29)	(2)
NET INCOME ATTRIBUTABLE TO SOUTHERN COMPANY	\$ 868	\$ 2,084	\$ (1,216)

Notes

- Certain prior year data may have been reclassified to conform with current year presentation.

Southern Company
Kilowatt-Hour Sales and Customers
(In Millions of KWHs)

	Three Months Ended March			Weather Adjusted Change
	2020	2019	Change	
Kilowatt-Hour Sales-				
Total Sales	44,263	45,167	(2.0)%	
Total Retail Sales-	34,045	34,365	(0.9)%	0.1 %
Residential	10,866	10,902	(0.3)%	3.1 %
Commercial	10,939	10,986	(0.4)%	(0.7)%
Industrial	12,066	12,289	(1.8)%	(1.8)%
Other	174	188	(7.6)%	(7.3)%
Total Wholesale Sales	10,218	10,802	(5.4)%	N/A

(In Thousands of Customers)

	Period Ended March		
	2020	2019	Change
Regulated Utility Customers-			
Total Utility Customers-	8,578	8,510	0.8%
Total Traditional Electric	4,280	4,234	1.1%
Southern Company Gas	4,298	4,276	0.5%

Southern Company
Financial Overview
As Reported
(In Millions of Dollars)

	Three Months Ended March		
	2020	2019	% Change
Southern Company^{1,2} –			
Operating Revenues	\$ 5,018	\$ 5,412	(7.3)%
Earnings Before Income Taxes	986	3,419	(71.2)%
Net Income Available to Common	868	2,084	(58.3)%
Alabama Power –			
Operating Revenues	\$ 1,351	\$ 1,408	(4.0)%
Earnings Before Income Taxes	368	283	30.0 %
Net Income Available to Common	280	217	29.0 %
Georgia Power –			
Operating Revenues	\$ 1,825	\$ 1,833	(0.4)%
Earnings Before Income Taxes	347	392	(11.5)%
Net Income Available to Common	331	311	6.4 %
Mississippi Power –			
Operating Revenues	\$ 277	\$ 287	(3.5)%
Earnings Before Income Taxes	38	44	(13.6)%
Net Income Available to Common	32	37	(13.5)%
Southern Power² –			
Operating Revenues	\$ 375	\$ 443	(15.3)%
Earnings Before Income Taxes	51	18	183.3 %
Net Income Available to Common	75	56	33.9 %
Southern Company Gas –			
Operating Revenues	\$ 1,249	\$ 1,474	(15.3)%
Earnings Before Income Taxes	354	347	2.0 %
Net Income Available to Common	275	270	1.9 %

Notes

- See Financial Highlights pages for discussion of certain significant items occurring during the periods presented.

- (1) Earnings comparisons to the prior year were significantly impacted by the preliminary gain associated with the sale of Gulf Power Company on January 1, 2019.
- (2) Earnings and revenue comparisons to the prior year were significantly impacted by Southern Power Company's dispositions of Plant Nacogdoches on June 13, 2019 and Plant Mankato on January 17, 2020.