DEAR FELLOW SHAREHOLDERS:

These are indeed challenging times. Throughout the history of our company we have been defined more than anything by our ability to respond to challenges. It takes a lot to provide electricity to more than 4.3 million customers over 120,000 square miles.

Those challenges take many forms – ice storms, hurricanes, record heat waves, droughts, financial market uncertainty, political and regulatory uncertainty, and many others. We continue to demonstrate tangibly that we are up to the task. We are guided by our use of common sense to find the right balance.

During challenges and periods of uncertainty, it is important that we keep our focus and that we distinguish perception from reality, for we must face reality.

So what does that mean for Southern Company? It means the future remains a bright one. When we look back on 2007, total revenues and net income were up and earnings per share rose, and for the sixth consecutive year, we increased the dividend.

The Southeast has seen less of an economic slowdown than the rest of the nation, but even at a slower pace, growth continues. We added 55,000 customers in 2007 as job growth, personal income growth, and lower housing costs continued to attract new residents and business to our region.

During an August heat wave, which was compounded by the ongoing drought, the company set peak records on five successive days. And despite the prolonged stress placed on the system, our customers did not experience a single major disruption to service.

It also means we can’t rest on past performance. The challenges we face today and in the future will test our ability to make the right decisions. We must be certain we are positioned to best take on those challenges. I am confident we are.

Rising costs, increasing demand, an aging work force, environmental obligations, and a growing global energy crisis are all issues to be managed as we strive to remain among the leaders in our industry, a reliable energy provider for our customers, and a solid investment for our shareholders.

Consistent with our business plan to provide regular, predictable, and sustainable earnings over the long term, we are executing our strategy and our businesses are performing well.

We’re in the first year of a three-year, $13.6 billion capital expansion, the largest in our company’s history. The majority of this investment will be used to upgrade and expand our transmission and distribution infrastructure to meet growing demand, and to add new environmental equipment at our coal plants to help ensure that we generate the cleanest electricity possible, at the lowest price possible.

While such investments require us to increase our prices, the reality is that our customers still pay electricity prices that are well below the national average.

Attracting and retaining a highly skilled, knowledgeable, and diverse work force continues to be a business imperative for us. We know that diverse opinions help us see things from different perspectives and are critical to making sound business decisions. And as greater numbers of our employees become eligible for retirement over the next few years, replacing those skills and knowledge becomes even more of a priority.
One of the world’s greatest challenges continues to be developing sound policy to deal with global climate change. It’s a worldwide issue and is certainly not unique to our company or our industry. It is a priority for us.

At Southern Company, we know that the answer must take many factors into consideration – the environment, economic impact to our customers and our shareholders, fuel diversity, and the energy security of our country.

The responsible solution to this global issue is developing and deploying cost-effective technologies that will allow us to economically produce cleaner electricity. New nuclear generation must also play a role, along with electricity produced with renewable resources and everyone’s efforts to use electricity more efficiently.

In time, new technologies should allow us to address the issue of climate change. But make no mistake. It will take time, and the dollar cost of developing and deploying these technologies will be high. However, it can be done.

The bottom line is that we are committed to leading the industry in finding balanced, common sense solutions to climate change that make technological, environmental, and economic sense.

Before the year is out, our nation will have elected a new president, and in no time at all the first decade of the new millennium will come to a close. The world, our country, and our company are on the brink of a new era. What the years ahead hold for us will depend on the decisions we make today.

Southern Company will continue to become a company with an even more diverse and inclusive work force, one with a safety record that rivals any in the industry, and one that continues to focus on the needs of our customers.

We will continue to meet the growing demand for electricity in the Southeast. It will take new ideas and approaches, which we will help champion, so that we can keep our costs to customers reasonable and continue to reduce our environmental impact.

The United States soon will need more energy than we currently produce or buy from others. The U.S. energy industry cannot work in isolation in meeting this challenge. We all must work together. That includes the federal government and the states, business leaders, and environmentalists. A collaborative approach is the only way we can find the answers that will assure our children and grandchildren of a secure and sustainable energy future.

For our part, we will remain focused on the task at hand with the values that we hold close – unquestionable trust, superior performance, and total commitment.

Sincerely,

David M. Ratcliffe  
March 17, 2008