



David M. Ratcliffe
Chairman, President, and CEO

Dear Fellow Shareholders:

every moment

of every day, we strive to be the leader in our industry and to deliver outstanding results for our shareholders and our customers.

The Southeast continues to attract people from all over the nation. And, according to forecasts, growing numbers of people will continue to migrate to the region over the next few decades.

At Southern Company, we work hard every minute of every day to meet the growing electricity needs of the Southeast. We're excited about our opportunity to grow along with this region of the country, and we're poised to meet the challenges presented by this growth.

Every day, your company faces these challenges head-on. Every day, your company plans for future growth. And every day, your company sharpens its focus on its goal of being the leader in its industry by delivering outstanding results to our shareholders and to our customers.

In 2006, Southern Company continued to benefit from a healthy economy and population growth in the Southeast, which drove the demand for electricity up 2.3 percent. Earnings for the year were \$2.12 a share, a decrease of 2 cents a share from 2005. The lower year-end earnings were primarily the result of a reduction of tax credits related to the production of synthetic fuel. In 2006, Southern Company took a series of actions to minimize the impact of reductions of this tax credit. Excluding the earnings from the synthetic fuel tax credit, Southern Company earned \$2.10 a share in 2006, compared with \$2.03 a share in 2005. Under current law, synthetic fuel tax credits are slated to expire December 31, 2007.

Dividends were increased to an annual rate of \$1.55 per share in 2006, marking the fifth straight year we've raised the dividend. And our record of 237 consecutive quarterly dividend payouts since 1948 continued in 2006. Our stock price reached an all-time

high in December and closed the year with a gain of 6.7 percent. Our total shareholder return was 11.7 percent. Looking at long-term growth, we have been one of the industry's strongest performers.

Our solid financial performance is a direct result of our continued commitment to keep our customers satisfied by providing excellent customer service, high reliability, and affordable prices. Our focus on corporate responsibility also plays a significant role in our success. Southern Company employees live, work, and raise their families in the communities we serve. So we know the importance of being good citizens. We take pride in being involved in our communities.

In 2006, we released our first Corporate Responsibility Report, which lays out our commitment to the communities we serve and outlines our environmental, workplace, and community plans and actions. One of the many reasons we produced this report was to explain this commitment and encourage more dialogue with our stakeholders. Through continued open exchange, we plan to evaluate our progress so that we can better serve the economic health and environmental well-being of the community while meeting the expectations of our customers and shareholders.

Our competitive generation business had strong results in 2006, ending the year with a net income of \$305 million. In 2004, we set a goal to grow this business to \$300 million in net income by 2007. So, not only did we reach our goal a year early, we surpassed it. In 2006, our competitive generation business added new long-term wholesale contracts to its portfolio, extended some of its existing contracts, acquired new capacity in Florida and North Carolina, and signed agreements to construct an integrated gasification

combined cycle plant, which converts coal into clean gas that we will use to produce cleaner electricity.

This competitive generation business is undergoing some structural changes in 2007. In compliance with a Federal Energy Regulatory Commission order, we are separating this business unit into two distinct segments. Our embedded wholesale segment is being integrated into our traditional operating companies. Southern Power continues to operate in the competitive market, focusing on its low-risk strategy of owning and operating quality generation assets under long-term contracts with credit-worthy counterparties.

Operationally, we had an extraordinary year. In the face of record-setting demand in the summer of 2006, our generating plants and power delivery systems continued to operate at record levels of reliability. This is truly a testament to our preparedness, our employee dedication, and the investments we make in our system's infrastructure.

To ensure that we maintain this high level of reliability and meet the continued customer growth in our region, we're embarking on the largest capital expansion in our company's history. Over the next three years, we plan to invest \$11 billion in our four traditional operating companies—Alabama Power, Georgia Power, Gulf Power, and Mississippi Power. Of that, \$3.8 billion will be invested in our transmission and distribution infrastructure, and another \$4.6 billion will be invested in new environmental controls and equipment for our coal fleet. Because coal is an abundant and cost-effective energy resource for our nation, we are finding ways to produce cleaner energy with coal.

These expenditures will require us to increase the price of our product. Despite periodic price increases over the years, some of the lowest energy prices in the nation can still be found in our Southeast service territory. We take seriously our obligation to provide affordable prices, high reliability, and superior service to our customers. And our outstanding performance in these areas has helped to build constructive regulatory relationships. These relationships allow us to make new capital investments in our equipment and infrastructure, which furthers our superior operational performance. We call this the "Circle of Life." Successfully executing this long-term business model permits us to have attractive, risk-adjusted financial returns.

We were fortunate last year to have a quiet hurricane season, giving our Mississippi Power subsidiary and its employees an opportunity to recover and rebuild. You may recall that our Mississippi service territory was devastated by Hurricane Katrina in 2005. Although the scars of the storm still mark the landscape, more remarkable is the outstanding performance and continued resilience of our Mississippi Power employees in the wake of this unprecedented hurricane and ensuing recovery. I'm proud to report that Mississippi Power moved back into its refurbished corporate headquarters in December.

I'm also extremely proud to report that we've achieved significant improvement in our No. 1 priority at Southern Company—safety. Our Target Zero safety program speaks for itself. Every second of every minute of every day, we strive for zero accidents and injuries so that our employees can return home safely to their families. Our numbers continue to improve, but we won't be satisfied until we accomplish and maintain our goal of zero.

And we continue to make progress in the area of attracting and retaining a diverse and highly skilled work force. This is a business imperative for us. We know that our ability to make sound business decisions is enhanced by engaging people of diverse backgrounds and perspectives.

At Southern Company, our business is generating and delivering reliable electricity at the lowest possible price with outstanding customer service. We do it with Southern Style, and we will continue our focus on making the three tenets of Southern Style—unquestionable trust, superior performance, and total commitment—a reality throughout our business. It's a simple business model. Wall Street understands it and likes it. I believe it will sustain our excellent performance. We hope you agree.

Sincerely,



David M. Ratcliffe
March 12, 2007