



David M. Ratcliffe
Chairman, President, and CEO

dear *fellow* shareholders

In a year that was marked by significant challenges, your company performed well in 2005. We strive to be leaders in our industry, to be “front and center.” Southern Company employees demonstrated leadership as they delivered outstanding results in 2005 for our shareholders, our customers, and the communities we serve.

They did so in ways that were dramatic, such as responding to a great natural disaster, Hurricane Katrina. And they did so in thousands of daily actions that don't necessarily grab headlines but contribute just the same to our long-term success.

Earnings in 2005 were \$2.14 a share, which exceeded the top end of our targeted range. Our core utility business continued to benefit from the relatively strong economy and population growth in the Southeast, which drove the demand for electricity higher. We also had strong results from our competitive generation business, which added to its portfolio of long-term wholesale contracts and also acquired the 680-megawatt Oleander generating plant in central Florida, increasing our presence in that fast-growing market. Dividends were increased last year to an annual rate of \$1.49 per share as we extended our record of consecutive quarterly dividend payments that reaches back to 1948. The past year was the fourth straight in which we raised the dividend; the 4 percent annual rate increase in 2005 was the largest of these. Our share price reached an all-time high in September and closed with a gain for the year. Total return to shareholders was 7.6 percent, better than the broad Standard & Poor's 500 Index. This was, however, below the industry average as several utility-sector stocks, in comparison to ours, rebounded from recent declines that Southern Company had not experienced. If you consider total return over the long term, which I think is appropriate for an investment such

as ours, we remain one of the industry's strongest performers. Beyond the solid financial performance, we continued to excel in customer satisfaction, reliability, and corporate responsibility.

Any discussion of 2005 for us must include Hurricane Katrina, the devastating storm that in late August caused unprecedented destruction to the Gulf Coast of Mississippi as well as significant damage and outages in Alabama. In Mississippi, every one of our customers lost power, and our generation and power delivery infrastructure was severely damaged. The heroic effort led by our employees to restore power within 12 days to all Mississippi Power customers who could safely receive it is detailed in a special section beginning on Page 20. The way that people throughout Southern Company came together as a team to rebuild the system and provide aid to their fellow employees who had suffered considerable personal losses was inspiring and made me prouder than ever to be a part of this company.

The past year was one in which issues related to the costs of producing energy—global issues, really—rose to the forefront. As one of the nation's largest generators of electricity, we are not immune to these pressures, and our customers have felt the impact. Rising fuel costs present a new challenge to keeping the price of our product affordable. One of the ways that we are able to continue to offer retail prices significantly below the national average is to maintain a fuel mix that is diverse and thus less subject to price volatility. About 90 percent of our combined power generation is fueled by coal, nuclear, and hydro. The costs of these sources have been more stable than natural gas, the other main fuel used to generate electricity in the United States. This issue won't go away, and we will continue our work to mitigate the effect on our customers.

A major reason we have been able to achieve solid results over the long term is our successful execution of a clear, uncomplicated strategy. It is based on a customer focused regulated retail core business serving the economically-strong Southeast and a conservatively structured, higher-growth competitive generation business. By investing in our infrastructure to ensure reliability, managing the business to keep prices affordable, and focusing on customer satisfaction in all areas of the business, we have built a record of successfully executing the strategy. These actions, all related, also help contribute to constructive regulatory environments. This business model has produced solid risk-adjusted returns for our shareholders over the long term and served our customers well. I believe it continues to be a good model going forward.

That said, we must continue to sharpen our focus and we are doing so. In 2005, for example, we decided to exit the retail natural gas business. We closed the sale of Southern Company Gas early this year. And we've decided to merge Savannah Electric, our electric utility serving the coastal region of Georgia, into our largest subsidiary, Georgia Power. As the energy industry continues to evolve, we will continue to assess our business, discuss strategic issues, and challenge ourselves as to things that we should do differently. This is part of our annual business planning process.

There are some things that don't show up as clearly on the bottom line that are vitally important to our success. These go beyond *what* we do to *how* we do it. In particular, I would like you to know about two areas that underpin our traditional business operations and were major areas of focus in 2005. One is Southern Style, the value proposition that contributes in a real way to our goal to be leaders in our business. Southern Style

articulates our corporate culture in three tenets: unquestionable trust, superior performance, and total commitment. I believe the renewed emphasis on Southern Style has been well received by employees and is increasingly embedded in our behavior. These qualities were on display for the world to see during our response to Hurricane Katrina. Our continued emphasis and day-to-day focus on Southern Style will make us a better company.

The other major priority is our corporate safety program. It's called Target Zero, named to reflect our commitment to an injury-free work place. We believe that this goal is achievable. The reason for emphasizing safety is obvious: We care about our people, so we want them to be safe. There is, however, a strong business element too. A company with safe, healthy employees is more productive, so our customers and shareholders benefit as well.

I hope you'll agree as you review this year's annual report that 2005 overall was a good year for the company. I have high hopes for the future and am confident of the commitment that all of us at Southern Company have for continued success.

Sincerely,



David M. Ratcliffe
March 20, 2006